Banco Montepio

Valores que crescem consigo.

REPORT AND ACCOUNTS

1st Half 2020

This report is the English version of the document “Relatório e Contas 1º Semestre 2020” delivered by Banco Montepio to the Portuguese Securities Market Commission (CMVM) 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

GOVERNANCE

GOVERNANCE

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, as established in subparagraph b) of number 1 of article 278, article 423-B and following of Section III and article 446-A and following of Section VII of the Commercial Companies Code, with a Board of Directors that includes the Audit Committee (elected at the General Meeting from among the non-executive members) and a Statutory Auditor.

As at 30 June 2020, the composition of Banco Montepio's governing bodies for the term of office 2018-2021 was as follows:

Board of the General Meeting

Chairman	António Manuel Lopes Tavares
Secretary	Cassiano da Cunha Calvão

Board of Directors

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

Audit Committee

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

[1] Mr. Carlos Miguel López Leiria Pinto performed executive duties, having resigned taking effect on 31 March 2020.

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

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

Statutory Auditor

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

- José Manuel Henriques Bernardo, enrolled at the Portuguese Institute of Statutory Auditors (OROC) under number 903 and at the Securities Market Commission (CMVM) under number 20160522

- Carlos José Figueiredo Rodrigues, enrolled at the Portuguese Institute of Statutory Auditors (OROC) under number 1737 and at the Securities Market Commission (CMVM) under number 20161347

The Board of Directors created internal committees, composed only of non-executive members, the majority of whom with independent status, including their chairmen, namely the Risk Committee, the Remunerations, Nominations and Assessment Committee, which performs the duties attributed to the Nomination Committee and the Remuneration Committee established in the Legal framework of Credit Institution and Financial Companies (RGICSF), and the Corporate Governance, Ethics and Sustainability Committee.

As at 30 June 2020, the composition of the Internal Committees of the Board of Directors of Banco Montepio was as follows:

Risk Committee

Chairman	Vítor Manuel do Carmo Martins
Members	Manuel Ferreira Teixeira
	Rui Pedro Brás de Matos Heitor

Remunerations, Nominations and Assessment Committee

Chairman	Manuel Ferreira Teixeira
Members	Amadeu Ferreira de Paiva
	Carlos Francisco Ferreira Alves

Corporate Governance, Ethics and Sustainability Committee

Chairman	Carlos Manuel Tavares da Silva
Members	Carlos Francisco Ferreira Alves
	Rui Pedro Brás de Matos Heitor

The Board of Directors delegated the current management of Banco Montepio to an Executive Committee, except for the powers related to matters whose delegation is prohibited by law, or those that the Board of Directors reserves for itself, under the terms of its Regulations.

As at 30 June 2020, the composition of the Executive Committee of Banco Montepio was as follows:

EXECUTIVE COMMITTEE

Chairman	Pedro Manuel Moreira Leitão[4]
Members[5]	Dulce Maria Pereira Cardoso Mota Jorge Jacinto Helena Catarina Gomes Soares de Moura Costa Pina José Carlos Sequeira Mateus Leandro Rodrigues da Graça Silva Nuno Cardoso Correia da Mota Pinto Pedro Miguel Nunes Ventaneira

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

[5] Mr. Carlos Miguel López Leiria Pinto performed executive duties, having resigned taking effect on 31 March 2020.

KEY INDICATORS

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	Jun-19	Dec-19	Jun-20	Y.o.Y. Change
ACTIVITY AND RESULTS (million euros)				
Total assets	18 695	17 740	17 882	(4.3%)
Loans to customers (gross)	12 578	12 239	12 417	(1.3%)
Customer deposits	12 680	12 525	12 422	(2.0%)
Net income	4	22	(51)	(<100%)
SOLVENCY [(a)]				
Common Equity Tier 1 ratio	13.7%	12.4%	11.5%	(2.2 p.p.)
Tier 1 ratio	13.7%	12.4%	11.5%	(2.2 p.p.)
Total Capital ratio	15.2%	13.9%	13.5%	(1.7 p.p.)
Leverage ratio	7.5%	7.0%	6.3%	(1.2 p.p.)
Risk weighted assets (million euros)	10 429	10 299	10 119	(3.0%)
LIQUIDITY RATIOS				
Loans to customers (net) / Customer deposits [(b)]	92.0%	91.5%	93.0%	1.0 p.p.
Loans to customers (net) / On-balance sheet customer resources [(c)]	85.5%	82.4%	84.0%	(1.5 p.p.)
CREDIT QUALITY				
Cost of credit risk	0.7%	1.0%	1.8%	1.1 p.p.
Ratio of loans and interest overdue by more than 90 days	6.9%	5.6%	5.7%	(1.2 p.p.)
Coverage of loans and interest overdue by more than 90 days	106.4%	113.2%	122.9%	16.5 p.p.
Non-performing exposures (NPE) [(d)] / Gross customer loans	14.7%	12.2%	11.9%	(2.8 p.p.)
NPE [(d)] coverage by Impairment for balance sheet loans	49.7%	52.1%	58.4%	8.7 p.p.
NPE [(d)] coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	82.9%	87.2%	89.9%	7.0 p.p.
Forborne exposures [(d)] / Gross customer loans	7.5%	7.1%	7.4%	(0.1 p.p.)
PROFITABILITY AND EFFICIENCY				
Total operating income / Average total assets [(b)]	2.0%	2.3%	1.9%	(0.1 p.p.)
Net income before income tax / Average total assets [(b)]	0.2%	0.2%	(0.8%)	(1.0 p.p.)
Net income before income tax / Average total equity [(b)]	1.9%	2.9%	(10.5%)	(12.4 p.p.)
Cost-to-income (Operating costs / Total operating income) [(b)]	68.8%	59.2%	75.5%	6.7 p.p.
Cost-to-Income, excluding specific impacts [(e)]	68.2%	69.5%	73.9%	5.7 p.p.
Staff costs / Total operating income [(b)]	42.7%	36.7%	46.7%	4.0 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group Banco Montepio	3 937	3 962	3 962	25
Banco Montepio	3 552	3 563	3 551	(1)
Branches				
Domestic network - Banco Montepio	329	332	335	6
Of which: Proximity Branches	6	7	7	1
Of which: BEM Corporate Centres	-	2	7	7
International Network	24	24	24	0
Finibanco Angola [(f)]	24	24	24	0
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 customer resources = Customer 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.

1ST HALF OF 2020 LANDMARKS

1ST HALF OF 2020 LANDMARKS

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

  In conformity with the authorisations granted by Banco de Portugal, the following members of the Board of Directors of Banco Montepio took office at the beginning of 2020 for the remaining period of the term of office 2018/2021:

  - Mr. Pedro Manuel Moreira Leitão, also appointed Chairman of the Executive Committee (CEO), at the meeting of the Board of Directors held on 9 January 2020;
  - Mr. José da Cunha Nunes Pereira, also appointed member of the Audit Committee, having taken office on 1 April 2020.

- **Banco Montepio is pioneering in the implementation of 100% online account opening process for companies**

  Banco Montepio was the first financial institution to launch the Online Account Opening service for Companies in the Portuguese market. With this new service, companies are able to open a bank account 100% online, without having to go to a Bank branch.

  Just access http://www.bancomontepio.pt/ and – not requiring any mandatory download of an app – initiate a 100% digital process, through which the collection of data and documents, video call and activation of the account are done. In just three steps and less than 20 minutes, the account is immediately active and ready to be used, unrestrictedly.

  At a first stage, this functionality is available for sole proprietorships with a managing partner, which account for more than 50% of the total number of companies starting business in any given year, and shall soon be extended to companies with more partners.

  In addition to the convenience and comfort, this new service gives companies a series of important benefits, such as agility, speed and security.

  Pedro Leitão, CEO of Banco Montepio, believes that "the launch of the Online Account opening for Companies is an important step in the Bank's process of digital transformation. The fact of being pioneer demonstrates the agility and innovation capacity of Banco Montepio, which developed and launched the new service in just two months. But this is also a commitment to companies, a segment for which Banco Montepio is particularly well suited, based on a strategy of service and proximity".

  The Online Account opening for Companies was also designed to complement the 'On the Spot Company' initiative. With this new service of Banco Montepio, entrepreneurs can open a bank account at the same place and precise moment of incorporation of their company, without needing to go to the Bank branch, as was required up to now.

  With this facility, entrepreneurs now have automatic access to Montepio24 Empresas, Banco Montepio's home banking service. All the company's relations with its bank can be done at a distance or through the channel most convenient to companies.

- **Banco Montepio accelerates Digital Transformation with Artificial Intelligence solutions**

  During the first quarter of 2020 Banco Montepio and IBM established a partnership to collaborate in Digital Transformation, optimisation of the Customer experience and innovation in business processes and model through artificial intelligence and implementation of cognitive technology (Cognitive Process Automation – CPA), to accelerate the innovation and automation strategy of Banco Montepio.

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

  M.A.R.I.A. was launched in Customer attendance at Banco Montepio's Contact Centre on 19 July, starting with debit and credit card activation, and progressing at a subsequent stage to other operations (e.g. transfers, balances and transactions query), simultaneously "learning" the service of excellence that Banco Montepio aims to provide to its Customers and Non-Customers contacting it via 707 20 20 24, 707 10 26 26 and 707 20 20 25.

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

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

- **Issuance of subordinated debt**

  On 9 June 2020, Banco Montepio issued subordinated debt under the Euro Medium Term Note (EMTN) Programme of the value of 50 million euros, with a 10-year maturity period and an early redemption option payable by Banco Montepio at the end of the fifth year, with an interest rate of 9.5%, fully underwritten by Montepio Geral Associação Mutualista, aimed at strengthening the Additional Own Funds.

- **Peripheral Deal of the Year award**

  The issuance of Banco Montepio covered bonds, which shall be in force up to November 2024, was distinguished by The Covered Bond Report website with the Peripheral Deal of the Year award. The Covered Bond Report is a website and a bimonthly publication, specialised in the covered bond market, and a reference in the industry. This issuance was extremely well-received by the investors (more than 145 institutional), with demand having been more than six times higher than the issued amount.

- **Signing of the Social Commitment Charter**

Banco Montepio's Social Commitment Charter that the Board of Directors presented to the shareholders at the General Meeting of 30 June 2020 was approved unanimously.

Banco Montepio is unique in the national financial panorama due to its origin and mutualist foundations, and, consequently, due to its vocation as an institution geared towards savings and provision of universal financial services for its individual Customers, at all stages of their life cycle, for Customers of the business sector and for institutions of the social economy and social entrepreneurs.

Aware of its heritage of almost two centuries of service to the community, giving rise to enhanced social responsibilities and in matters of sustainable development, Banco Montepio is committed, before the community and to all its stakeholders, to governing its activity in conformity with the standards and conduct featured in its Social Commitment Charter.

Proposed Social Commitment Charter of Banco Montepio [(1)]:

«Being the country's bank of mutualist inspiration, for a further 175 years»

The Board of Directors of Caixa Económica Montepio Geral - caixa económica bancária, S.A. ("Banco Montepio") proposes that the shareholders deliberate on the following **Social Commitment Charter** of Banco Montepio:

Banco Montepio was founded in 1844, having been authorised by royal charter of Queen Dona Maria II, of 4 January, as an entity attached to Montepio Geral - Associação Mutualista. It is, therefore, Portugal's oldest financial institution.

Banco Montepio is also unique in the national financial panorama due to its origin and mutualist foundations, and, consequently, due to its vocation as an institution geared towards savings and provision of universal financial services for its individual customers, at all stages of their life cycle, for customers of the business sector and for institutions of the social economy and social entrepreneurs.

Throughout the more than 175 years of its existence, Banco Montepio has consistently supported families, small and medium-sized enterprises, companies and the community in general. It actively supported successive generations of Portuguese at very critical times, including wars, public health crises, public financing crises, revolutions and political upheavals. Loyal to the reason for its existance, it proved able to innovate, grow and expand, always guided by the ideals of commitment with the past, present and future of Portugal, its mutualist origin, tradition, proximity, solidity, trust, transparency, innovation and inclusion.

Thus, aware of its heritage of almost two centuries of service to the community, giving rise to enhanced social responsibilities and in matters of sustainable development, Banco Montepio is committed, before the community and to all its stakeholders, to governing its activity in conformity with the following standards and conduct:

- Offering excellent service and prioritising the interests of all its customers, including, predominantly and as a factor of differentiation, those who are also associates of MGAM and represent its mutualist base, providing an efficient and rigorous service, meeting customer expectations concerning security in its commitments, responsibility in investment, and access to instruments and services that enable improving the quality of life of people and families, and the productivity of companies;
- Pursuing its historical vocation of providing financial services with added value and suited to the nature of the social economy's institutions and for social entrepreneurs;
- Promoting technological innovation in its services and operations in the understanding that technology should be used by people and communities to improve their quality of life and support processes of social innovation;
- Treating its suppliers in a fair and ethical manner;
- Valorising its employees, giving them working conditions that allow them to achieve balance in their professional and personal lives, adopting the criterion of merit for recruitment, remuneration and career progression, and fostering their training, their professional and personal valorisation and boosting gender equality;
- Adopting best international practices and the highest ethical standards in compliance with the law and contracts, in particular with respect to money laundering, terrorism financing, tax evasion, breaches of labour or environmental legislation;
- Respecting and protecting the environment, adopting sustainable practices in its operations, and boosting economic, social and environmental sustainability among all its stakeholders; and
- Providing banking services and financing instruments adapted to situations of major crisis or public calamity, whether national, regional or local, that severely affect economic circuits and disrupt the normal operation of social structures, so as to permanently meet the community's needs and contribute to trust, confidence and security in the banking system.

Last, but not least, creating value for all its shareholders, providing fair remuneration of the invested capital, always bearing in mind the principles that presided over the creation of Caixa Económica do Montepio Geral, now under the trademark Banco Montepio.

Lisbon, 28 May 2020

THE BOARD OF DIRECTORS

(1) Approved at the General Meeting held on 30 June 2020.

- **Geographic Implantation Policy**

Banco Montepio's Geographic Implantation Policy, which the Board of Directors presented to the shareholders at the General Meeting of 30 June 2020 was approved unanimously.

The options that the Bank shall take on presential direct distribution involve the installation or closure and/or deinstallation of means of distribution, in view of various factors, ensuring access to banking services among populations less well-served by the banking system, ensuring a balanced coverage of the country and exploring information technologies and the use of financial services at a distance.

Proposed Geographic Implantation Policy (1)

CEMG's Board of Directors proposes to the General Meeting of Shareholders that it deliberate on the following Geographic Implantation Policy of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter, Banco Montepio):

The distribution models in which financial institutions operate have changed significantly over a very short period of time. It is expected that this should intensify with the acceleration of innovation, the increased availability of technological means and their increasingly widespread use. On the other hand, changes in the needs and behaviour of economic agents, much of which boosted by patterns of usability in different activity sectors, lead to a change in the way that they interact with financial services, with this trend being expected to remain or even intensify. This ongoing transformation continuously challenges the management of financial institutions, towards:

- the adjustment of services to the expectations of its current and potential customers;
- competitive capacity in relation to the competition operating in the market;
- its impact on efficiency and profitability, via the optimisation of costs and improvement of service levels.

In this context, it is essential to define a Geographic Implantation Policy that reaffirms distribution adapted to customer needs, features and expectations as a crucial management variable, with direct implications on the achievement of Banco Montepio's strategic goals, balancing the aspects of commercial revenue derived from intermediation and commissioning of services and the aspect of distribution operational costs, which also reflect its mutualist roots and historical concern for society and the social economy.

Definition of Forms of Distribution

Presential Direct Distribution – the geographic implantation arises from Banco Montepio's decision to operate in the market using its own means of distribution, based on physical presence ensured by branches, branch extensions, complemented by self-service resources (such as automated teller machines or other electronic presential means) which can also be operated in separate physical spaces, and other spaces of attendance without cash handling (attendance offices, service stations or others);

Remote Direct Distribution – other direct distribution channels are developed and used by Banco Montepio to serve its customers through telematic means supported by communication technologies such as the internet, fixed or mobile, or the telephone, among others;

Indirect Distribution – Banco Montepio may choose the direct distribution of its products and services through promotors, agents or other intermediaries under the terms that regulate the activity.

1. Adequacy of the Distribution Model to the Market Segments

Banco Montepio adopts different forms of distribution according to the market segments addressed, namely the segments of Individuals, Companies and Social Sector Institutions.

2. Geographic Implantation

Banco Montepio operates in the national market, covering the mainland and islands. It may operate in international markets, considering the presence of Portuguese resident abroad, or other business development opportunities, complying with the regulations of the activity in the respective jurisdictions.

Bearing in mind the already highlighted importance of distribution in the management of Banco Montepio, the options that the Bank shall take about presential direct distribution include the installation or closure and/or disinstallation of means of distribution, considering the following non-mutually exclusive factors:

a) Operationalisation of strategic definitions of the segments of Individuals, Companies and Social Sector Institutions;
b) Potential or effective profitability of each distribution unit;
c) Geographic potential in terms of number of customers and turnover generated, or expected to be generated;
d) Without prejudice to b) and c), ensure access to banking services by populations that are less well-served by the banking system, ensuring a balanced coverage of the national territory;
e) Penetration of information technologies and evolution of the performance of priority segments in relation to their use of financial services at a distance.

In view of the nature and origin of Banco Montepio, the particular importance of the service provided by Banco Montepio to the associates of Montepio Geral Associação Mutualista is safeguarded, with its weighting in terms of geographic concentration and their mutualist activity should also be considered in the options taken regarding distribution, with due articulation in compliance with the legal and regulatory framework.

Lisbon, 4 June 2020

THE BOARD OF DIRECTORS

(1) Approved at the General Meeting held on 30 June 2020.

- **Renewal of the motor vehicle fleet**

  At the end of the first half of 2020, the green fleet implementation project exclusively composed of hybrid and electric vehicles, initiated in 2019 with the aim of reducing the fleet's carbon footprint, has already been materialised in the replacement of 171 combustion engine vehicles, corresponding to 26% of the total vehicles, leading to a reduction of fuel consumption. The renewal of the motor vehicle fleet continues at the rate of renewal of the vehicle operating lease vehicle contracts, achieving the goals of one of the major initiatives developed in the area of environmental sustainability of the Montepio Group.

- **Annual General Meeting**

  Banco Montepio held the ordinary general meeting of shareholders on 30 June 2020, with the following decisions having been taken:

  1. Report and Accounts of the Financial Year of 2019, of the individual and consolidated activity – Approved unanimously;
  2. Proposed distribution of earnings – Approved unanimously;
  3. General appraisal of the company's management and supervision, under the terms of article 376 and 455 of the Commercial Companies Code – Approved unanimously;
  4. Statement on the remuneration policy of the members of the Management and Supervisory bodies, pursuant to numbers 1 and 3 of article 2 of Law 28/2009 – Approved unanimously;
  5. Policy of Selection and Evaluation of the Adequacy of the Members of the Management and Supervisory Bodies (MOAF) and Key Function Holders (TFE) – Approved unanimously;
  6. Review of the Remuneration Policy of the Management and Supervisory Bodies – Approved unanimously;
  7. Regulations for Implementation of Supplementary Retirement Pension of the Directors, under the terms of article 402 of the Commercial Companies Code – Approved unanimously;
  8. Geographic Implantation Policy – Approved unanimously;
  9. Social Responsibility Charter – Approved unanimously;
  10. Final Conditions of "Finibanco Valor Invest 2010" issuance – Approved unanimously.

THE BANCO MONTEPIO GROUP

THE BANCO MONTEPIO GROUP

WHO WE ARE

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Aware of its heritage of almost two centuries of service to the community, giving rise to enhanced social responsibilities and in matters of sustainable development, Banco Montepio is committed, before the community and to all its stakeholders, to governing its activity in conformity with the standards and conduct featured in its Social Commitment Charter.

GROUP STRUCTURE

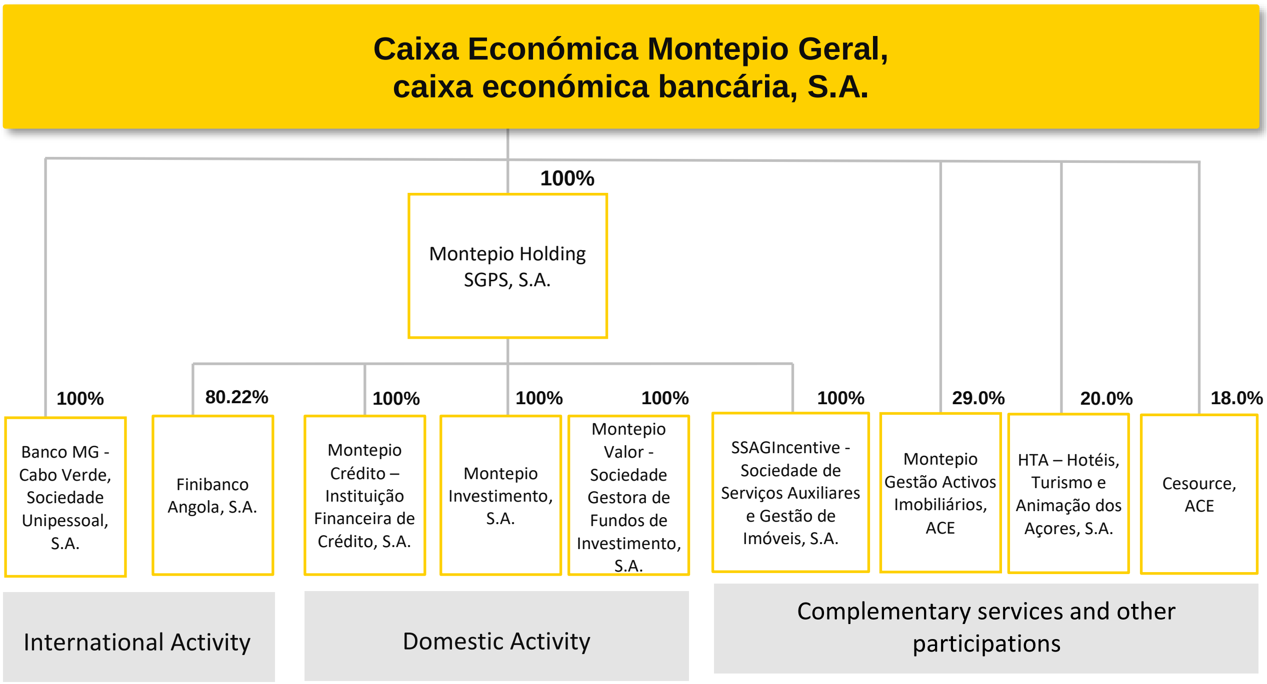
Pursuant to Decree-Law 190/2015, of 10 September, which approved the legal system of Savings Banks, Caixa Económica Montepio Geral is henceforth considered a savings bank, with its transformation into a public limited company arising from the same legal provision. Following this process, its current corporate name is Caixa Económica Montepio Geral, caixa económica bancária, S.A., with the trade name of Banco Montepio having been adopted in 2019.

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

As at 30 June 2020, the Banco Montepio Group was composed of the entities presented below:

- Full consolidation: Caixa Económica Montepio Geral, caixa económica bancária, S.A.; Montepio Holding, Sociedade Gestora de Participações Sociais, S.A.; Banco Montepio Geral Cabo Verde, Sociedade Unipessoal S.A.; Finibanco Angola, S.A.; Montepio Crédito - Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A. (Banco de Empresas Montepio); Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A., and SSAGINCENTIVE – Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.

• Consolidation by the equity method: Montepio Gestão de Activos Imobiliários, ACE; HTA – Hotéis, Turismo e Animação dos Açores, S.A. and; Cesource, ACE.



(% of share capital)

Under the strategic redefinition of its international subsidiaries, and with a view to refocusing the approach to the African market, a series of steps are being developed aimed at the deconsolidation of the subsidiary Finibanco Angola which, as at 30 June 2020, the Banco Montepio Group controlled and held an effective stake of 80.22%.

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

As at 30 June 2020, Banco Montepio Group's consolidation perimeter includes other entities consolidated by the full method, namely: Montepio Arrendamento I, II and III – Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional (FIIAH); Polaris – Fundo de Investimento Imobiliário Fechado; PEF – Portugal Estates Fund and Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (FEIIA); Pelican Mortgages No 3; Pelican Mortgages No 4; Aqua Mortgages No 1; Pelican Mortgages No 5; Pelican Mortgages No 6; Pelican Finance No 1 and Aqua Finance No 4.

THE BANCO MONTEPIO BRAND

AWARDS AND RECOGNITION

Superbrand 2020

Banco Montepio was awarded the Superbrands stamp for the 11th time. This distinction reflects the consumers' satisfaction and, once again, positions the institution among the best of the sector. Banco Montepio is a brand with unique features, increasingly more human and trustworthy, and which continues to deliver value to its Customers.

Value of the brand

Based on strict and meticulous assessment, the consultant OnStrategy drew up the ranking of the most valuable Portuguese companies, in which the Banco Montepio brand conquered the 39th place among around 2,700 brands studied.

The reputation assessment company MERCO also placed Banco Montepio in the ranking of the companies with best corporate reputation, listing it in the 61st position.

Peripheral Deal of the Year award

The issuance of Banco Montepio covered bonds, which shall be in force up to November 2024, was distinguished by The Covered Bond Report website with the Peripheral Deal of the Year award. The Covered Bond Report is a website and a bimonthly publication, specialised in the covered bond market, and a reference in the industry. This issuance was extremely well-received by the investors (more than 145 institutional), with demand having been more than six times higher than the issued amount.

PROTECTION AND STRENGTHENING BRAND REPUTATION

Throughout the first half of 2020, Banco Montepio strengthened, among its different stakeholders, the main pillars of brand reputation, namely Governance, Citizenship, Innovation, Products and Services, and Work Environment.

The first step in this direction was taken at the beginning of the year, with the appointment of the Bank's CEO, positioned as the face of a new leadership focused on innovation and sustainability, and associated to values such as credibility, rigour and youth.

Citizenship, the pillar on which Banco Montepio's historical positioning is anchored, was strengthened with a series of actions developed to support social solidarity institutions and families more affected by the impacts of COVID-19. Among them is the “Conta Acordo” (Agreement Account), a credit line directed at tertiary sector institutions, the solidarity deposit “Poupança + Vida” (Saving + Life deposit) in benefit of the Portuguese Red Cross, the association to the Associação Empresarial de Portugal – AEP (Portuguese Business Association) through a donation, the SOS Coronavirus initiative, and the offer of insurance adapted to our new reality, to protect volunteers in COVID-19 support actions.

The need to be even closer to individual and company Customers due to the pandemic has accelerated innovation in the development of products and services that are all 100% digital. This was what happened with the procedure for applications for credit moratoriums or other exceptional support measures, such as the extra salary or increased ceiling of credit cards.

100% Online Company Account Opening

Banco Montepio pays tribute to its history of being the first bank to launch 100% online company account opening. With just 3 steps, companies are now able to have an account ready for use.

An attentive and inclusive Bank

Always attentive to society, Banco Montepio launched a unique and innovative solution on the Portuguese market for visually impaired Customers. Visually-impaired people face a variety of adversities, to which Banco Montepio is not indifferent. Banco Montepio cards have a half moon shaped groove on their lower right corner which enables visually-impaired people to easily and immediately distinguish the correct position to enter the card in automated teller machines (ATMs) and point of sale terminals (POS), and this also differentiates them from other cards.

CAMPAIGNS AND PARTNERSHIPS

“Uma Casa para Festas” (A House for Parties)

There are houses for parties, there are houses for boisterous dinners and there are houses for late nights, in a play on words and images, the mortgage loan campaign reinforced that Banco Montepio is the right partner for those in search of the perfect house.

Digital Letter to Grandparents

In April 2020, Banco Montepio marked Easter by writing a digital letter to Grandparents. A homage to those more elderly, those more fragile in this pandemic and those who are more alone, so that they feel remembered and loved. Considering the challenges that this atypical year has posed, Banco Montepio's messages have been of strength, hope and love, under the theme “Esta Páscoa vai ser diferente. Mas tudo o resto é tão igual.” (This Easter will be different. But everything else is so much the same.)

“Amo-te” (I Love You) Campaign

Banco Montepio highlighted Mother's Day with the “Amo-te” (I Love You) Campaign, celebrating maternity and paying tribute to the maternal family figure.

“Fique em Casa” (Stay at Home) Campaign

In a period of confinement, in the context of the COVID-19 pandemic, Banco Montepio marked the moment with the “Fique em Casa” (Stay at Home) Campaign. A very special campaign, placed on the institution's digital showcases, YouTube and LinkedIn, with a video spreading the message of hope, belief and optimism in the oncoming future.

“Recomeçar com confiança” Campaign (Restart with Confidence)

“**Voamos Juntos?**” (**Let's Fly Together?**)

Restarting is part of Banco Montepio, even during crises that appear more invincible. And it was with eyes well on the future that Banco Montepio launched a very simple institutional action full of symbolism, which, together with the brand statement "Recomeçar com confiança" (Restart with confidence), was shown on television and the internet for 3 weeks.

Banco Montepio and the Red Cross

Banco Montepio joined the Portuguese Red Cross cause “#Eu ajudo quem ajuda” (#I help those who help), and launched the “Poupar e ajudar andam juntos” campaign (Saving and helping go hand in hand). This is a term deposit where, for each subscription made, Banco Montepio donates 0.05% of the amount subscribed to the movement “#Eu ajudo quem ajuda” (#I help those who help).

Responsible Credit

Attentive to the behaviour of the Portuguese in the context of the COVID-19 pandemic, Banco Montepio launched a message of responsibility to those wishing to take out a loan. This message is designed to lead the Customer to balancing up all the pros and cons arising from a decision of this nature.

CHANNELS, NETWORKS AND CUSTOMER RELATIONSHIP

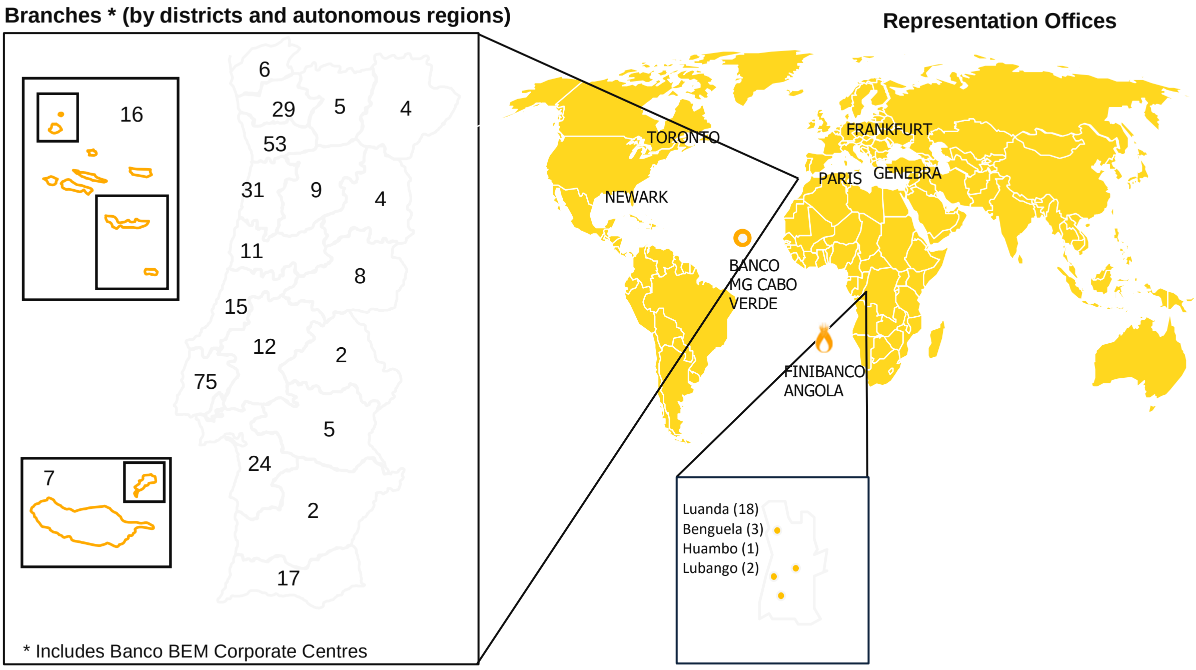
CHANNELS AND NETWORKS

As at 30 June 2020, Banco Montepio held a network of 335 branches in Portugal, of which 7 were proximity and convenience branches, and 7 were corporate centres of Banco BEM. In the international activity, Finibanco Angola's distribution network maintained a total number of 24 branches, including 5 corporate centres. As at 30 June 2020, Banco Montepio had 5 representation offices (Frankfurt, Geneva, Paris, Newark and Toronto) which ensured the Bank's presence among communities that are resident abroad.

No. of Branches and Representation Offices

	Jun-19	Dec-19	Jun-20
Domestic network	329	332	335
Of which: Proximity Branches	6	7	7
Of which: BEM Corporate Centres	-	2	7
International network	24	24	24
Finibanco Angola [(a)]	24	24	24
Representation Offices	5	5	5

(a) Includes Corporate Centres.



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

CUSTOMER MANAGERS

Banco Montepio's network of customer managers amounted to a total of 503 managers in the first half of 2020, showing an increase of 11 managers in relation to the same period of 2019. The increased number of customer managers and the intra-segment variations are linked to the reorganisation of the segments at Banco Montepio, aimed at enhancing the level of specialisation, proximity and response capacity in Retail Banking, in the segments of Small Businesses and Companies and in the Social Economy. This reorganisation was reflected in the distribution of managers, namely 191 managers assigned to Small Businesses, 53 to Small and Medium-Sized Companies with turnover of less than 20 million euros, 39 to

Institutional and Social Economy, and 33 to Large Companies (with turnover equal to or more than 20 million euros). The Individuals segment had 187 managers in the first half of 2020, continuing to offer personalised service and proximity to the Customer, factors that characterise Banco Montepio.

No. of Managers per customer segment

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Retail Banking	**428**	**428**	**431**	**3**	**0.7**
Individuals	200	200	187	(13)	(6.5)
Small Business	183	183	191	8	4.4
Companies [(a)]	45	45	53	8	17.8
Social Economy	**29**	**29**	**39**	**10**	**34.5**
Institutional and Social Economy [(b)]	29	29	39	10	34.5
Corporate Banking	**35**	**34**	**33**	**(2)**	**(5.7)**
Companies [(c)]	35	34	33	(2)	(5.7)
Total managers	**492**	**491**	**503**	**11**	**2.2**

(a) Turnover less than 20 million euros.

(b) Includes Microcredit managers.

(c) Turnover equal to or greater than 20 million euros.

Note: Does not include managers of preventive credit-monitoring.

COMPLEMENTARY CHANNELS

MONTEPIO 24

The "Serviço Montepio24" (Montepio24 Service), corresponding to a multichannel platform that includes the remote channels, recorded a 3.2% increase of active customers in the first half of 2020 compared to the same period of 2019, with a total number of 369,877 users, 308.792 in the Individuals segment (+3.3%) and 61,085 in the Corporate segment (+2.6%).

Distribution by Channel and by Customer Segment in the First Half of 2020

Distribution Channel / Segment	Serviço M24	Phone24	Net24	SMS24	Netmóvel24
Individuals	308 792	22 892	221 990	574	198 279
Companies	61 085	4 898	58 555	9	18 722

Connect24 is a dedicated channel where the Customers can authenticate themselves and authorise access to information and banking operations when requested by certified entities, thus meeting the Open Banking requirements. In the first half of 2020, Connect24 recorded a total of 12,594 consents and 1,656,629 operations derived from Third Party Providers (TPP)/Banks. Among the operations carried out through this channel, special reference is made to the “Movement Query”, primarily made by banks (with a total of 1,155,466 queries), via consent given by the Customers of Banco Montepio.

AUTOMATED TELLER MACHINES (ATM)

Montepio's total number of automated teller machines (ATMs) in the first half of 2020 amounted to 955 machines, of which 377 were installed in branches and 578 were available at external locations. In net terms, the number of machines had fallen by 14 when compared to the same period of 2019, 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 8.0% in the first half of 2020, compared to 8.3% recorded for the same period of 2019. The total number of machines available in the national market of the SIBS Global Network increased by 322 machines, to reach a total of 12,010.

The Chave24 internal network amounted to a total number of 337 installed machines, of which 283 are ATMs, 8 are Selfcheques and 46 are Bank Book updating machines.

POINT-OF-SALE TERMINALS (POS)

Banco Montepio's total number of point of sale terminals (POS) grew by 0.5% in the first half of 2020 compared to the same period of 2019, with a total of 23,895 units installed.

Banco Montepio's market share in terms of number of POS stood at 6.4%, compared to 6.8% recorded in the first half of 2019. The total number of machines available in the national market of the SIBS Global Network increased by 25,345 machines compared to the number recorded in the same period of 2019, reaching a total of 373,095 units (+7.3%).

CUSTOMER RELATIONSHIP

Cards

Banco Montepio's card business recorded an increase of 0.4% in the number of cards in the first half of 2020 in relation to the same period of 2019, compared to an 8.0% increase in the market, according to data provided by SIBS. -There was a 5.0% decrease in transaction value at Banco Montepio in relation to the same period of 2019, while the market showed a reduction of 8.2% derived from the pandemic scenario, in particular the confinement period which significantly affected transactionality in the second quarter of 2020.

Fraud Prevention and Detection System – Montepio24 Channels

The new Fraud Prevention and Detection System became operational in the Montepio24 Service channels in the first half of 2020. This system aims to strengthen security in the use of digital channels, mitigate situations of fraud and act in a more preventive fashion. It is based on a behavioural algorithm which, in real time, attributes a fraud risk level to all transactions conducted on the online channels that, according to this level, may trigger the request of varied authentication methods (such as Matrix Card and SMS Code) or the blocking of the transaction due to is high risk level, in which case it cannot be carried out.

1st login Montepio24 – App M24

With the slogan: "Leve o seu Banco no bolso” (Take the Bank in your pocket!), in the first half of 2020 Banco Montepio Customers were able to make their first access through the App M24, certifying contacts and joining the SMS Code service. Just connect to the Wi-Fi network @CEMG through your mobile device and you will be asked to "start session" on the network.

Open Banking

Pursuant to the directive on payment services (PSD2) proposed by the European Commission, SIBS provided financial institutions and entities that provide financial services to Customers a new service named Open

Banking API. Through an app of a given financial entity, the Customer may make queries/ operations on accounts that are associated to one or more financial institutions.

In the first half of 2020, Banco Montepio provided in this context:

- Bulk Payments, Social Security Payments and Single Social Tax Payments;
- The Open Banking functionalities already existing on the web channel, such as querying consent given to service providers (Third Party Providers or TPP), providing consent of confirmation of the availability of funds, and managing the consent given to service providers (TPP).

INNOVATION AND QUALITY

The first half of 2020 witnessed the achievement of modernisation initiatives for the Companies and Individuals segment, thus continuing the implementation of the Transformation Plan defined for the Bank in 2018 concerning the digital transformation measures required to enhance value in relations with our Customers:

- Online Account Opening for Companies – enables, at this first stage of provision to companies with legal status of Sole Proprietorships, doing the account opening online. This measure is particularly important to capture new Customers of this segment, primarily with respect to the moment of creation of the actual enterprises, which can count on Banco Montepio from moment zero of their incorporation to formalise their share capital.
- Updating of personal data online – process designed to expedite the necessary updating of individual Customer data, with benefits and synergies for the process of sale at a distance, and also offers a better experience and simplification for the Customer.
- Introduction of artificial intelligence solutions together with IBM, accelerating the Bank's digital transformation. The major goal of this project is to create innovative solutions, both for the Customers and for the Employees, using pioneering technologies in the Portuguese banking sector.

The economic and financial context caused by COVID-19 and the legal framework created to support and protect families, companies and institutions of the social economy, through the creation of Public and Private Moratoriums, have represented a challenge to the capacity to respond and innovate of Banco Montepio, which immediately provided:

- The Family Support line - COVID-19 Online – On 23 March, Banco Montepio provided a specific credit line to support and give liquidity to families, at a first stage and up to the creation of the governmental and regulatory initiatives, which enabled the 100% online contracting of the equivalent of one extra wage to offset the initial impact of the confinement measures and income reduction.
- A portal of Applications for Public and Private Moratoriums – A specific portal was created to receive and process applications for the Public Moratorium, subsequently extended to the Private Moratorium at the time of its entry into force. This portal, with totally online and digital procedures, enables receiving and giving a rapid response to the moratorium applications recorded since the entry into force of Decree-Law 10-J/2020, endowing Banco Montepio with high capacity and flexibility to deal with this peak of activity, and also met the need to support the Customers during the midst of the State of Emergency and the imposed confinement.

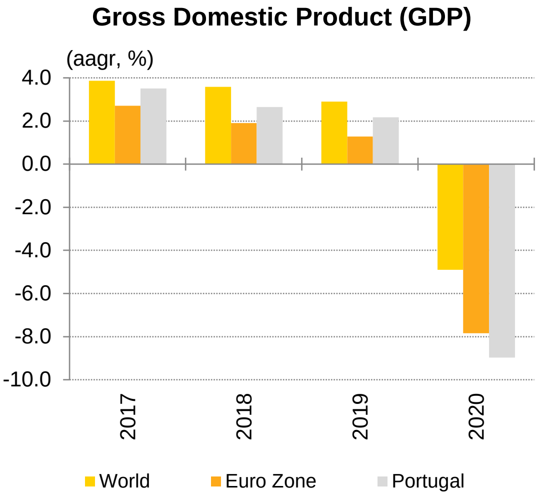
BUSINESS ENVIRONMENT

BUSINESS ENVIRONMENT

ECONOMY

World economy

In the recent update of the World Economic Outlook (WEO), dated 26 June 2020, the International Monetary Fund (IMF) estimated the likely scale of the impact of the novel coronavirus (COVID-19) pandemic to be a 4.9% contraction of the world economy in 2020, followed by a recovery based on a 5.4% expansion of Gross Domestic Product (GDP) in the following year. This represents a new strong downward revision of growth in relation to the scenario delineated by the IMF in April (-3.0% in 2020 and +5.8% in 2021). This revision is even more intense when compared with the scenario forecast by the IMF in the update made in January of this year, when the outbreak was still practically confined to China, and the IMF projected an economic expansion of 3.3% for this year and 3.6% for the following year.



Source: Thomson Reuters, Banco Montepio (GEEF) and IMF.

In June, the IMF noted that the COVID-19 pandemic had produced an even more negative impact than expected on economic activity during the first half of 2020, and forecast that the economic recovery would be more gradual than that previously foreseen, with heavier declines in the advanced economies being expected and significant downward revisions for Brazil (-3.8 p.p., to -9.1%) and India (-6.4 p.p., to -4.5%). The IMF started to point to an unprecedented contraction of 10.2% of the GDP of the Eurozone in 2020, much worse than that forecast in April (-7.5%). Spain is expected to record a 12.8% contraction this year, while in the WEO of April a decline of 8.0% was expected, with the IMF forecasting contractions of 12.8% in Italy (-9.1% in April), 7.8% in Germany (-7.0% in April) and 12.5% in France (-7.2% in April). European countries are among those painted in the bleakest light in the current scenario, although the predictions for other major economies are also very gloomy. According to the IMF, the GDP of the USA should decline by 8.0% this year (-5.9% in April), while Brazil is expected to face a recession of 9.1% and Mexico of 10.5%. The Japanese economy should shrink by 5.8%, India should contract by 4.5% and only China should escape from falling in the red, with 1.0% growth this year. The IMF's base scenario indicates that the turning point of the world economy should take place during the second half of 2020, but the bad news is that the recovery will be "uncertain" and "gradual", as, despite the opening of the economies, there is persistent social distancing and fear of contagion, with this uncertain recovery postponing the return to pre-pandemic levels to 2022. The IMF highlighted that this would be the first time in almost a century that the advanced economies and the emerging markets would be simultaneously in recession, with the global economy experiencing its worst recession since the Great Depression.

Eurozone Economy

After the Eurozone economy's continued expansion throughout 2019, having shown annual growth of 1.3% in that year (according to Eurostat data adjusted for seasonality and business days), it returned, as expected, to show economic contractions in the first two quarters of 2020 (quarter-on-quarter declines of 3.7% in the first quarter and 11.8% in the second quarter), with the economy being heavily penalised by the impact of the COVID-19 pandemic in the region. Although it is forecast that the economy should return quarter-on-quarter growths in the second half of the year, it is expected that the Eurozone should close 2020 showing an expressive annual average contraction of GDP of 7.6%. Throughout the first half of the year, and in order to try to offset the impact of the pandemic on the economy as much as possible, the European Central Bank (ECB) intensified its already rather expansionary monetary policy, keeping its reference interest rates at the current historically low levels (the interest rate of the main refinancing operations (refi rate) at 0.00% and the deposit rate at -0.50%) and having, in particular, launched a pandemic emergency purchase programme (PEPP). This programme was launched on 18 March, with an endowment of 750 billion euros, but ended up by being reinforced around three months later (on 4 June) with a further 600 billion euros, to 1,350 billion euros, and the programme's termination being extended from the end of 2020 to at least the end of June 2021. Special reference should also be made to the decision, taken on 12 March, to increase the purchases through the asset purchase programme – APP II by 120 billion euros up to the end of 2020, with this increase being added to the purchases at a monthly rate of 20 billion euros that were already underway and that shall likewise continue.

Portuguese Economy

The year of 2020 is being marked by the serious health and economic crisis that is affecting the entire globe, and whose impact on the Portuguese economy is, as expected, extremely severe, having constrained the current forecasts of Banco Montepio. These forecasts point to a GDP contraction of around 9.0% in 2020, reflecting the negative impact greatly marked by the pandemic observed through the first half of the year, essentially due to the various measures adopted aimed at containing the propagation of the virus, such as the closing of schools and universities on 11 March (taking effect from16 March) and the decreed state of emergency on 18 March, which forced the temporary closure of numerous economic activities and restrictions to the free circulation of people. It should also be noted that, before the endorsement of these measures, there were already disruptions in the normal operation of some activities and in the demand for their products, namely in the restaurant and hospitality sector, affecting economic activity practically since the beginning of the month of March. Thus, in the first quarter of 2020, GDP showed a strong quarter-on-quarter contraction of 3.8%, with the subsequent, as expected, severe intensification of the rate of economic contraction in the second quarter – more affected by the impact of the actual containment measures – which declined by 13.9% (according to INE 3rd estimate data), representing the highest rate of quarter-on-quarter GDP contraction of the democratic regime. The gradual lifting of the containment measures, in a context of relative control of the pandemic, should give rise to a recovery of economic activity and quarter-on-quarter growth from the third quarter onwards, but not preventing, as noted above, an expressive annual average contraction in 2020. It should also be highlighted that Banco Montepio's forecasts remain shrouded in enormous uncertainty and downward risks arising from the development of the coronavirus pandemic in the country, specifically the timings and process of deconfinement followed by the Portuguese economy (here, we are assuming that there will be no steps backwards in the measures to reopen the economy), and the responses of economic agents to the new lifestyles. The evolution of public finance in 2020 shall also be greatly affected by the current context of serious health and economic crisis being experienced by the country, which is being particularly constrained by the measures to mitigate the impact of the pandemic. The budget implementation data are already known for this year (in a national accounts perspective up to the first quarter, and in a public accounts perspective up to the month of July) clearly revealing this impact, which has been stressed by the Ministry of Finance (which, in the disclosure of the figures up to July, estimated that around 30% of the deterioration of the budget balance observed up to that month were due to "exceptional measures of family and company support policy"). Although with much associated uncertainty, Banco Montepio points to a budget deficit of around 8.5% of GDP (+0.2% in 2019), a deficit higher than that admitted by the Government in the Supplementary Budget of 2020 (-7.0%), a forecast that remains, furthermore, surrounded by adverse risks. In the labour market, after the reduction of the unemployment rate in 2019, from 7.0% observed in 2018 to 6.5%, thus continuing the downward trend since the peak reached in early 2013 (17.5%), a marked aggravation is now expected in 2020, to 8.9%. Moreover, the only reason that this aggravation is not more intense is due to the (temporary) inability of the unemployment rate to “correctly measure” the real situation of the labour market (the unemployment rate stood at 5.6% in the second quarter, below the 6.7% observed in the first quarter of 2019, contrasting with the evolution suggested by the unemployment recorded since the onset of the COVID-19 crisis). Inflation, measured by the annual average rate of change in the harmonised index of consumer prices (HICP), was 0.3% in 2019, corresponding to 0.9 p.p. less than that recorded for 2018 (+1.2%), and is expected to slow down further this year, to reach a figure around 0.1%. This low inflation foreseen for 2020 reflects the predicted low activity levels and oil prices embodying the impact of the coronavirus crisis (in June, the year-on-year change of the HICP stood at +0.2%, below the +0.4% observed in December 2019, and fell a little further in July to 0.0%).

Other economies

Regarding other economies, it should be noted that in **Angola**, GDP declined year-on-year by 1.8% in the first quarter of 2020, worsening (-0.6% in the fourth quarter of 2019), reflecting the first negative impacts of the COVID-19 pandemic. This downward trend of the Angolan economy is expected to intensify in 2020 to 3.6% (-0.6% in 2019). In **Cape Verde**, GDP showed year-on-year growth in the first quarter of the year (+5.8%), but, reflecting the impact of the COVID-19 crisis, a strong decline of 7.9% is expected in total for 2020 (+5.7% in 2019), reflecting in particular the forecast contraction in the important tourism sector.

Financial markets

The year of 2019 showed a positive evolution in financial market sentiment due to its very favourable performance, particularly the equity market. However, the performance of the markets during the first half of 2020 was naturally very affected by the impact of the pandemic, which started to be experienced towards the end of the month of February, at this time still before the implementation of many of the more restrictive measures in the advanced economies, but with this adverse impact being more marked during the month of March.

The main stock market indices recorded abrupt declines in March, having only shown a partial reversal by the end of the semester, with the main exception being the Nasdaq index, which managed to close the semester with an appreciation (above 10%) with renewed historical peak levels. The context of major uncertainty was also reflected in a very significant increase of volatility in the financial markets. Thus, primarily negative movements were observed in the main stock market indices. In the USA, apart from the aforesaid NASDAQ (+12.1%), declines were also recorded in the Dow Jones (-9.6%) and S&P 500 (-4.0%), but with both also having achieved historical peaks during the semester (at the beginning of the year). In Europe, the Eurostoxx 50 fell by 13.6% during the first semester, and the United Kingdom's FTSE 100 fell even more

(-18.2%), as well as the Portuguese PSI-20 (-15.8%). In Asia, the Japanese Nikkei 225 devalued by 5.8% and the Chinese Shanghai Composite by 2.1%. The MSCI index for the emerging markets fell by 10.7%, while the MSCI World index devalued by 7.1%.

The strong increase of risk aversion observed at the onset of the pandemic was also evident in the sovereign debt market, especially in the Eurozone countries with high public debt levels. In mid-March, the spreads of long-term interest rates of Italy, Spain and Portugal in relation to Germany increased abruptly, even if distant from the peaks observed in 2012. The intervention of the ECB was swift and decisive, with the announcement, on 18 March, of a new programme for purchase of debt securities especially directed at mitigating the negative impact of the pandemic (pandemic emergency purchase programme – PEPP), which led to the partial reversal of this trend and some stabilisation of this market. The yield rates of German debt fell both in the short-term (2 years) and long-term (10 years), becoming even more negative, while in the USA they also declined in the two cases in an even more intense form, with yields at 10 years falling to historically low levels in both geographies on 9 March, although, in the case of American debt, these were surpassed in the last session of the semester. The spreads at 10 years of the debt of the peripheral countries of the Eurozone in relation to German debt widened, as noted above, and the spreads of the corporate credit market (credit default swaps) revealed similarly unfavourable performances. The yield rates of Portuguese debt at 10 years rose from 0.442% at the end of 2019 to 0.476% at the end of June, moving away modestly from the historically minimum levels recorded on 15 August 2019 (0.071%).

Euribor rates fell slightly at 3 months during the first semester, but increased slightly at 6 and 12 months (reflecting the increased risk premium in the monetary market). The 3-month Euribor fell to the historically low level of -0.489% on 12 March, with the 6-month Euribor having slightly increased the distance from the historically low level recorded on 3 September 2019 (-0.448%), and the 12-month Euribor in relation to the historically low level observed on 21 August 2019 (-0.399%), with these low levels continuing to reflect the highly expansionary monetary policy followed by the ECB. The Libor rates of the dollar fell sharply for all periods, as a consequence of the measures endorsed by the Federal Reserve (Fed) since March, in particular with two decreases of the Fed Fund rates, accumulating to 150 b.p. for the range [0.00%; 0.25%].

Commodities shown strong declines of composite indices, reflecting downward performance of most types of commodities, especially energy (derived from the notable declines in oil prices) and with the single exception of precious metals, which took on their traditional role as safe haven assets in periods marked by higher risk aversion, with gold closing the semester at historical peaks. Special reference should be made to the impact of the pandemic on the price of oil which was very pronounced and strongly influenced by the significant slump of global demand, in particular in the transportation sector. The reduction of demand was reflected in a significant increase of stocks, which rapidly approached the installed storage capacity, to such an extent that in the North American futures market negative prices were actually observed for oil delivery in the short-term. In the Brent market, the price of oil reached a low point of 19 dollars on 21 April, representing a 70% reduction in relation to the end of 2019, and closed the first semester with a lesser but still impressive decline of 37.7%, relatively similar to that observed for the WTI price (-35.7%). After some initial disagreement among the main producers, the members of the Organisation of the Petroleum Exporting Countries (OPEC) decided to cut the supply from May onwards, leading to some recovery of the price of oil following the end of April.

FINANCIAL SYSTEM

The year of 2020, marked by the current context of health and economic crisis, due to the COVID-19 pandemic, is proving to be a real test to the resilience of all economic agents, including banks, which are facing a very adverse macroeconomic scenario, characterised by a profound recession and high uncertainty.

In all truth, in the current context of pandemic crisis, the conditions for the continuation of the process of reduction of non-performing loans (NPL) in the banking system should be compromised, both by the difficulty of pursuing with the sale and recovery of the existing NPL and due to the expected increased default, thus negatively affecting the profitability of these institutions. The profile of recovery of economic activity should also be reflected in the evolution of the banking business. A scenario of weak recovery in terms of granting new loans, combined with the expected prolongment of the environment of very low interest rates in the Eurozone, will also constrain bank profitability, precluding the internal accumulation of capital. This highlights the importance of the flexibility that was given to institutions, to operate temporarily with lower capital levels.

In the meantime, according to data published by Banco de Portugal, relative to the first quarter of 2020, the total assets of the banking system increased by 1.1% in relation to the previous quarter. This was essentially due to the rise of exposure to debt securities (+2.7%), including public debt securities (+1.9%) and securities issued by non-financial companies (+6.3%), and, to a lesser extent, due to the increased loans to credit institutions (+12.0%) and customers (+0.4%).

The NPL ratio stayed on its downward trend, standing at 6.0% at the end of the first quarter of this year, 0.2 p.p. below the figure observed at the end of 2019 and well below the 9.4% recorded at the end of 2018. The stock of NPL decreased by 492 million euros (-2.9%). This evolution portrays a less intensive reduction of NPL compared to the same quarter of 2019. The NPL ratio net of impairments reached 2.9% (-0.1 p.p.). The NPL ratio stood at 11.9% (-0.4 p.p.), in the case of non-financial companies and at 3.7% in the case of individuals (remaining unchanged). The ratio of coverage of NPL by impairments fell slightly (-0.1 p.p.) to 51.3%. The ratio of coverage of the segment of non-financial companies decreased by 0.1 p.p., to 56.4%, while for individuals it increased by 1.2 p.p., to 43.3%.

The liquidity position of the banking system continued to be at comfortable levels, with a loan-to-deposit ratio of 86.4% at the end of the first quarter of this year, despite being on a downward trend (87.1% at the end of 2019 and 89.0% at the end of 2018), and a liquidity coverage ratio of 225.9%, having increased by 7.4 p.p. in relation to the previous quarter (end of 2019) and being even higher than the closing value in 2018 (196.4%), benefiting from the evolution of the highly liquid assets. The funding obtained from central banks rose by 13.1%, currently representing 4.9% of the assets (4.4% at the end of 2019 and 5.3% at the end of 2018).

In the first quarter of 2020, the return on assets (ROA) declined by 0.39 p.p. in relation to the first quarter of 2019, to stand at 0.23%. In turn, the return on equity (ROE) diminished by 4.2 p.p., to 2.5%. The evolution of the ROA reflected the impact of the COVID-19 pandemic leading to an increased net flow of provisions and impairments. Furthermore, the reduction of the results from financial operations and other results also contributed negatively to the evolution of profitability. These dynamics were partially offset by the increase of other operating income. The cost-to-income ratio increased by 1.6 p.p., to 58.7%. This evolution was based on both the increased operating costs (+1.0%) and total operating income (-1.8%). The cost of credit risk stood at 0.67%, having increased by 0.31 p.p., which was due to the aforesaid increased provisions and impairments, in particular for credit.

The ratio of total own funds and the ratio of common equity tier 1 (CET1) both fell by 0.2 p.p., to 16.7% and 14.1%, respectively. This evolution was due to the reduction of total own funds (-160 million euros) and CET1 (-121 million euros), and to the increased risk-weighted assets (1.7 billion euros). The leverage ratio stood at 7.8%, remaining significantly above the reference minimum defined by the Basel Committee on Banking Supervision (3%), which would become a compulsory requirement from the starting date of application of the new Capital Requirements Regulation – CRR (28 June 2021). In June, the European Parliament and Council approved an amendment to the CRR (CRR quick fix adjustments), which permits the exclusion of certain exposures to central banks from the leverage ratio, pursuant to authorisation of the competent authorities.

MAIN RISKS AND UNCERTAINTIES FOR THE 2ND HALF OF 2020

In the updating of the World Economic Outlook (WEO) of the IMF in April and June, the focus of the risks and uncertainties was completely dominated by the developments and estimates of real impact of the COVID-19 pandemic. As noted above, the IMF expects that in 2020 the global economy should experience the worst recession since the Great Depression, with the recovery forecast for 2021 will only be partial, reflecting an upturn (starting around the middle of the second quarter of the year) that the IMF expects to be "uncertain" and "gradual", as, despite the gradual opening of the economies, there will be persistent social distancing and fear of contagion.

Moreover, the IMF stresses that the scenario for 2020 may also further deteriorate as a result of a series of factors: *i*) the prolonging of the containment measures [which, in some cases, may involve returning to situations of confinement, as has already occurred in some zones of the globe]; *ii*) the severity of the impact on developing economies [although numerous economic data has already been disclosed that clearly illustrate the intensity of the contraction observed in the first two quarters of the year in most economies, the uncertainty in relation to the recovery process (as well as possible regressions in recovery) continues very high]; *iii*) the deterioration of financing conditions; and *iv*) further deterioration of confidence as a result of the progressive closure of companies and increased unemployment. Indeed, according to the IMF, how the world will be once the COVID-19 pandemic is overcome remains a great unknown: how will people behave and what will be the structure of the economy, and what will be the risks and opportunities emerging from this crisis. In this regard, in the June updating of the WEO, the IMF emphasised that in the economies currently experiencing greater difficulties in controlling infection rates, the decline in economic activity should naturally be stronger. This is likewise the case of the poorer countries, where the impact will be particularly "acute". However, the countries that are dealing better with the pandemic will continue to be penalised by the social distancing measures and fear of economic agents along the course of the disease. According to the IMF, in the countries that continue to need lockdowns, their governments should continue to provide support to families that lose income and to companies affected by stoppage of economic activity. In countries that have already started opening procedures, the direct support should be withdrawn gradually, but with continued stimulus to drive demand and encourage the reallocation of resources away from the sectors that will be smaller after the pandemic. The IMF also appealed to the international community to accelerate its efforts to support the poorer countries, especially in the provision of a vaccine, once it is developed.

In the case of Portugal, the country's high exposure to the tourism sector – one of the most affected by the pandemic – constitutes an extra risk factor compared to economies with greater exposure to the industrial sector, like the German economy.

INFORMATION ABOUT COVID-19 AND OUTLOOK

INFORMATION ABOUT COVID-19 AND OUTLOOK

On 11 March 2020, the World Health Organisation qualified the public health emergency caused by the COVID-19 disease as an international pandemic, which was followed by the declaration of a state of emergency in Portugal, through President of the Republic decree 14-A/2020 of 18 March.

The state of emergency was enforced in Portugal up to 2 May 2020, succeeded by situations of calamity, contingency and alert which have required the adaptation of economic and social activity to the new health reality.

A series of exceptional and extraordinary measures of support to the population and the economy were approved, with the financial sector being responsible, in particular due to its financing function, for an essential participation in the joint effort between authorities and economic agents.

Banco Montepio's response

With 176 years at the service of families, companies and third sector entities, Banco Montepio, a private banking institution, 100% held by national capital, which has never resorted to public funds, has a specific department to develop activity in the Social Economy area whose goal is to be increasingly closer and to make a real difference in the lives of all Portuguese.

In this sphere, on the day that the confinement regime was decreed, Banco Montepio launched the “Conta Acordo” (Agreement Account), a treasury support line for social economy entities in the COVID-19 context, through which it has already supported more than 200 entities. At a time when voluntary work was essential, Banco Montepio once again acted and immediately provided the “Seguro Voluntários Por Todos” (Volunteers For Everyone Insurance), for all private social solidarity institutions, aimed at safeguarding and protecting everyone who was in the front line of the fight against the pandemic.

In a joint initiative with the Associação Portuguesa de Bancos – APB (Portuguese Banking Association), Banco Montepio contributed 230 thousand euros to strengthen the means at the disposal of health professionals through the purchase of 100 ventilators and 100 monitors that were donated to the National Health System.

In view of the situation confronting the country in March, Banco Montepio immediately provided a series of emergency support solutions for families like the doubling of the ceiling of the salary account, a higher credit card limit for individual Customers and a short-term line for companies, with maturity up to six months, even before the provision of the protocolled lines.

At the same time, Banco Montepio's teams worked incessantly to ensure that on the first business day after the decree of confinement, all its Customers were offered an innovative and entirely digital solution that would enable, in a secure form and without requiring travel, a subscription to the credit moratorium in just four steps: application for the moratorium; sending of documents; electronic signature; and automatic activation of the moratorium.

Between 27 March and 30 June, the Banco Montepio Group granted 36,361 moratoriums (of the value of 3.1 billion euros).

Support to the Portuguese business sector is part of the underlying principles of Banco Montepio. Between April and June of this year, the following protocolled lines specifically for companies were subscribed: (i)

"Apoio à economia" (Support to the economy); (ii) "Capitalizar 2018 COVID-19" (Capitalise 2018 COVID-19); (iii) "Investe RAM" (Invest RAM); and (iv) "Açores COVID-19" (Azores COVID-19). Based on these lines, as at 30 June 2020, the Bank had supported national companies with a total contracted value of 102.0 million euros, of which 80.0 million euros were used.

Banco Montepio is proud to have been in the front line in supporting all the Portuguese, whether through digital channels or through its branch network, having always kept at least one branch open in all the municipalities in which it operates. This initiative was only possible thanks to the dedication, commitment and resilience of the over 3,600 Employees of the institution, who were incessantly on the side of all the Customers of Banco Montepio.

Impacts of COVID-19

Banco Montepio's activity in 2020 is marked by the impact caused by the COVID-19 pandemic with transversal effects that were already experienced at the end of the first quarter in the financial markets and that subsequently materialised in the real economy, with historical declines in economic activity, and more intensely in the second quarter via the confinement period.

In fact, in the first half of 2020, Banco Montepio recorded 109.4 million euros of credit impairment which resulted from the increased credit risk derived from the COVID-19 pandemic (39.5 million euros) and due to the strengthening of individual dossiers. This was the main motive underlying the negative net income of 51.3 million euros in the first half of 2020, as well as the reduction of fees and commissions, where direct impacts derived from COVID-19 are namely related to:

- The granting of credit moratoriums of the value of 3.1 billion euros, corresponding to 25.1% of the gross loan portfolio as at 30 June 2020, with suspension of payments and consequent impact on liquidity via lower repayment of loan instalments. Between 27 March and 30 June, the Banco Montepio Group granted 36,361 moratoriums, of the value of 1.2 billion euros to families and 1.9 billion euros to companies.
- The significant reduction of transactionality and the legislative measures imposed on payments, affecting total operating income via lower fees and commissions.
- The allocation of costs and investments, of over 2 million euros, to ensure the safety of the Employees and Customers and the adaptation of workplaces to remote work arrangements, engaging more than 1,400 Employees, involving the reinforcement of cleaning services, the purchase of individual protection kits and the investment in computer applications and equipment.
- The decline of foreign exchange reserves in the first half of 2020 of 12 million euros, primarily due to the exposure to the kwanza under the activity of Finibanco Angola.

Outlook

The short and medium-term outlook points to adverse impacts associated to COVID-19, of a magnitude as yet uncertain, namely in terms of the commercial business, capital and liquidity, profitability, credit quality and the reduction of non-performing assets:

- With respect to the commercial business, more specifically in terms of loans granted: the publication of Decree-Law 10-J/2020 – Legal moratorium, as well as the signing of private moratoria with APB and ASFAC (Associação de Instituições de Crédito Especializado), shall be directly reflected in terms of liquidity, via lower repayment of the instalments of the loan portfolio. The Group has comfortable liquidity levels, embodied in a liquidity coverage ratio close to 224% at the end of the first half of 2020.

- Concerning the capital and liquidity components, in line with the decision taken by the European Central Bank for significant institutions, Banco de Portugal authorised that less significant credit institutions subject to its supervision, which includes Banco Montepio, may operate temporarily at a level lower than that recommended of own funds (Pillar 2 Guidance– P2G) and combined reserve of own funds, and with liquidity levels lower than those of the liquidity coverage ratio. The ECB has undertaken to allow banks to operate below P2G and the capital conservation buffers at least until the end of 2022, without activating any supervisory measures, and has noted that the calendar for its re-establishment should be done on a case-by-case basis according to the individual situation of each bank, and after the results of the stress testing exercise are known. Banks are not required to restore their capital buffers until reaching the peak of capital deterioration.
- As for liquidity, reference should also be made to the European Central Bank announcement on the implementation of a series of flexibilisation measures with positive impacts in terms of the liquidity buffers in the financial system, aimed at mitigating negative effects of the novel coronavirus on the financial situation of the Eurosystem's monetary policy counterparts, namely via the reduction of the assessment margins (haircuts) applicable to tradable and non-tradable assets given as collateral, the increased limit of concentration of unsecured debt instruments issued by credit institutions, the enhanced flexibility of the rules of mobilisation of individual credit rights, the enhanced flexibility of the rules of mobilisation of portfolios of credit rights, and by the acceptance of guarantees of public entities and public debt securities. These measures have an additional positive impact on the Group's liquidity position.
- Concerning total operating income, materially significant negative impacts have already been experienced in terms of fees and commissions, namely in income arising from transactions, in view of the legal measures imposed and the abrupt reduction of economic activity during the state of emergency, where the recovery rate is difficult to predict. However, a recovery of the level of fees and commission has already been observed after the end of the confinement period to levels that are close to, but as yet short of the figures observed in the first months of the year.
- In terms of the cost of risk, via the borrowers' lower capacity to comply with their debt service, notwithstanding the governmental and sectoral initiatives underway, as well as the potential downward pressure on real estate prices.
- In terms of the deleveraging of non-core assets, implying the need to revisit the plan to reduce non-performing loans, as well as the plan to reduce the exposure to real estate risk. The ECB authorised the banks under its supervision to submit new plans at the end of March 2021, when the moratoriums are foreseen to come to an end.

As a consequence of the necessary adjustment brought on by the pandemic, evident in the revised business plans, and the uncertainty on the development of the recovery of economic activity, Banco Montepio proposed the implementation of a series of actions in 2020, which are already underway, aimed at accelerating the digital transition, adjusting the service model and increasing efficiency, while preserving convergence towards the major targets defined in the Transformation Plan approved by the Board of Directors in 2018, in particular:

- Increasing the robustness of the business model, strengthening the focus on products with higher value added for the Customer;
- Accelerating the digital transition, both in-house and on Customer relationship platforms;
- Enhancing efficiency, namely through the review of internal procedures and rules;
- Adjusting the distribution model with the merger of redundant branches, due to their geographic proximity.
- Implementing new concepts and forms of working that valorise collaboration and flexibility, promoting greater balance between personal and professional life.

BUSINESS SEGMENTS

BUSINESS SEGMENTS

The Banco Montepio Group develops a series of banking and financial services activities, with special focus on retail banking in Portugal, but also abroad.

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

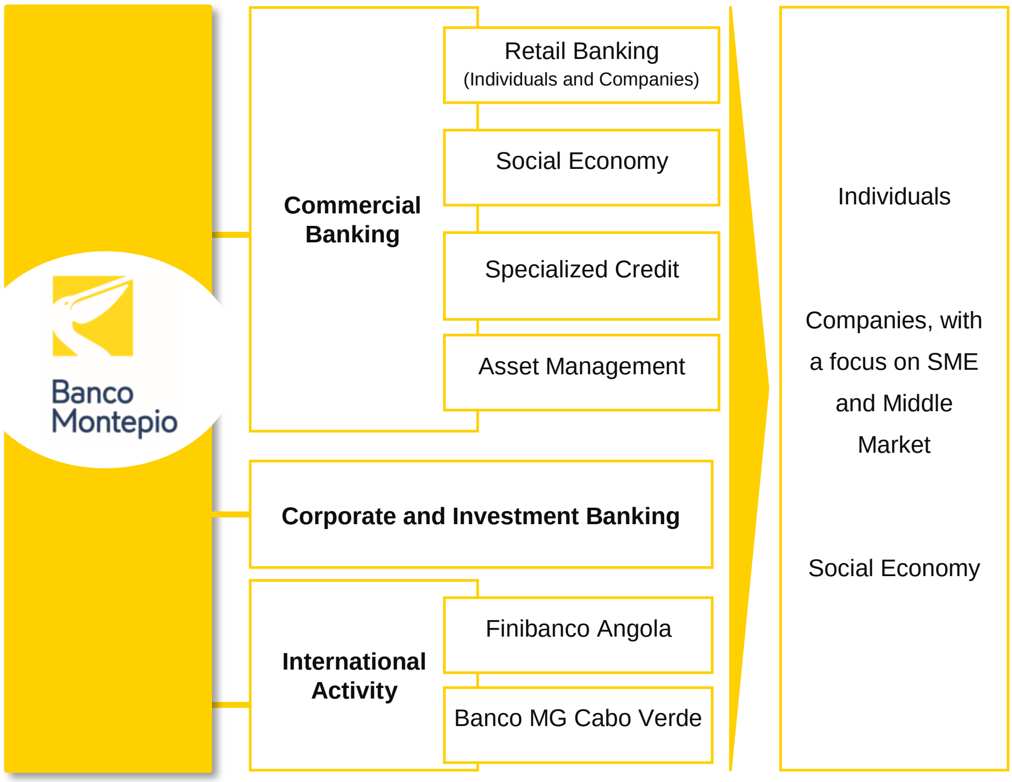
The Group's target Customer segments consist of Individuals, Companies, with emphasis on small and medium-sized enterprises, the middle market, and Social Economy. Banco Montepio's business model is Customer driven, focused on the well-being of families, on supporting the social economy and on attention 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 Montepio Geral Cabo Verde and by its representation offices. The equity stake in Finibanco Angola is currently reduced significantly, pursuant to the strategic redefinition of the international holdings, in particular for the African market.

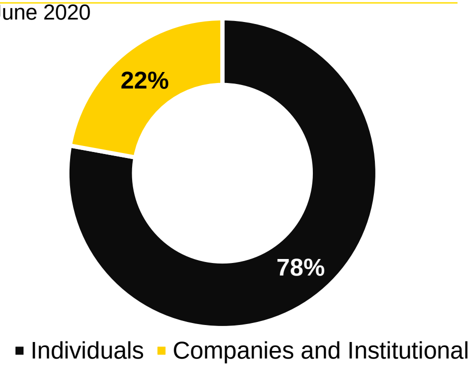
On 30 June 2020, the operations in Portugal accounted for 98.3% of total assets, 100.0% of total loans to customers (gross) and 99.0% of total customer deposits; Banco Montepio had a network of 335 branches in Portugal, serving 1,504.3 thousand Customers, composed of 156.3 thousand Companies and 1,348.0 thousand Individuals, with market shares of 5.4% in Deposits and 5.5% in Loans to customers.

BUSINESS SEGMENTS OF THE BANCO MONTEPIO GROUP

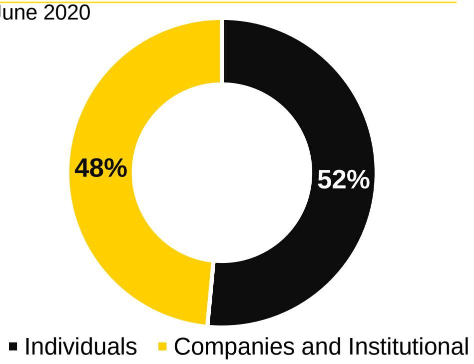


As at 30 June 2020, Bank Montepio's customer deposits stood at 12.4 billion euros, with individual Customers representing 77.9% of this amount, and gross loans to customers reached 12.4 billion, where 52% are individual Customers and 48% are corporate and institutional Customers.

Structure of Customers Deposits
30 June 2020



Structure of Loans to Customers (gross)
30 June 2020



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 mortgage loans, personal or consumer credit, demand and term deposits, and other investment of savings, retirement solution products, like "PPR" (retirement saving plans), debit and credit cards, services for management of accounts and means of payment, services for placement of investment funds and for purchase and sale of securities and custody, loans for treasury and investment purposes, commercial discount, leasing, factoring and renting, as well as the placement of insurance and non-financial services.

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

Summary of indicators - Retail Banking (million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Income Statement					
Net interest income	99.8	200.0	88.9	(10.9)	(10.9)
Net fees and commissions	49.4	102.4	47.8	(1.6)	(3.2)
Total operating income	149.3	302.6	136.6	(12.7)	(8.5)
Balance Sheet					
Loans to customers (gross)	8 741	8 624	8 318	(423.9)	(4.8)
Customer deposits	10 838	10 908	10 965	127.0	1.2

CORPORATE AND INVESTMENT BANKING

The Corporate and Investment Banking segment (companies included in economic groups with turnover equal to or more than 20 million euros) aggregates the activity provided by the Group to small, medium-sized and large companies, with booking at Banco Montepio and BEM, through the commercial structure dedicated to this segment, as well as the business with the institutional Customers, namely of the financial sector, and the activity currently developed in the area of Investment Banking. The products and services offered include, in particular, those related to credit for treasury and investment purposes, 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 Banking segment includes the Commercial Banking component that operates, under the Group's cross-selling strategy, as a distribution channel for products and services of other companies of the Group, as well as the Investment Banking business, with activity in the areas of Corporate Finance, Capital Market, Structured Loans, Financial Advice, Business Studies and Information.

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

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

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Income Statement					
Net interest income	22.5	42.8	20.3	(2.2)	(9.4)
Net fees and commissions	4.3	10.8	4.6	0.3	6.4
Total operating income	27.8	52.2	24.8	(3.0)	(10.8)
Balance Sheet					
Loans to customers (gross)	1 693	1 748	2 001	308.0	18.2
Customer deposits	306	306	283	(23.1)	-7.5

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

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

SOCIAL ECONOMY

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

Summary of indicators - Social Economy (million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Income Statement					
Net interest income	2.3	4.7	2.4	0.1	6.0
Net fees and commissions	0.5	1.1	0.6	0.1	20.2
Total operating income	2.8	5.8	3.0	0.2	7.7
Balance Sheet					
Loans to customers (gross)	130	134	121	(8.8)	(6.7)
Customer deposits	664	605	595	(69.1)	-10.4

The main highlights of 2020 are presented below with respect to the Banco Montepio Group's offer of financial products and services, by segment of target customers: Individuals, Companies and Social Economy.

INDIVIDUALS

Banco Montepio's offer for the Individuals segment continues to prioritise the encouragement of 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

"Poupança Solidária +Vida" (Solidarity + Life Saving) was launched in the first half of 2020, this is a solidarity deposit in which the remuneration is divided into equal parts as deposit interest and as a donation to the envisaged private social solidarity institution (IPSS).

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

Under the concept of "offering saving", Bank continued to provide, via web on "Serviço Montepio24" (Montepio24 Service), "vouchers-poupança" (saving vouchers), that can be used as a gift to offer any person the first step to strengthen savings or start saving.

INVESTMENT AND PENSION FUNDS

The offer of Investment Funds has been a constant at Banco Montepio, with the continued marketing of Securities Investment Funds managed by Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A., and two Real Estate Investment Funds, "Fundo Valor Prime" (Prime Value Fund) and "Fundo VIP" (VIP Fund), each managed respectively by the holding companies Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. and SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.

The campaign promoted by Futuro - Sociedade Gestora de Fundos de Pensões, S.A., named "Reforma Dinâmica" (Dynamic Pension) was carried out during the first half of 2020, aimed at stimulating and encouraging saving as an investment for retirement pensions through occasional or periodic deposits of sums in "PPR/PPA" (retirement saving plan/saving in shares plan) Pension Funds. It should be noted that PPR subscription is now active via the internet, on "Serviço Montepio24" (Montepio24 Service, preventing the need for Customer visits to Bank branches in the midst of the COVID-19 pandemic.

PUBLIC SUBSCRIPTION OFFERS

In the first half of 2020, Banco Montepio, as a placement entity in Public Subscription Offers of Bonds, continued to offer its Customers the possibility of subscripting bonds of nationally renowned entities, such as the issuance of bonds of a sports club, and consequently the diversification of their investments.

PAYMENT MEANS

In view of the sensitive phase of confinement arising from the COVID-19 pandemic and in order to meet the need to operate accounts and make payments, an outbound campaign was started in the first half of 2020 to allocate debit cards to pensioner Customers without any other means of operating their Sight Deposit account, ensuring simplicity and security in obtaining a card that would enable them to go shopping in a safe way online or through contactless.

After the Contact Centre's presentation of the advantageous conditions of the campaign, pensioner Customers just need to accept the subscription of the card which was subsequently sent to their address.

INSURANCE

In 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 efficiency and improving the Customers' experience.

Special reference is made, in the first half of 2020, to the articulation with Lusitania Companhia de Seguros S.A. to offer the Lusitania Personal Accident insurance, named "**Acidentes Pessoais - Voluntários por Todos" (Personal Accidents - Volunteers For Everyone)**, a group insurance aimed at all entities/IPSS (Private Social Solidarity Institutions) that organise/develop voluntary actions, and wish to insure their volunteers during their actions in the field.

COMMERCIAL SOLUTIONS

Under the usual offer of integrated packages of products and services 'Mais Consigo' and 'Mais Contigo' (two alternative More With You solutions), that facilitate the Customer's daily financial management, with a more inviting price than if the products and services were purchased individually, Banco Montepio approved a temporary exemption, during the COVID-19 pandemic, for new subscriptions to these packages, so as to alleviate the costs related to the main means of payment (transfers/payments) used by families.

CREDIT

Pursuing the goal of repositioning itself as a bank specialised in Mortgage Loan products, and considering that the relevant factors in the choice of a mortgage loan are the price, the service and the relationship established between the bank and the Customer, Banco Montepio has continued to develop initiatives aimed at stimulating its mortgage loan solutions, especially, in the first half of 2020, promotional conditions for purchasing a house, namely, 'Troca de Casa' (Change House), 'Jovem' (Youth), 'Transferência de Outras Instituições de Crédito' (Transfer from Other Credit Institutions), 'Crédito e Casas Sustentáveis' (Sustainable Loans and Houses) and 'Família' (Family).

Following the COVID-19 pandemic and, in view of the possible constraints in the capacity of families to punctually fulfil their obligations, Banco Montepio has placed in practice the exceptional measures of loan protection, by providing, on its public website, a procedure of application for moratoriums fully carried out online.

COMPANIES

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

Banco Montepio, recognising the exceptionality of the situation and emergency triggered by the COVID-19 pandemic, approves extraordinary measures aimed at supporting workers and companies in the normalisation of their activity, namely the **COVID-19 Collateralised Current Account**, included in Banco Montepio's offer in order to provide support to companies experiencing difficulties in honouring commitments related to payments of salaries and suppliers.

In this context, Banco Montepio also put in practice exceptional measures of loan protection, offering a procedure of application for moratoriums to overcome possible constraints in the capacity of companies to punctually fulfil their obligations.

In the first half of 2020, Banco Montepio also strengthened its participation in public sector initiatives aimed at stimulating the financing of companies in different aspects, with special focus on the support lines designed to confront the constraints due to the COVID-19 pandemic, in particular:

- **"Linha de Crédito Capitalizar 2018 - Linha Específica COVID-19" (Capitalise Credit Line 2018 – COVID-19 Specific Line)**

  The Capitalise Credit Line 2018 was adjusted, with this line being specifically directed at financing working capital and treasury needs of the affected companies.

- **"Linha de Apoio à Economia COVID-19" (COVID-19 Economy Support Line)**

  A credit line for the affected companies to be able to access bank financing with suitable costs, directed to financing of treasury needs.

- **"Linha de Credito Investe RAM COVID-19" (COVID-19 RAM Invest Credit Line)**

  A credit line aimed at supporting the treasury of the affected companies in the Autonomous Region of Madeira.

- **"Linha Específica COVID-19 - Apoio às Empresas dos Açores" (COVID-19 Specific Line – Support to Companies of the Azores)**

  A credit line of extraordinary support directed at financing treasury and working capital needs, in order to mitigate the economic losses of the affected companies in the Autonomous Region of the Azores.

- **Linha de Crédito de Apoio ao Setor da Pesca 2020 – COVID-19 (Credit Line to Support the Fisheries Sector – COVID-19)**

  A credit line with subsidised interest, directed at companies of the fisheries sector, aimed at providing the necessary financial means to meet working capital and treasury needs, as a measure of assistance to support the economy in the current context of the outbreak of COVID-19.

RENTING

Banco Montepio continues to highlight the offer of the most recent range of electric vehicles, associating efficacy to sustainability, through the Vehicle Operational Renting service, for Customers who want to use one or various vehicles for personal or commercial purposes. This motor vehicle solution, through the integrated offer of services provided by Montepio Crédito, S.A., contributes in an effective manner to the rational management of the Customers' vehicles.

"PROGRAMA FINCRESCE | PME LÍDER 2020" (FINCRESCE | SME LEADER 2020 PROGRAMME)

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

SERVICES

Automatic Payment Terminal (POS)

Banco Montepio continues to provide this equipment in the modes of Fixed POS (automatic payment terminal at point of sale based on fixed communications), GPRS Mobile POS (automatic payment terminal at point of sale based on mobile communications, permitting relocation to the consumer to carry out the payment) and WI-FI POS (automatic payment terminal at point of sale based on fixed communications, enabling total mobility, as it works via Wi-Fi), in order to simplify and streamline payments received by Company Clients.

Measures of support to companies affected by the COVID-19 pandemic were also implemented in this service, such as, for example, the temporary suspension of the POS monthly instalment.

Special reference should be made to the provision of an innovative POS mobile solution (Touch2Pay) at the end of the first half of 2020, which enables accepting payments in a fast and safe way, at any place. The offer is composed of a payment app which is available for IOS and Android and a small card reader which is linked by Bluetooth, enabling payments with an EMV card (chip), Magnetic Banda and Contactless.

"Serviço Net Global" (Net Global Service)

Banco Montepio continues to provide an unlimited series of transfers via web, telephone and app for Customers that have joined the "Serviço Montepio24 Empresas" (Companies Montepio24 Service), for 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 2020 and with the COVID-19 pandemic in Portugal and worldwide, Banco Montepio as a Social Economy Bank was, as it has always been, on the side of the Social Sector institutions to mitigate the impact caused by COVID-19.

Complementing the service of proximity offered by the branch network, the Commercial Department of the Social Economy and Public Sector (DCESSP) analysed the specific needs of the Customers of the segments comprising the Social Sector (Social Economy, Microcredit, Social Entrepreneurship and Sustainability), in order to find the most suitable solution for the reality of each Customer.

Composed of 7 Departments specialised in the Social Economy and Public Sector and a Microcredit, Entrepreneurship and Sustainability Department (DMES), the DCESSP has a team of 32 Customer managers and 3 managers dedicated to Microcredit and Social Entrepreneurship.

At the beginning of 2020, Banco Montepio developed products and services in the context of COVID-19 for the Social Economy institutions, carried out the commercial follow-up of the moratorium applications, supported initiatives and contributed to the acquisition of protective material, so that the institutions could continue ensuring their daily needs.

Under the Government's Economic and Social Stabilisation Programme and the Protocolled Lines, Banco Montepio ensured a close follow-up of the Social Economy institutions and, through requests, analysed the granting of lines to support treasury and investment financing.

Banco Montepio has been on the side of families, companies and Social Economy institutions for 176 years, and at this moment, in that regard, nothing has changed. As a Social Economy Bank, Banco Montepio has supported social projects in the context of COVID-19. The main initiatives supported during the first half of 2020 are highlighted below:

- **Financing Lines for Social Economy institutions in the context of COVID-19**, namely COVID-19 Support to Treasury and follow-up of Customers to assess their suitability for future Protocolled Lines specifically for the Social Sector and for the future PARES 3.0 (Programme of Expansion of the Network of Social Facilities);
- **E-Social**, a communication platform of Banco Montepio directed at all stakeholders of the Social Sector. Present on the digital social networks Facebook, Instagram, Twitter and YouTube, 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, in Social Innovation and in Sustainability in Portugal. In times of COVID-19, E-Social has regularly shared tips, tools and suggestions for the Social Sector and its participants in the most varied forms of action;
- **Social Good Summit**, an event of the United Nations Foundation, curated in Portugal by It's About Impact, powered by Casa do Impacto of Santa Casa da Misericórdia de Lisboa (SCML) and sponsored by Banco Montepio. This special edition, in digital format and open to all, was dedicated to the social impact after COVID-19 and divided into seven discussion panels. Themes such as the importance of the Social Economy, the consequences of COVID-19 on mental health, culture as a key factor in economic development and the arrival of the digital revolution were some of the topics – around the Sustainable Development Goals (SDG) of the United Nations 2030 Agenda – that were debated. The speakers included Ana Mendes Godinho – Minister of Labour, Solidarity and Social Security, Graça Fonseca – Minister of Culture, Edmundo Martinho, SCML Ombudsman, Pedro Leitão – CEO of Banco Montepio, Carlos Moedas – Director of the Calouste Gulbenkian Foundation, entrepreneurs of the impact ecosystem, activists and Catarina Furtado, Goodwill Ambassador of the United Nations Population Fund (UNFPA);

- **“Fundo de Emergência para o Setor Solidário** (FESS)**”** (**Emergency Fund for the Social Sector)**, designed by the Associação de Desenvolvimento da Economia Social – UNITATE (Social Economy Development Association) and supported by Banco Montepio, SIC Esperança and KGSA Advogados. This support instrument aims to mobilise civil society around the reparation/mitigation of the negative impacts arising from COVID-19, through Portuguese private social solidarity institutions;
- **“Liga-te” (Connect)**, a youth network for intervention and combat of COVID-19, launched by the Federação Nacional das Associações Juvenis – FNAJ (National Federation of Youth Associations) and supported by Banco Montepio, which operates through a contact platform of young people and youth associations and a network of support against loneliness and social isolation among young people;
- **Attribution of donations to Social Economy entities for acquisition of protective material in the context of COVID-19**, such as the Associação Portuguesa de Mutualidades – APM-RedeMut (Portuguese Mutualities Association), the Confederação Nacional das Instituições de Solidariedade – CNIS (National Confederation of Solidarity Institutions), the Associação Humanitária dos Bombeiros Voluntários de Sacavém (Humanitarian Association of the Voluntary Firemen of Sacavém) and the Associação Cultural e Recreativa de Tondela – ACERT (Tondela Cultural and Recreational Association).

Support to the Public Sector

Banco Montepio considers that the Public Sector is one of the fundamental pillars for the Generation of value in the Portuguese economy. The Public Sector area is integrated in the DCESSP and has an experienced team with specific knowledge of the sector and its different spheres of action, committed to ensuring the interests of the community. During the first half of 2020, the following initiatives were of particular importance:

- **Strengthening of Banco Montepio's knowledge of the Public Sector segment**, continuing to improve its response capacity to public tenders, through loan proposals;
- **Structuring of a Green, Social or Sustainability Bond**. Analysis, discussion and definition of the strategy, together with Banco Empresas Montepio, on Sustainable Financial Debt in the context of Local Authorities.

Support to Entrepreneurship and Social Innovation

In these times of pandemic, changes are occurring in behaviour which have forced people to rethink organisations models and projects adjusting them to the current context. In the first half of 2020, Banco Montepio stood out for its important and crucial role played in Entrepreneurship and Social Innovation as a whole, both through financing and through partnerships with impact on the life of those who dare to be an entrepreneur.

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

- **Partnership with the "<Academia de Código_>" (Code Academy)**, a project aimed at providing a social experience through bootcamps on computer language. In order to help all who want to <re>programme their life by enrolling in these bootcamps, Banco Montepio created a Code Academy Credit Line, specifically to support the students (<Code Cadets>) who will attend the bootcamps in Lisbon, Porto, Aveiro and Ilha Terceira;

- **"Montepio Acredita Portugal" (Montepio Believe Portugal)**, the largest entrepreneurship competition of Portugal and the second largest worldwide, promoted by the non-profit organisation "Acredita Portugal", in partnership with Banco Montepio. Throughout the four years of partnership, which entailed the 7th, 8th, 9th and 10th editions of the "Montepio Acredita Portugal" competition, the following results were observed:
    - 45,443 applications to the "Montepio Acredita Portugal" competition. In addition to the Social Entrepreneurship category, the category supported by Banco Montepio, the competition accepts applicants from areas such as mobility, sustainability, technology, innovation, new products and education;
    - 6,586 applicants the Social Entrepreneurship category, the category supported by Banco Montepio and the one that most grows and receives the highest number of applicants.

In order to complement the process and help all who want to put their projects in practice and accompany trends, Banco Montepio offers the "Linha Apoio Desenvolvimento Negócio 2018 – StartUp" (Business Development Support Line 2018 – StartUp), which fosters the creation of companies and the development of new business, at the initial stage of the project lifecycle.

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

- **Social Impact Projects**, a joint initiative of Banco Montepio and the Santa Casa da Misericórdia de Lisboa (SCML) aimed at boosting social investment through the financing of 9 projects (2 Social Impact Securities and 7 Partners for Impact), two financial instruments of the "Portugal Inovação Social" (Social Innovation Portugal) initiative, aimed at supporting innovative projects addressing priority social problems under the remit of public policy, in a logic of payment according to results;

- **Social Impact Securities (TIS - Títulos de Impacto Social)**, a financing instrument provided by the "Estrutura de Missão Portugal Inovação Social (EMPIS)" (Social Innovation Portugal Mission Structure). Banco Montepio invested in the first TIS in Portugal, together with the Calouste Gulbenkian Foundation, with the "Projeto Família" (Family Project), implemented by the Associação Movimento Defesa da Vida (Defence of Life Movement Association). This project, which is in its last year of implementation, aims to ensure the non-institutionalisation of children and young people at risk, preserving the family structure and balance of at least 50% of the detected cases;

- **Social Innovation Centre** of the Eugénio de Almeida Foundation, which is located in Évora, and continues with the annual co-investment of Banco Montepio. This Partnership for Impact project is a centre which supports entrepreneurs and other regional players who want to test, develop or consolidate innovative projects and initiatives, with sustainable business models, with potential scalability, focused on social impact that contribute to resolve social problems in zones of low population density.

Banco Montepio, as a Social Innovation Partner continued to support the following entities:

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

- **"Incubadora Regional de Impacto Social" (IRIS - Social Impact Regional Incubator)**, located in Amarante, is an entity that aims to capture ideas and projects, and support the creation, development and acceleration of social innovation and social entrepreneurship initiatives, promoted by the European Investment Bank Institute and by the "Associação do Parque de Ciência e Tecnologia do Porto" (Porto Association of Science and Technology Parks).

- “**Incubadora de Inovação Social do Baixo Alentejo" (IISBA - Lower Alentejo Social Innovation Incubator)** is a project of the "Centro Social Nossa Senhora da Graça" (Our Lady of Grace Social Centre), created to foster entrepreneurship and social innovation in the district of Beja.

Support to Microcredit

During 2020 the company started to prepare itself for the post-pandemic period, which shall involve new forms of acting, new professions and functions. Banco Montepio's Microcredit area, which is linked to the promotion of sustained growth in Portugal, should be part of the future of people's work and requalification, in order to keep up with the changes, evolutions and accelerations arising from the COVID-19 pandemic.

Banco Montepio, which has a team of specialised managers nationwide, continued to offer low-value financing solutions aimed at supporting the creation of small businesses, enabling various people to kick off a new cycle in their life, accomplishing sustainable own-job creation projects and even creating other employment positions.

Throughout the first half of 2020, Banco Montepio also continued to focus on the "Programa de Apoio ao Empreendedorismo e à Criação do Próprio Emprego" (Programme to Support Entrepreneurship and Own Job Creation), a protocol established with Instituto do Emprego e Formação Profissional, I.P. (IEFP) and the four Mutual Guarantee Companies (Norgarante, Garval, Lisgarante and Agrogarante) which contains two distinct credit lines for different amounts: MicroInvest and Invest+.

In the area of investment in Microcredit, Banco Montepio supported in the first half of 2020:

43 Projects

748.044 euros of financing

63 Work stations

Before the emergence of the pandemic, Banco Montepio's specialised managers participated in the Module – Preparation of the Financial Plan of the 2nd Edition of the Grow Innovation Acceleration Programme, and attended as speakers in sessions on Microcredit and Investment, held by the Instituto do Emprego e Formação Profissional (IEFP - Institute of Employment and Training).

Sustainability

The definition, implementation and monitoring of the Action Plan of 2020 for the Sustainability of Banco Montepio is one of the milestones of 2020 for the Sustainability of the Institution. The plan, which is in line with the Social Responsibility and Sustainability Strategy defined by the Montepio Group for the time horizon 2019-2021, was based on the contributions and the participation of various areas of Banco Montepio, namely the Commercial Department of the Social Economy and Public Sector (DCESSP), the People Management Department (DGP), the Communication and Brand Department (DCM), the Strategic Marketing Department (DMEI), the Operational Marketing Department (DMO), the Transformation and Innovation Centre (CTI), the Risk Department (DRI), the Shared Services Unit (USP) and the Central Procurement Department (DCCOMP).

During the first half of 2020, the DCESSP promoted, ensured and strengthened Banco Montepio's role as a reference agent for sustainability in the market among the different stakeholders, through the following initiatives:

- **Follow-up of the topic of financial, social and environmental sustainability applicable to banking activity in Portugal**, by the existing working parties;
- **Internal articulation for achievement of the social responsibility and sustainability strategy** of Banco Montepio, carrying out the follow-up and monitoring of the initiatives established by 9 Departments of Banco Montepio;
- **Banco Montepio's Membership of the Associação Portuguesa de Ética Empresarial** – APEE (Portuguese Association of Business Ethics), member entity and host of the United Nations Global Compact;
- **Application submitted and validated for the 6th Edition of the Recognition of Social Responsibility and Sustainability Practices**, in categories 3 (Decent Work and Reconciliation) and 4 (Environment – Impact Reduction) of the APEE;
- **Implementation of the internal initiative "Sustentabilidade: Colaboradores e boas práticas no âmbito da COVID-19" (Sustainability: Employees and good practices in the context of COVID-19)**, an action composed of 15 dynamics, disclosed on the intranet and in internal newsletter #Juntos à Distância (#Together at a Distance), held from 5 May to 17 August 2020.

SUBSIDIARIES

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

Montepio Investimento, S.A., a bank 100% controlled by Banco Montepio, through Montepio Holding, SGPS, S.A., adopted the trade name of Banco de Empresas Montepio (BEM) on 4 June 2019, henceforth developing, in an integrated and multidisciplinary manner, Commercial Banking and Investment Banking activities, aimed at placing on the market a complete, integrated and global offer of services.

Underlying the creation of BEM was the contribution that the new model would bring in terms of incremental business to the Banco Montepio Group. Thus, the launch of Banco de Empresas Montepio was accompanied by the creation of the Corporate Banking Department (DBE), with the mission of managing the loans to the Companies and Institutional segments (excluding financial sector entities) with an annual turnover equal to or more than 20 million euros, an area particularly well suited to the development of the activity of BEM, whose business is domiciled in the two entities according to the established specialisation.

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

In the first half of 2020, BEM pursued its action driven by the goal of expanding the Group's offer of products and services directed to the corporate segment, especially the SME and middle market segments, and supporting their needs emerging in the context of the COVID-19 pandemic.

BEM relies on 7 Corporate Centres, distributed throughout the country, where dedicated managers receive their Customers, identify their needs, present value propositions while cultivating relations of proximity.

As at 30 June 2020, the Net assets of Banco de Empresas Montepio stood at 365.0 million euros, showing an increase of 154.1 million euros (+73.1%) in relation to the value recorded at the end of 2019 (210.9 million euros) and year-on-year growth of 173.5 million euros, reflecting the growth of Loans to customers.

Net loans to customers amounted to 233.8 million euros as at 30 June 2020, compared to 75.2 million euros recorded at the end of 2019, corresponding to an increase of 158.6 million euros since the end of the previous year and year-on-year growth of 209.1 million euros, due to the performance of the headings of Loans to customers and Loans represented by securities. Up to September 2019, the loan portfolio of BEM was limited to movable and immovable property leasing under amortisation. The first credit operation, under the new business model, was contracted at the end of September 2019, initiating a gradual and sustained growth of the loan portfolio.

As at 30 June 2020, Equity (182.7 million euros) and Resources from other credit institutions (180.0 million euros) constituted the main source of asset funding, representing 99.4% of Total assets (99.1% at the end of 2019).

In the business model adopted for the corporate and investment banking area, BEM monitors companies with a turnover equal to or higher than 20 million euros in all aspects of the relationship, although the transactionality of these companies (deposits, current accounts, cards, automatic payment terminals at point of sale, among other operations) are assured by Banco Montepio, through the same commercial agents (belonging to the two banks) allowing synergies and rationalization of costs not only in this area, but in a transversal way in the respective organizational structures.

In the first half of 2020, precisely the first year of activity of BEM under the new business model, which incorporates the Corporate and Investment Banking areas, the evolution of the operational component was marked by the necessary additional operating costs arising from the allocation of resources to the new activities, and which did not exist in the same half of the previous year, and by the preservation of the level of revenues.

When considering BEM separately, a favourable evolution is evident, when compared to the same period of 2019, of Fees and commissions (+1.1 million euros) and Net interest income (+0.1 million euros), via the revenues for services rendered to companies, namely related to operations set up and subscription of issues, and due to the growth of Loans to customers, reflecting the interest in BEM's value proposition shown in its target market. Reference is made, on the other hand, to the negative effect on Total operating income arising from the decreased gains from the sale of real estate properties compared to the same period of 2019 (-1.0 million euros) and from the devaluation of the Participation units in Investment funds (-0.4 million euros), related to the historical legacy of Montepio Investimento.

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

Activity and Results (million euros)

	Jun-19	Dec-19	Jun-19	Y.o.Y. Change	
				Amount	%
Total assets	191.5	210.9	365.0	173.5	90.6
Loans to customers (net)	24.7	75.2	233.8	209.1	>100
Equity	186.4	183.9	182.7	(3.7)	(2.0)
Total operating income	2.5	2.4	2.3	(0.2)	(10.1)

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

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

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

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

As at 30 June 2020, Net Assets reached 577.1 million euros (587.5 million euros recorded at the end of 2019), revealing a 19.7% growth in relation to the value recorded as at 30 June 2019 (482.3 million euros).

Loans to customers (net of impairments) reached 470.9 million euros at the end of the first half of 2020, representing an increase of 2.8 million euros (+0.6%) in relation to the value observed at the end of 2019 and of 27.9 million euros (+6.3%) compared to the same period of 2019.

Equity stood at 54.2 million euros, showing an increase of 1.3 million euros (+2.4%) in relation to the value of 52.9 million euros recorded at the end of 2019, underpinned by the increased of Other reserves and retained earnings.

Total operating income reached 8.9 million euros in the first half of 2020, compared to 9.4 million euros recorded in the same period of 2019, determined, on the one hand, by the negative evolution of Net interest income, which declined by 1.7 million euros (-25.3%), and of Other operating income which stood at -0.4 million euros compared to 1.2 million euros in the first half of 2019. In this last case, the decline was the result of the recognition of a gain of 1.8 million euros associated to the correction of a tax estimate, despite the positive contribution of Net fees and commissions, which grew by 0.2 million euros (+8.6%) and of the Results from financial operations which stood at 2.6 million euros compared to -0.02 million euros in the first half of 2019.

In the first half of 2020, Operating costs amounted to 5.9 million euros, corresponding to an increase of 0.3 million euros (+6.0%) in relation to the same period of 2019, caused by the increase of 0.1 million euros in General administrative expenses (+6.5%) and of 0.2 million euros in Depreciation and amortisation (+62.5%), associated to the containment of Staff costs.

The Net operating income before impairment and provisions of the first half of 2020 stood at 3.0 million euros, compared to 3.8 million euros recorded in the same period of 2019.

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

Activity and Results (million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Total assets	482.3	587.5	577.1	94.8	19.7
Loans to customers (net)	443.0	468.1	470.9	27.9	6.3
Equity	54.0	52.9	54.2	0.2	0.5
Total operating income	9.4	16.7	8.9	(0.5)	(5.2)
Operating costs*	5.6	11.6	5.9	0.3	6.0
Net operating income before impairment and provisions	3.8	5.0	3.0	(0.8)	(21.5)

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

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

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

The Net assets of Montepio Valor stood at 6.3 million euros as at 30 June 2020 (6.5 million euros as at 31 December 2019), reflecting year-on-year growth of 0.5 million euros (+7.8%).

The Assets under management amounted to 401.5 million euros as at 31 December 2019, showing growth of 0.7 million euros in relation to the value of 400.8 million euros recorded at the end of 2019, and a reduction of 150.9 million euros (-27.3%) compared to the value of 552.4 million euros recorded in the same period of 2019. The year-on-year evolution was caused by the reduction of the capital of the "Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional – FIIAH" (Closed Real Estate Investment Funds for Residential Rental) which showed surplus liquidity (-159.4 million euros).

As at 30 June 2020, Equity stood at 4.5 million euros and constituted the main source of asset funding, representing 71.4% of Total assets (73.0% at the end of 2019).

In the first half of 2020, Total operating income stood at 2.2 million euros, compared to 2.5 million euros recorded in the first half of 2019, primarily influenced by the performance of Net fees and commissions which fell by 0.2 million euros (-9.9%), due to the lower value received in management fees from the Collective Investment Undertakings managed by Montepio Valor.

Operating costs reached 1.6 million euros in the first half of 2020, compared to 1.7 million euros recorded in the same half of 2019 (-8.6%), which did not yet include the impact of IFRS 16, reflecting the reduction of Staff costs (-11.7%) and of the aggregate General administrative expenses and Depreciation and amortisation (-4.8%).

The favourable evolution of Operating costs was partially offset by the lower performance of Net fees and commissions, with Net operating income before impairment and provisions standing at 0.6 million euros, compared to 0.7 million euros recorded in the same period of 2019.

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

Activity and Results (million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Assets under management	552.4	400.8	401.5	(150.9)	(27.3)
Total assets	5.8	6.5	6.3	0.5	7.8
Equity	4.4	4.7	4.5	0.1	1.9
Total operating income	2.5	5.0	2.2	(0.3)	(11.9)
Operating costs*	1.7	3.6	1.6	(0.1)	(8.6)
Net operating income before impairment and provisions	0.7	1.4	0.6	(0.1)	(19.5)

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

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

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

As at 30 June 2019, the Assets of SSAGINCENTIVE amounted to 57.9 million euros, in line with the value recorded at the end of 2019 (58.0 million euros) and showing a 2.0% year-on-year reduction which reflected the decrease of the heading of Inventories.

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 building units stated at market value. On 30 June 2020 the heading of Inventories amounted to 39.5 million euros, of which 20.7 million euros refer to buildings and 18.7 million euros refer to plots of land, showing a reduction of 1.1 million euros in relation to the value 40.6 million euros recorded as at 31 December 2019, as a result of the sales occurred in the first half of 2020.

As at 30 June 2020, Equity stood at 57.6 million euros, and continues to constitute the main source of Asset funding, representing 99.4% of Total assets (99.7% at the end of 2019).

Sales and services rendered stood at 1.1 million euros in the first half of 2020, compared to the value of 1.4 million euros recorded in the same period of 2019, 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 1.0 million euros in the first half of 2020, compared to 1.3 million euros in the same period of 2019, and represent the acquisition cost of the real estate properties sold, after deduction of their impairment.

The heading of Impairment of inventories amounted to 0.1 million euros in the first half of 2020, evolving favourably in relation to the value of 0.6 million euros recorded in the first half of 2019 due to the lower level of impairments of real estate properties for trading in the first six months of 2020.

The heading of Other income and gains evolved from 0.1 million euros in the first half of 2019 to 0.2 million euros in the first half of 2020, and includes the refunding of tax related to real estate properties sold and income obtained from real estate properties.

The heading of Other costs and losses, which includes costs related to maintenance, legalisation and sales promotion of real estate properties, amounted to 0.2 million euros in the first half of 2020, in line with the value recorded in the first half of 2019.

Net operating income shifted from -0.7 million euros recorded in the first half of 2019 to -0.2 million euros in the first half of 2020.

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

Activity and Results (million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Total assets	59.1	58.0	57.9	(1.2)	(2.0)
Inventories	45.6	40.6	39.5	(6.1)	(13.4)
Equity	58.9	57.8	57.6	(1.3)	(2.3)
Net operating income	(0.7)	(2.2)	(0.2)	0.5	64.7

INTERNATIONAL ACTIVITY

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

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

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

Finibanco Angola completed 12 years of activity in September 2020, having been incorporated on 4 September 2007 and having started its activity in the city of Luanda on 9 June 2008. The expansion of the distribution network, levered on experience and the favourable evolution of its activity, has been accomplished through own funding, in the perspective of proximity to its Customers, which include a total of 24 branches and corporate centres as at 30 June 2020.

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, institutional and companies with international vocation.

The key indicators of the international activity are presented in the following table:

Activity and Results (million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Total assets	330.1	361.6	340.0	9.9	3.0
Loans to customers (net)	37.0	35.1	27.6	(9.4)	(25.5)
Customer deposits	257.6	272.2	248.3	(9.3)	(3.6)
Total operating income	7.9	21.4	12.0	4.1	52.5
Operating costs	3.8	9.5	4.9	1.1	28.8
Cost-to-Income	48.7%	44.3%	41.2%	(7.5 p.p.)	
Net income	3.3	8.2	4.8	1.5	44.7

Note: For comparative purposes the financial statements of Jun-2019, Dec-2019 and Jun-2020 of Finibanco Angola were converted using the same exchange rate: AOA/EUR 649.419.

The Total assets of the international activity of the Banco Montepio Group reached 340.0 million euros as at 30 June 2020, compared to 361.6 million euros recorded at the end of 2019, representing a reduction of 6.0%. This evolution was determined by the reductions of 1.5% and 12.5% observed in the Total assets of Finibanco Angola and Banco MG Cabo Verde, respectively, in relation to the values achieved at the end of 2019.

Loans to customers of the international activity recorded at the end of the first half of 2020 showed a reduction of 21.4% in relation to the value at the end of 2019, in evolving from 35.1 million euros as at 31 December 2019 to 27.6 million euros as at 30 June 2020. This evolution was exclusively caused by the marked reduction in the loans granted 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 248.3 million euros as at 30 June 2020, corresponding to a reduction of 8.8% in relation to the value of 272.2 million euros recorded as at 31 December 2019. This reflects, on the one hand, the 4.7% reduction in Customer deposits at Finibanco Angola which evolved from 133.9 million euros as at 31 December 2019 to 127.6 million euros as at 30 June 2020, representing 51.4% of the total deposits of the international activity, associated to the 12.7% reduction in Customer deposits at Banco MG Cabo Verde which stood at 120.7 million as at 30 June 2020 compared to 138.3 million euros as at 31 December 2019.

The Total operating income of the international activity in the first half of 2020 amounted to 12.0 million euros, compared to 7.9 million euros recorded in the first half of 2019. This represents an increase of 52.5%, underpinned by the increased Results from foreign exchange differences which reached 5.8 million euros (+185.0%), Net interest income which reached 5.8 million euros (+18.4%) and Other operating income which remained negative at 0.3 million euros (+48.4%), notwithstanding the reduction recorded in Net fees and commissions which stood at 0.7 million euros (-50.4%).

At Finibanco Angola, Total operating income stood at 11.6 million euros in the first half of 2020, representing a 53.1% increase in relation to the 7.6 million euros recorded in the same period of 2019, reflecting the increases observed in Results from foreign exchange differences, in Net interest income and in Other operating income, despite the reduction in Net fees and commissions.

At Banco MG Cabo Verde, Total operating income stood at 0.4 million euros, representing an increase of 0.1 million euros compared to the value recorded in the same half of 2019 based on the favourable evolution of Net interest income.

The Operating costs of the international activity stood at 4.9 million euros in the first half of 2020, revealing a 28.8% increase in relation to the 3.8 million euros recorded in the same period of 2019, reflecting the increases observed in Staff costs (+42.2%) and Depreciation and amortisation (+133.8%), while General administrative expenses decreased (-4.2%). At Finibanco Angola, Operating costs increased by 31.9% in the first half of 2020 compared to the value recorded in the same period of 2019, while at Banco MG Cabo Verde they fell by 8.4%, 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 2020 was caused by the increases recorded in the components Staff costs (+43.3%) and Depreciation and amortisation (+135.3%), while General administrative expenses decreased (-2.1%) in relation to the same half of 2019.

At Banco MG Cabo Verde the year-on-year reduction in Operating costs in the first half of 2020 was caused by the decreases recorded in the components of General administrative expenses (-18.3%) and Depreciation and amortisation (-5.3%), notwithstanding the increase recorded in Staff costs (+17.3%).

As a result of the operating performance, the Cost-to-income ratio of the international activity stood at 41.2% in the first half of 2020, compared to 48.7% recorded for the same period of 2019.

The allocations for Impairments and provisions of the international activity in the first half of 2020 stood at 1.1 million euros, compared to the value of -45.5 thousand euros recorded in the first half of 2019, of which 0.2 million euros refer to Finibanco Angola and 0.9 million euros refer to Banco MG Cabo Verde.

In the first half of 2020 the Net income of the international activity of the Banco Montepio Group reached 4.8 million euros (3.3 million euros in the first half of 2019), without considering non-controlling interests and exchange rate effects, with positive results in Angola and negative in Cape Verde (5.6 million euros and -0.8 million 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 “Income from discontinued operations” and, the assets and liabilities are recorded in the balance sheet, respectively, under the headings named “Non-current assets held for sale – Discontinued operations” and “Non-current liabilities held for sale – Discontinued operations”.

Banco Montepio's activity in the first half of 2020 was marked by the impact caused by the COVID-19 pandemic which led, in particular, to increased credit risk and consequent recording of impairment, and by the adjustment process currently underway, aimed at accelerating the digital transition, adjusting the service model and increasing the efficiency of the Bank.

CAPITAL

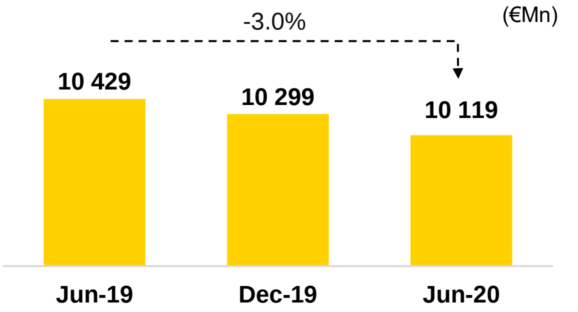
In the first half of 2020, the Common Equity Tier 1 (CET1) and Total Capital ratios of Banco Montepio, pursuant to the phasing-in rules, stood at 11.5% and 13.5%, respectively, compared to 12.4% and 13.9% at the end of 2019.

Total own funds stood at 1,370 million euros as at 30 June 2020, compared to 1,430 million euros as at 31 December 2019, reflecting the adverse impact of the pandemic on net income and on foreign exchange reserves. In the opposite direction, there was a reinforcement of Tier 2 own funds following the issuance of 50 million euros of subordinated debt carried out at the end of the first half of 2020 under the Euro Medium Term Note (EMTN) Programme.

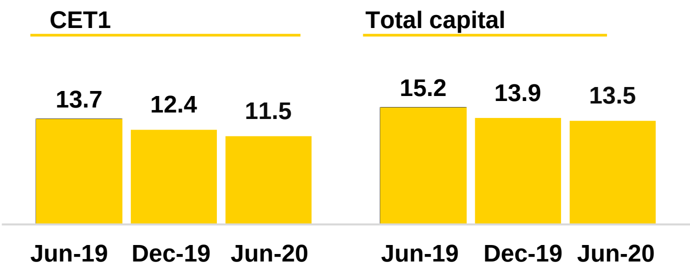
Risk Weighted Assets (RWA) decreased by 180 million euros in relation to the end of 2019, as a result of the reduction of non-strategic assets, achieved in the stock of non-performing loans (NPL) and real estate assets despite the adverse pandemic context, an efficient management of risk allocation in the portfolios of loans and debt securities, and the entry into force of Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, namely in terms of adjustment factor relative to risk exposures in small and medium-sized enterprises.

Alongside the positive effects of the subordinated debt issuance and the entry into force of the aforesaid Regulation, the capital ratios as at 30 June 2020 also incorporate the exogenous adverse effects brought in by the COVID-19 pandemic leading to adverse impacts such as the devaluation of the Kwanza and the Brazilian real, with deterioration of the Foreign exchange reserves, and the strengthening of credit impairment with impact on the net income of the first half of 2020.

Risk-weighted assets (phasing-in)



Capital ratios (phasing-in)*



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

On a fully implemented basis, as at 30 June 2020, the CET1 ratio stood at 10.3% and the Total Capital ratio at 12.3%, with the differences in relation to the phasing-in capital ratios currently being explained by the component of IFRS 9. It should be highlighted that at the end of 2019, the Bank fully impacted the phasing-in relative to the deferred tax assets, and is currently only subject to the transitional prudential regime of IFRS 9. Furthermore, the Bank endorsed the prudential filter relative to the fair-value reserves of public debt, but whose impact is rather insignificant.

The leverage ratio, pursuant to the phasing-in rules, stood at 6.3% as at 30 June 2020, compared to 7.0% at the end of 2019, being above the benchmark minimum defined by the Basel Committee on Banking Supervision (3%).

As a consequence of the COVID-19 pandemic, and in line with the decision taken by the ECB for significant institutions, Banco de Portugal took a series of measures aimed at enhancing the flexibility of the regulatory and supervision requirements, enabling less significant credit institutions subject to its supervision to operate, temporarily, at a level lower than that of the combined reserve of own funds (Official Cash Rate – OCR), considering that the capital reserves were designed to enable credit institutions to overcome especially adverse situations. In this way, the minimum regulatory ratios in June 2020 for Common Equity Tier 1, Tier 1 and Total Capital were 6.328%, 8.438% and 11.25%, respectively.

As at 30 June 2020, the capital ratios reported by Banco Montepio were above the required prudential levels considering the flexibilisation measures issued by Banco de Portugal in the context of the COVID-19 pandemic. Nevertheless, the Board of Directors has commenced a series of initiatives aimed at strengthening the capital base, which has faced significantly adverse impacts arising from the pandemic.

A summary of the Banco Montepio Group own funds ratios for June and December 2019 and June 2020 is presented bellow:

OWN FUNDS RATIOS

(million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change Amount	Y.o.Y. Change %
Total own funds					
Common Equity Tier 1	1 433	1 274	1 164	(269)	(18.8)
Tier 1	1 434	1 274	1 164	(270)	(18.8)
Total Capital	1 590	1 430	1 370	(220)	(13.8)
Risk-weighted assets	**10 429**	**10 299**	**10 119**	**(310)**	**(3.0)**
Phasing-in ratios					
Common Equity Tier 1	13.7%	12.4%	11.5%	(220) pb	
Tier 1	13.7%	12.4%	11.5%	(220) pb	
Total Capital	15.2%	13.9%	13.5%	(170) pb	
Fully implemented ratios					
Common Equity Tier 1	11.9%	11.2%	10.3%	(160) pb	
Tier 1	11.9%	11.2%	10.3%	(160) pb	
Total Capital	13.4%	12.8%	12.3%	(110) pb	
Leverage ratios					
Phasing-In	7.5%	7.0%	6.3%	(120) pb	
Fully implemented	6.5%	6.4%	5.6%	(90) pb	

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

LIQUIDITY

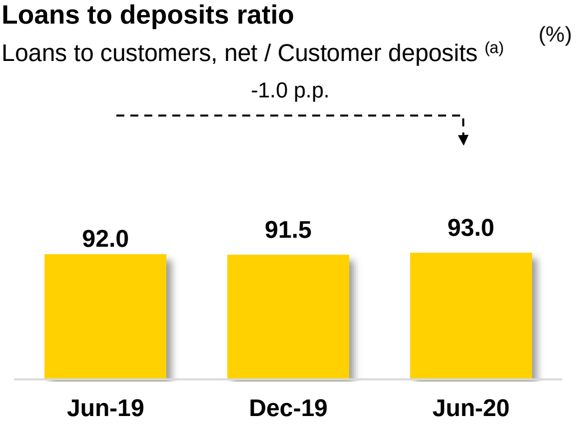
During the first half of 2020, Banco Montepio continued to promote management measures aimed at upholding the robust liquidity position, with levels greatly above the regulatory limits in force.

The management of Banco Montepio's balance sheet enabled the Liquidity Coverage Ratio (LCR) to stand at 224.4%, having evolved favourably in relation to the ratio of 179.9% recorded as at 31 December 2019, thus standing 124.4 p.p. above the minimum regulatory requirement of 100%.

The performance of Customer deposits, on the one hand, and the growth of Loans to customers, on the other hand, led to a Loans to deposits ratio, calculated in accordance with Banco de Portugal Instruction number 16/2004, of 93.0% as at 30 June 2020, compared to 91.5% as at 31 December 2019.

Loans to deposits ratio

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



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

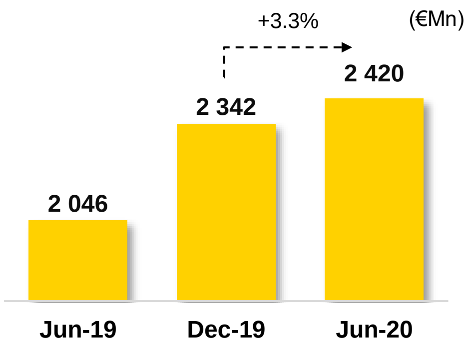
LOANS TO DEPOSITS RATIOS

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change
Loans to customers (net) / Customer deposits [a]	92.0	91.5	93.0	1.0 p.p.
Loans to customers (net) / Total on-balance sheet customer resources [b]	85.5	82.4	84.0	(1.5 p.p.)

(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.
(b) Total on-balance sheet customer resources = Customer 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 2020 increased by 424 million euros in relation to 31 December 2019. As at 30 June 2020, the value of the pool of collateral for Eurosystem operations stood at 4,057 million euros, compared to 3,633 million euros recorded at the end of 2019. The use of ECB resources at the end of the first half of 2020 increased in relation to the value at the end of 2019. 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-III (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 3.3% by shifting from 2,342 million euros at the end of 2019 to 2,420 million euros as at 30 June 2020.

Pool of Eligible Assets for Refinancing Operations with the ECB



POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Pool of eligible assets [a]	3 439	3 633	4 057	618	18.0
Use of the pool	1 393	1 291	1 637	244	17.5
Pool of available assets	**2 046**	**2 342**	**2 420**	**374**	**18.3**

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

The reporting operations for funding purposes present a zero net position at the end of the first half of 2010.

In the interbank money market of the euro, Banco Montepio did not show any liquidity assignment or taking at the end of the first half of 2020. In the interbank money market of foreign currency, Banco Montepio showed a position of 21 million American dollars assigned at the rate of 0.25%.

BALANCE SHEET

In the first half of 2020, Banco Montepio continued the process started under the Transformation Plan, with a view to the development and implementation of an economically sustainable business model, which ensures stable profitability and focus on reducing non-performing exposures and enables the organic growth of capital levels and liquidity buffers.

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

In this regard, special note is made to the issuance of 50 million euros of subordinated debt for the period of 10 years, which is eligible to strengthen Tier 2 own funds, carried out in the first half of 2020, which enabled diversifying the funding sources with a view to complying with the regulatory requirements and attaining the business goals.

The set of delineated initiatives, namely the sale of a portfolio of non-performing loans (NPL) for the gross value of 321 million euros in July 2019 and the strengthening of the organic recovery of loans, enabled Banco Montepio to comply with its plan to reduce NPL, whose stock amounted to 1,442 million euros at the end of the first half of 2020, compared to 1,816 million euros as at 30 June 2019.

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

SYNTHETIC BALANCE SHEET

(million euros)

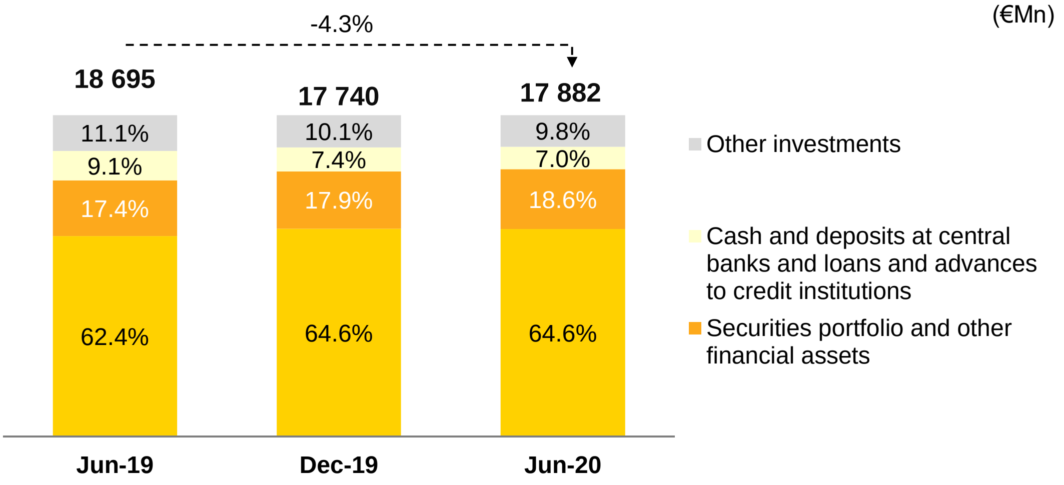
	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Cash and deposits at central banks and loans and advances to credit institutions	1 710	1 309	1 250	(460)	(26.9)
Loans to customers	11 660	11 465	11 554	(106)	(0.9)
Securities portfolio and other financial assets*	3 246	3 179	3 319	73	2.2
Non current assets held for sale and investment properties	228	145	135	(93)	(40.9)
Non current assets held for sale - Discontinued operations	261	217	179	(82)	(31.2)
Current and deferred tax assets	437	450	478	41	9.2
Other	1 153	975	967	(186)	(16.1)
Total assets	**18 695**	**17 740**	**17 882**	**(813)**	**(4.3)**
Deposits from central banks and OCI	2 693	1 813	2 172	(521)	(19.3)
Customer resources	12 680	12 525	12 422	(258)	(2.0)
Debt issued	1 115	1 548	1 539	424	38.0
Non current liabilities held for sale - Discontinued operations	157	134	96	(61)	(38.9)
Other	526	268	295	(231)	(43.9)
Total liabilities	**17 171**	**16 288**	**16 523**	**(648)**	**(3.8)**
Share capital	2 420	2 420	2 420	0	0.0
Reserves, retained earnings and other	(901)	(990)	(1 010)	(109)	(12.0)
Net income	4	22	(51)	(55)	(<100)
Total equity	**1 523**	**1 452**	**1 359**	**(164)**	**(10.8)**
Total liabilities and equity	**18 695**	**17 740**	**17 882**	**(813)**	**(4.3)**

* 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 17,882 million euros as at 30 June 2020, compared to the value of 18,695 million euros recorded in the same period of 2019 and to 17,740 million euros as at 31 December 2019.

Asset structure



The evolution of the Net assets shows a reduction of 813 million euros (-4.3%) in relation to the value at the end of June 2019. The variation of the Assets was due, on the one hand, to the reduction of the heading of Loans to customers, which was to some extent affected by the deleveraging of non-performing loans, and by the reduction of the heading of Cash and investments in central banks and other credit institutions, reflecting the management of the liquidity position, and on the other hand, to the increase of the Portfolio of securities and other instruments.

In comparison to the end of 2019, Net assets showed an increase of 142 million euros, caused by the increase of Loans to customers and of the Portfolio of securities, associated to the reduction of the heading of Cash and deposits at central banks.

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

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

As at 30 June 2020, the liquidity deposited at central banks and other credit institutions stood at 1,250 million euros, compared to 1,710 million euros recorded in the same period of 2019. This corresponds to a reduction of 460 million euros (-26.9%), explained by the decrease in the heading of Cash and deposits at central banks, not offset by the increase recorded in the heading of Loans and advances to credit institutions.

LOANS TO CUSTOMERS

As at 30 June 2020, Loans to customers (gross) amounted to 12,417 million euros, representing a decrease of 1.3% compared to 12,578 million euros recorded in the same period of 2019, revealing, on the one hand, the risk management and repricing in granting loans, and on the other hand, the loans written off from the assets and the sales of non-performing loans carried out in the second half of 2019.

As a result of the measures that have been implemented, a reduction occurred in the first half of 2020, both of the number of new contracts[6] that entered into default (-8.1%), and of the value in default (-35.6%).

Throughout the first half of 2020, 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 2020 recorded a reduction of 161 million euros in relation to the same period of 2019, revealing the reduction of loans granted to individuals, both for residential purposes (-6.2%), which continues to show a higher level of repayment in relation to new operations raised, and for loans granted for other purposes (-35.8%), despite the growth in loans granted to companies (+11.3%) in relation to the value recorded as at 30 June 2019.

The progressive growth of the portfolio of loans to companies led to a positive change of Loans to customers (gross) of the Banco Montepio Group compared to the end of 2019 (+1.4%).

The year-on-year reduction of the loan portfolio was also influenced by the sale of a portfolio of non-performing loans (Atlas II operation) for the gross value of 321 million euros in the second half of 2019, and the recording of loans written off from the assets to the value of 52.0 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 by corporate finance solutions, benefiting from the strategic focus on the segments of individuals, companies, especially small and medium-sized enterprises (SMEs), and Social Economy entities.

[6] Contracts of more than 90 days, excluding sight deposits and cards.

LOANS TO CUSTOMERS

(By sector of activity)

(million euros)

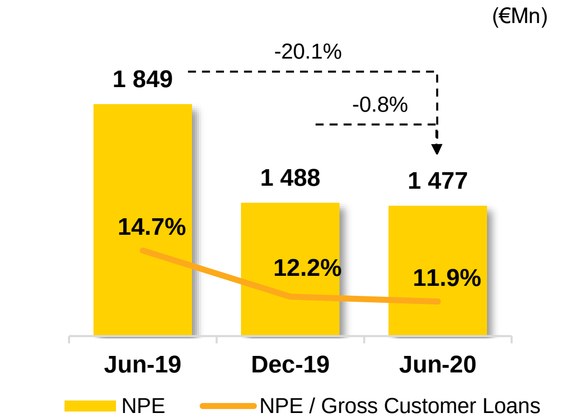
	Jun-19	Dec-19	Jun-20	Y.o.Y. Change Amount	Y.o.Y. Change %
Individuals	**7 177**	**6 546**	**6 406**	**(771)**	**(10.7)**
Housing loans	6 080	5 823	5 702	(378)	(6.2)
Others	1 096	723	704	(392)	(35.8)
Companies	**5 402**	**5 693**	**6 011**	**609**	**11.3**
Manufacturing industries	907	927	1 014	107	11.8
Wholesale and retail trade	812	852	885	73	9.0
Construction and Public works, and Real	1 457	1 454	1 476	19	1.3
Accommodation and catering activities	429	440	497	68	15.9
Financial and insurance activities	505	568	676	171	33.7
Transportation and storage	395	365	375	(20)	(5.1)
Business Services	393	397	384	(9)	(2.3)
Other collective service activities	136	256	268	132	96.4
Others	367	435	436	69	18.8
Gross loans	**12 578**	**12 239**	**12 417**	**(161)**	**(1.3)**
Balance sheet impairment	**918**	**775**	**863**	**(55)**	**(6.0)**
Net loans	**11 660**	**11 465**	**11 554**	**(106)**	**(0.9)**

The proportion of Non-Performing Exposures (NPE) to Total gross loans to customers stood at 11.9%, compared to 12.2% as at 31 December 2019, revealing, on the one hand, the reduction of the balance of non-performing exposures in relation to the value recorded at the end of 2019, which stood at 1,477 million euros as at 30 June 2020, and, on the other hand, the increase of the portfolio of Gross loans to customers in the period.

Between 30 June 2019 and the end of the first half of 2020, Banco Montepio achieved a reduction of the stock of NPE of 372 million euros (-20.1%).

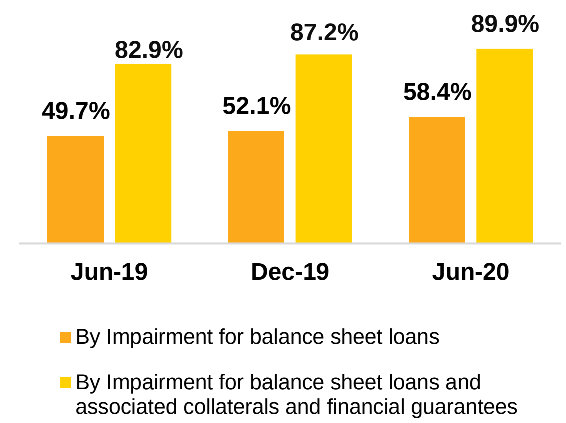
Banco Montepio's Transformation Plan foresees a downward trend of the ratio of non-performing exposures supported by the strengthening of the structure for recovery of loans in default and by the selective sale of non-performing exposures.

Non-performing exposures (NPE)*



* EBA definition

NPE* coverage



* EBA definition

In the first half of 2020, as a result of the updating of the macroeconomic scenarios due to the pandemic caused by COVID-19, there was a significant reinforcement of the impairments related to the loan portfolio, which contributed to strengthen the coverage of NPE by impairments.

The coverage of non-performing exposures by impairment for loans and associated collateral and financial guarantees on the balance sheet stood at 89.9% as at 30 June 2020, compared to 87.2% as at 31 December 2019, while the coverage for balance sheet impairments stood at 58.4%, compared to 52.1% recorded as at 31 December 2019.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

In the context of strategy of rebalancing the asset structure, Banco Montepio continued, in the first half of 2020, 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 2020, the portfolio of securities and other instruments amounted to 3,319 million euros, compared to 3,246 million euros recorded in the same period of 2019 and to 3,179 million euros as at 31 December 2019. The evolution of the portfolio of securities and other instruments in relation to the same period of 2019 reveals, on the one hand, the increase of the portfolio of Other financial assets at amortised cost by 791 million euros, arising from the increased bonds of national and foreign public issuers, and on the other hand, the reductions of the portfolios of Financial assets at fair value through other comprehensive income and Financial assets at fair value through profit or loss, in the first case, influenced by the sale of public debt and corporate instruments, and in the second case, especially due to the reduction of the Participation units of variable yield securities. In the first quarter of 2020, the corporate debt portfolio was sold for the value of 246 million euros as a means of generating capital, with subsequent investment in public debt instruments.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

(million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Financial assets held for trading	48	36	44	(4)	(8.0)
Financial assets at fair value through other comprehensive income	1 848	1 859	1 200	(648)	(35.1)
Other financial assets at amortised cost	913	899	1 704	791	86.6
Financial assets not held for trading mandatorily at fair value through profit or loss*	437	385	371	(66)	(15.1)
Total Securities portfolio and other financial assets	**3 246**	**3 179**	**3 319**	**73**	**2.2**

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

In analysing the securities portfolio by type of instrument, year-on-year growth of 161 million euros is observed in Bonds and other debt instruments, which includes Portuguese, Spanish, Italian and Greek public debt, that led to the increase recorded in the portfolio of securities and other instruments (+2.2% in relation to 30 June 2019).

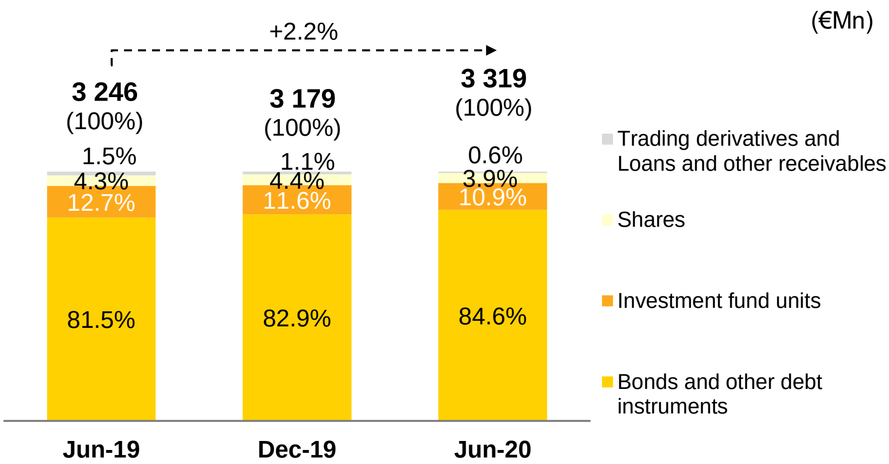
SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS BY TYPE OF INSTRUMENT

(million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Bonds and other debt instruments	2 647	2 635	2 808	161	6.1
Shares	140	141	131	(9)	(6.7)
Investment fund units	411	369	360	(51)	(12.4)
Trading derivatives	22	23	10	(12)	(54.5)
Loans to customers at fair value	26	11	10	(16)	(61.2)
Total securities portfolio and other financial assets	**3 246**	**3 179**	**3 319**	**73**	**2.2**

The structure of the portfolio of securities and other instruments remained, as at 30 June 2020, primarily composed of Bonds and other debt instruments, whose total weight in the portfolio increased to 84.6%. In turn, the proportion of Investment fund units and Shares decreased to 10.9% and 3.9% of the portfolio, respectively.

Structure of the Securities portfolio and other financial assets

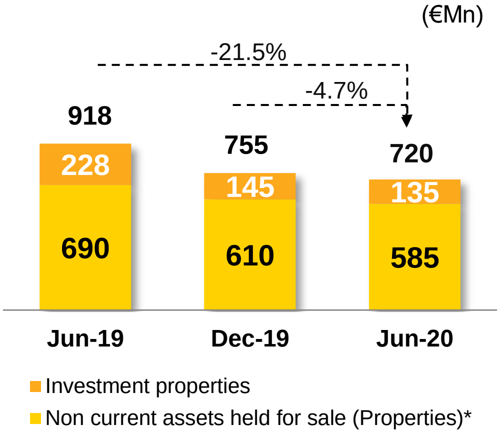


NON CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

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

The evolution of the exposure to real estate assets, incorporating the aforesaid reclassification, showed a year-on-year decrease of 21.5% as at 30 June 2020, in having shifted from 918 million euros at the end of June 2019 to 720 million euros, in line with the guidelines for the integrated management of real estate properties and consequent reduction of exposure to this activity sector.

Exposure to Real Estate Assets



* Including the value of properties reclassified to Other assets.

The heading of Non-current assets held for sale, together with the value reclassified to the heading of Other assets, essentially shows the value associated to real estate properties derived from the dissolution of loan contracts with customers, which decreased by 15.1% in evolving from 690 million euros as at 30 June 2019 to 585 million euros at the end at June 2020. This evolution reveals the effect of the credit recovery and good performance of the sales of real estate properties made in the retail market. In the first half of 2020, the entry of real estate properties in lieu of repayment came to 8 million euros and sales in the retail market reached 41 million euros.

Investment properties, a heading which records the real estate properties held by the Real Estate Investment Funds in Banco Montepio's consolidation perimeter, decreased by 40.8%, in evolving from 228 million euros at the end of June 2019 to 135 million euros as at 30 June 2020, continuing to accomplish the goal of reducing exposure to real estate risk.

NON CURRENT ASSETS HELD FOR SALE – DISCONTINUED OPERATIONS

As at 30 June 2020, the heading of Non-current assets held for sale - discontinued operations amounted to 179 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 60 of the notes to the consolidated financial statements.

CURRENT AND DEFERRED TAX ASSETS

As at 30 June 2020, the aggregate of Current and deferred tax assets amounted to 478 million euros, compared to 437 million euros in the same period of 2019.

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

OTHER

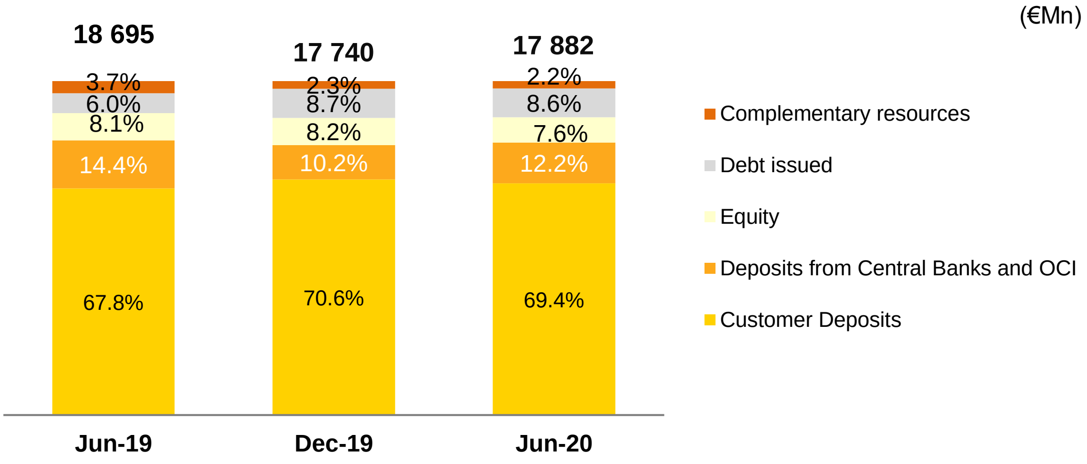
The aggregate of Others presented in the Assets of the synthetic balance sheet includes the headings of Assets with repurchase agreements, Hedge derivatives, Other tangible assets, Intangible assets, Investments in associated companies and Other assets.

As at 30 June 2020, the aggregate Other stood at 967 million euros, compared to 1,153 million euros as at 30 June 2019, of which 585 million euros correspond to real estate properties held for sale reclassified from the heading of Non-current assets held for sale to Other assets.

LIABILITIES

As at 30 June 2020, Total liabilities stood at 16,523 million euros, having decreased by 648 million euros (-3.8%) in relation to the value of 17,171 million euros recorded in the same period of 2019. This was due, on the one hand, to the decrease recorded in Resources of central banks and other credit institutions (-521 million euros), in Customers resources (-258 million euros), in Non-current liabilities held for sale - discontinued operations (-61 million euros) and in the aggregate Other presented in the Liabilities of the synthetic balance sheet (-231 million euros), and on the other hand, the increase of Debt issued (+424 million euros). As at 30 June 2020, the Equity financed 7.6% of the Assets while Customer deposits continued to be the main source of balance sheet funding, representing 69.4% of total liabilities and equity.

Liabilities and Equity Structure



DEPOSITS FROM CENTRAL BANKS AND OCI

As at 30 June 2020, the funding obtained from central banks and other credit institutions amounted to 2,172 million euros, compared to 2,693 million euros recorded at the end of June 2019, revealing a reduction of 19.3%. This heading incorporates funds taken at the ECB, which amounted to 1,637 million euros as at 30 June 2020,compared to 1,392 million euros as at 30 June 2019 (+17.6%), and the funding obtained from Other credit institutions which stood at 535 million euros as at 30 June 2020, compared with 1,300 million euros at the end of June 2019 (-58.8%), reflecting, in this case, the reduction of 779,7 million euros recorded in the heading of Sales operations with repurchase agreement.

CUSTOMER RESOURCES

Throughout the first half of 2020, Banco Montepio developed a series of initiatives aimed at capturing and retaining customer resources, under its liquidity risk management strategy.

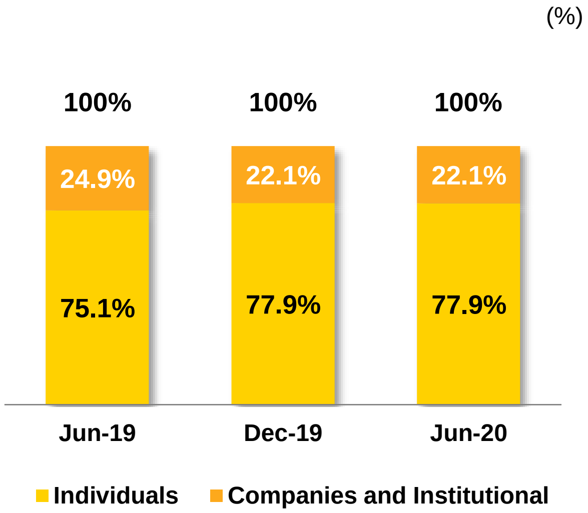
Total customer resources amounted to 13,418 million euros as at 30 June 2020, of which 12,623 million euros correspond to Customer resources on the balance sheet, with 98.4% referring to Customer deposits.

As at 30 June 2020, Customer deposits stood at 12,422 million euros, essentially concentrated in individual Customers, a segment that has continued predominant in representing 77.9% of total deposits.

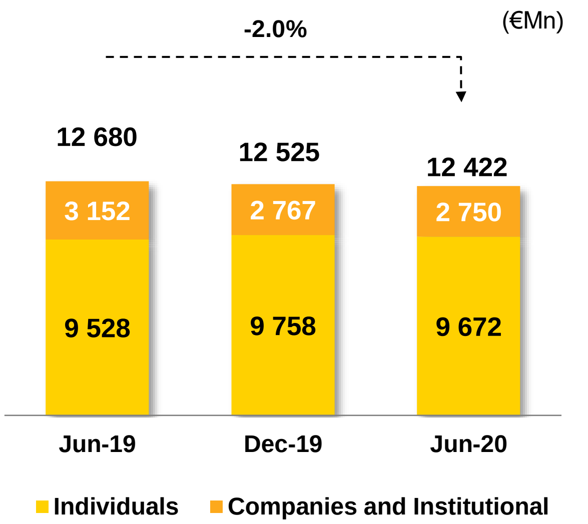
Customer deposits as at 30 June 2020 showed a year-on-year reduction of 2.0%, in view of the context of interest rates at historically low levels and reduction of economic activity levels, with the pace of recomposition of the structure of the deposit portfolio being maintained with the change of the Sight deposits/Term deposits mix, which stood at 40%/60% in June 2020.

As at 30 June 2020, the heading of Securities placed with customers stood at 201 million euros, compared to 171 million euros at the end of June 2019.

Customer deposits structure



Customer deposits



Off-balance sheet resources reached 795 million euros as at 30 June 2020, compared to 732 million euros recorded at the end of June 2019, representing an increase of 8.6%, due to the increases recorded in the Real estate investment funds and in the Pension Funds, despite the reduction observed in Equity investment funds and in Capitalisation insurance.

CUSTOMER RESOURCES

(million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Customer deposits	**12 680**	**12 525**	**12 422**	**(258)**	**(2.0)**
Sight deposits	4 528	4 617	4 998	470	10.4
Term deposits	8 152	7 908	7 424	(728)	(8.9)
Securities placed with customers	171	154	201	30	17.2
Total on-balance sheet resources	**12 851**	**12 679**	**12 623**	**(228)**	**(1.8)**
Off-Balance sheet resources	732	817	795	63	8.6
Total customer resources	**13 583**	**13 496**	**13 418**	**(165)**	**(1.2)**

DEBT ISSUED

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

As at 30 June 2020, the value of Debt issued stood at by 1,539 million euros representing an increase of 424 million euros (+38.0%), compared to the value of 1,115 million euros recorded as at 30 June 2019, as a result of the increase recorded both in Debt securities issued (+366 million euros) and in Other subordinated debt (+56 million euros). The evolution observed in Debt securities issued in relation to the same period of 2019 reveals, on the one hand, the reduction of Cash bonds (-23.9 million euros) and Securitisations (-67.3 million euros), and on the other hand, the increase of Mortgage bonds (+457.9 million euros) due to the issuance of mortgage bonds of the value of 500 million euros carried out in November 2019. The increase recorded in Other subordinated debt in relation to 30 June 2019 was caused by the issuance of 50 million euros of subordinated debt, under Banco Montepio's Euro Medium Term Note (EMTN) Programme and by the reclassification of the “Finibanco Valor Invest 2010” issue to the liabilities, to the value of 6.3 million euros, following the determination of the General Meeting held in June 2020.

NON CURRENT LIABILITIES HELD FOR SALE – DISCONTINUED OPERATIONS

As at 30 June 2020, the heading of Non-current liabilities held for sale - discontinued operations amounted to 96 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 60 of the notes to the consolidated financial statements.

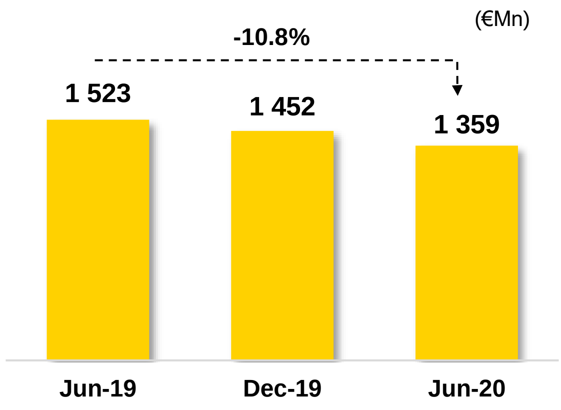
OTHER

The aggregate Other, presented in the Liabilities of the synthetic balance sheet, reached 295 million euros as at 30 June 2020, compared to 526 million euros as at 30 June 2019 and 268 million euros as at 31 December 2019. This aggregate incorporates the headings of Financial liabilities held for trading, Hedge derivatives, Provisions, Current tax liabilities and Other liabilities.

TOTAL EQUITY

Equity stood at 1,359 million euros as at 30 June 2020, having declined by 6.4% in relation to the value at the end of 2019. This reflects, on the one hand, the impact of exogenous factors, in particular expressed in the evolution of the foreign exchange reserve and fair value reserve, in this case, also due to the capital gains achieved with the sale of securities, which, jointly, led to a reduction of 39.9 million euros, and on the other hand, the recording of the negative net income of 51.3 million euros in the first half of 2020. Of low materiality, a positive deviation was recorded in the Pension Fund of 5.4 million euros, and the "Finibanco Valor Invest 2010" issue was reclassified to the liabilities, to the value of 6.3 million euros, following the determination of the General Meeting held in June 2020.

Total Equity



EARNINGS

Banco Montepio recorded a consolidated net income in the first half of 2020 of -51.3 million euros, compared to 3.6 million euros recorded in the same period of 2019. The net income of the first half of 2020 was determined by the higher level of impairments and provisions constituted following the downward revision of the macroeconomic scenario associated to the impacts of COVID-19 on economic agents, both individuals and companies.

SYNTHETIC INCOME STATEMENT

(million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Net interest income	**120.1**	**236.8**	**114.7**	**(5.4)**	**(4.5)**
Commercial net interest income	123.7	244.9	117.9	(5.8)	(4.7)
Net fees and commissions	57.7	121.5	56.1	(1.6)	(2.7)
Core total operating income	**177.8**	**358.3**	**170.8**	**(7.0)**	**(3.9)**
Income from equity instruments	6.2	7.6	1.7	(4.5)	(72.3)
Results from financial operations	(0.3)	49.9	7.2	7.5	>100
Other operating income	(1.5)	13.7	(10.8)	(9.3)	(<100)
Total operating income	**182.2**	**429.5**	**168.9**	**(13.3)**	**(7.3)**
Staff costs	77.8	157.6	78.8	1.0	1.3
General and administrative expenses	31.2	65.5	32.5	1.3	4.2
Depreciation and amortization	16.4	31.2	16.2	(0.2)	(1.2)
Operating costs	**125.4**	**254.3**	**127.5**	**2.1**	**1.7**
Net operating income before impairment and provisions	**56.8**	**175.2**	**41.4**	**(15.4)**	**(27.1)**
Net provisions and impairments	47.2	141.1	122.3	75.1	>100
Share of profit of associates under the equity method	(0.0)	0.2	(0.3)	(0.3)	(<100)
Net income before income tax	**9.6**	**34.3**	**(81.2)**	**(90.8)**	**(<100)**
Income tax	(10.7)	(22.7)	24.9	35.6	>100
Net income after income tax from continuing operations	**(1.1)**	**11.6**	**(56.3)**	**(55.2)**	**(<100)**
Income from discontinued operations	5.9	12.6	6.2	0.3	6.5
Non-controlling interests	1.2	2.5	1.2	0.0	6.5
Net Income	**3.6**	**21.7**	**(51.3)**	**(54.9)**	**(<100)**

TOTAL OPERATING INCOME

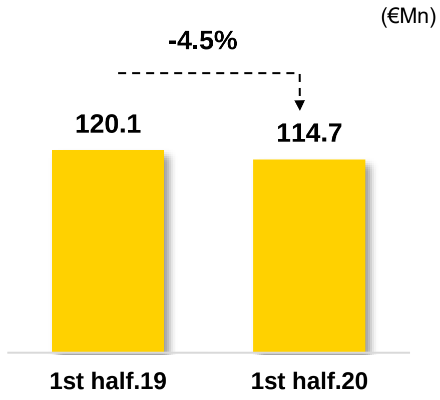
Total operating income of the first half of 2020 amounted to 168.9 million euros, compared to the value of 182.2 million euros recorded in the same half of 2019 (-7.3%), influenced by the adverse contributions of Net interest income, Net fees and commissions, Income from equity instruments and Other operating income, despite the favourable evolution of Results from financial operations.

NET INTEREST INCOME

Net interest income in the first half of 2020 stood at 114.7 million euros, compared to the value of 120.1 million euros recorded in the same period of 2019, reflecting the adverse effects of exogenous factors associated to the COVID-19 pandemic, which led to lower activity levels in individual and company Customers, and also due to the market interest rates that remained at very low levels.

The management of funding costs continued to contribute positively to Net interest income, attenuating the performance of the Loan portfolio.

Net interest income



The evolution of Net interest income was influenced adversely by the reduction of the interest related to the Loan portfolio and to the portfolio of Securities, and by the increased interest paid for Subordinated debt, and positively by the reduction achieved in the interest paid for the Resources of other credit institutions, Customer deposits and Senior debt issued.

In the first half of 2020 there was a decrease in the interest of the portfolio of Loans to customers of 14.5 million euros, expressing the reduction of the portfolio's balance (volume effect), reflecting the deleveraging of non-performing loans, as well as the evolution of the average interest rate (price effect) from 2.22% in the first half of 2019 to 2.07% in the first half of 2020, in a context in which the main reference rates continue on negative ground.

The reduction of 2.8 million euros observed in the portfolio of Securities in relation to the same period of 2019 reflects the reduction of the average interest rate (price effect) from 0.69% in the first half of 2019 to 0.33% in the first half of 2020, despite the increased balanced of the portfolio (volume effect).

The increased interest paid for Subordinated debt in the first half of 2020 in relation to the same period of 2019 reflects the increased balance of the portfolio (volume effect), as well as the average interest rate (price effect) from 8.23% in the first half of 2019 to 8.98% in the first half of 2020, as a result of the issuance of subordinated debt of 50 million euros in June 2020.

In the first half of 2020, Net interest income benefited from the positive impact of the cost reduction associated to Customer deposits of 8.6 million euros, via the price effect, essentially showing the impacts of the reduction of the average rate, from 0.31% in the first half of 2019 to 0.18% in the first half of 2020, revealing the management of the pricing applied in the capture of new deposits as well as in the renewal of existing deposits.

The interest paid for the senior debt issued, albeit of lower materiality, contributed positively to the evolution of the Net interest income by having fallen by 1.1 million euros in relation to the same period of 2019, via the price effect, with the average interest rate having evolved from 1.06% in the first half of 2019 to 0.63% in the first half of 2020, despite the increased average balance between the two periods under review, as a result of the issuance of mortgage bonds to the value of 500 million euros in November 2019 at an interest rate of 0.125%.

Net interest income also benefited from the reduction of costs related to interest of resources from other credit institutions of 4.0 million euros, via the volume and price effect, with the average interest rate having fallen from 0.76% in the first half of 2019 to 0.30% in the first half of 2020. This evolution was influenced by the redemption of a series of repos at the end of 2019.

In the first half of 2020, the Net interest income rate thus stood at 1.41%, compared to 1.45% in the first half of 2019, namely revealing the impact of COVID-19 on economic agents, the context of low interest rates and the highly competitive environment, which continue to constrain the performance of net interest income.

BREAKDOWN OF NET INTEREST INCOME

(million euros)

	1st Half of 2019			1st Half of 2020		
	Avg. amount	Avg. rate (%)	Interest	Avg. amount	Avg. rate (%)	Interest
Assets						
Cash and deposits [1)]	1 261	0.45	2.8	794	0.75	3.0
Loans and advances to OCI	258	1.02	1.3	283	0.66	0.9
Loans to customers	12 834	2.22	143.4	12 328	2.07	128.9
Securities portfolio	2 083	0.69	7.2	2 690	0.33	4.4
Other assets at fair value	27	1.27	0.2	11	1.28	0.1
Other (includes derivatives)	-	-	9.6	-	-	8.9
subtotal	16 463	1.99	164.5	16 106	1.79	146.2
Liabilities						
Resources from central banks	1 394	0.30	2.1	1 443	0.04	0.3
Resources from OCI	1 249	0.76	4.8	546	0.30	0.8
Customer deposits	12 568	0.31	19.6	12 394	0.18	11.0
Senior debt	1 015	1.06	5.4	1 357	0.63	4.3
Subordinated debt	109	8.23	4.5	165	8.98	7.5
Other (includes derivatives)	-	-	8.0	-	-	7.6
subtotal	16 335	0.54	44.4	15 905	0.39	31.5
Net interest income		**1.45**	**120.1**		**1.41**	**114.7**

EVOLUTION OF NET INTEREST INCOME BETWEEN THE FIRST HALF OF 2019 AND THE FIRST HALF OF 2020

(million euros)

		Volume effect	Price effect	Residual effect	Total
Assets					
Cash and deposits		(1.1)	1.9	(0.7)	0.2
Loans and advances to OCI		0.1	(0.5)	(0.1)	(0.4)
Loans to customers		(5.7)	(9.9)	1.1	(14.5)
Securities portfolio		2.1	(3.8)	(1.1)	(2.8)
Other assets at fair value		(0.1)	0.0	0.0	(0.1)
Other (includes derivatives)		0.0	0.0	(0.7)	(0.7)
	subtotal	(3.6)	(15.9)	1.2	(18.3)
Liabilities					
Resources from central banks		0.1	(1.8)	(0.1)	(1.8)
Resources from OCI		(2.7)	(2.9)	1.5	(4.0)
Customer deposits		(0.3)	(8.5)	0.2	(8.6)
Senior debt		1.8	(2.2)	(0.7)	(1.1)
Subordinated debt		2.3	0.4	0.3	3.0
Other (includes derivatives)		0.0	0.0	(0.4)	(0.4)
	subtotal	(1.2)	(12.3)	0.6	(12.9)
Change in net interest income		**(2.4)**	**(3.6)**	**0.6**	**(5.4)**

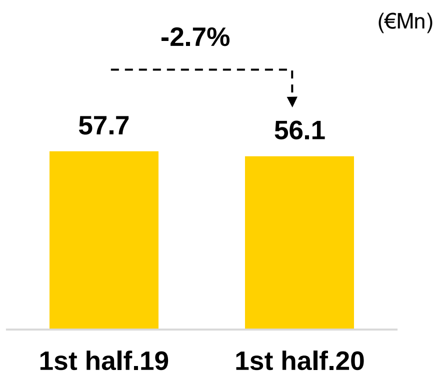
INCOME FROM EQUITY INSTRUMENTS

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. As at 30 June 2020 this heading has the value of 1.7 million euros (6.2 million euros as at 30 June 2019), which includes 0.95 million euros (2.38 million euros as at 30 June 2019) relative to dividends received from the company Almina and 0.55 million euros (2.67 million euros as at 30 June 2019) relative to dividends received from the company Monteiro Aranha, S.A.

NET FEES AND COMMISSIONS

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

Net fees and commissions



The net fees and commissions recorded in the first half of 2020 evolved from 57.7 million euros in the first half of 2019 to 56.1 million euros in the first half of 2020, representing a reduction of 1.6 million euros. Although attenuated by the favourable evolution of the fees and commissions gained from Payment services[7] (+0.6 million euros), the reduction of Net fees and commissions reflected the

[7] Includes fees for deposit, custody, administration and collection of values, account maintenance, management, annuities, withdrawals subject to fees and commissions and credit card incidences.

stabilisation of Market fees and commissions[8] (+0.04 million euros) and the reduction of Loan fees (-0.6 million euros), influenced by the moratoriums granted, and Other fees and commissions[9] (-1.6 million euros), by incorporating the effect of the contraction of economic activity during the second quarter of 2020.

RESULTS FROM FINANCIAL OPERATIONS

The Results from financial operations stood at 7.2 million euros in the first half of 2020, compared to -0.3 million euros recorded in 2019, reflecting, on the one hand, the increased earnings financial assets and liabilities at fair value through other comprehensive income (+21.7 million euros). This reflects, in particular, the gains from the sale of public and corporate debt, and on the other hand, the reduction of the earnings of financial assets and liabilities at fair value through profit or loss (-14.2 million euros), due to the reduction of earnings from derivative instruments.

RESULTS FROM FINANCIAL OPERATIONS

(million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change	
				Amount	%
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	2.3	8.5	(11.9)	(14.2)	(<100)
Net gains / (losses) from financial assets at fair value through other comprehensive income	(2.9)	42.3	18.8	21.7	>100
Net gains / (losses) from foreign exchange differences	0.3	(0.9)	0.3	0.0	(0.7)
Results from financial operations	**(0.3)**	**49.9**	**7.2**	**7.5**	**>100**
of which: Results from the sale of Portuguese public debt	0.6	42.0	11.2	10.6	>100

OTHER RESULTS

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

Other operating income evolved from -1.5 million euros in the first half of 2019 to -10.8 million euros in the first half of 2020, despite the positive effect of the higher gains from the sale of real estate properties held for trading of 1.9 million euros, as the capital gain stated in the first half of 2019 from the sale of debt instruments measured at amortised cost amounted to 10.0 million euros related to the sale of Portuguese public debt bonds. Reference is made to the value of 0.2 million euros recorded under this heading, relative to Banco Montepio's contribution to the purchase of 100 ventilators and 100 monitors that were donated to the National Health System in the context of the COVID-19 pandemic.

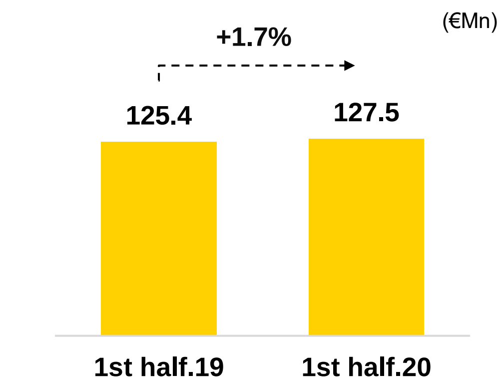
[8] Includes fees for management, administration and custody of assets and operations on securities.
[9] Includes fees for insurance mediation, provision of banking service and operations provided on account of third parties.

OPERATING COSTS

In the first half of 2020, Operating costs amounted to 127.5 million euros representing a 1.7% increase in relation to the value recorded in the same period of 2019. This is explained, on the one hand, by the increase of Staff costs by 1.0 million euros (+1.3%) and General administrative expenses by 1.3 million euros (+4.2%), and on the other hand, the reduction of Amortisation and depreciation of 0.2 million euros (-1.2%).

The level of Operating costs reflects the impacts of the wage updating and the investments made in technological renewal and modernisation under the digital transformation in progress at Banco Montepio, notwithstanding the synergies captured in the renegotiation of various contracts, in particular in the costs related to consultancy and the conservation and repair of real estate properties.

Operating costs



Staff costs stood at 78.8 million euros in the first half of 2019, compared to the 77.8 million euros in the first half of 2019, as a result, namely, of the increase of 0.2 million euros related to Remunerations, 0.1 million euros related to mandatory social security charges and 0.2 million euros related to Pension Fund expenses.

General administrative expenses reached 32.5 million euros in the first half of 2020, compared to 31.2 million euros recorded in the same period of 2019. This reflected, on the one hand, the increased costs related to specialised services of 1.9 million euros, and on the other hand, the decrease of costs related to Water, electricity and fuel and to Transport of 0.8 million euros (-0.4 million euros each). This heading also incorporates the direct impacts of COVID-19 pandemic, namely the strengthening of the cleaning services and purchase of individual protection kits to ensure the safety of the Employees and Customers and the adaptation of workplaces to remote work arrangements.

Amortisation and depreciation amounted to 16.2 million euros (-1.2%) in the first half of 2020, compared to 16.4 million euros recorded in the same half of 2019.

In the first half of 2020 the Cost-to-income ratio, excluding the Results from financial operations and Other results (Results from the sale of other assets and Other operating income), stood at 73.9%, compared to 68.2% recorded in the first half of 2019, reflecting, on the one hand, the reduction of Total operating income, and on the other hand, the increased Operating costs.

OPERATING COSTS

(million euros)

	Jun-19	Dec-19	Jun-20	Y.o.Y. Change Amount	%
Staff Costs	77.8	157.6	78.8	1.0	1.3
General and administrative expenses	31.2	65.5	32.5	1.3	4.2
Depreciation and amortisation	16.4	31.2	16.2	(0.2)	(1.2)
Operating costs	**125.4**	**254.3**	**127.5**	**2.1**	**1.7**
Efficiency ratios					
Cost-to-income (Operating costs / Total operating income) [a]	68.8%	59.2%	75.5%	6.7 p.p.	
Cost-to-income, excluding specific impacts [b]	68.2%	69.5%	73.9%	5.7 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).

IMPAIRMENTS AND PROVISIONS

The allocations for Impairments and provisions amounted to 122.3 million euros in the first half of 2020, reflecting an increase of 75.1 million euros (+159.1%) in relation to the same period of 2019, driven by the increase of Loan impairment by 67.4 million euros (of which 39.5 million euros were to strengthen impairments in the COVID-19 context), of the Impairment of other financial assets by 2.5 million euros, of the Impairment of other assets by 2.1 million euros and of Other provisions by 3.1 million euros.

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

In the first half of 2020, Loan impairment stood at 109.4 million euros, compared to the value of 42.0 million euros recorded in the same period of 2019 (+67.4 million euros), as a result of the increased credit risk caused by the COVID-19 pandemic, on the one hand, and the strengthening of the impairment levels for some credit exposures that were in default, on the other hand. At the same time, Loans to customers (gross) decreased by 161 million euros. The two combined effects led the cost of credit risk to stand at 1.8%, compared to 0.7% in the first half of 2019.

The Impairment of other financial assets stood at 5.6 million euros, having increased by 2.5 million euros in relation to the value of 3.1 million euros recorded in the first half of 2019. This is explained, on the one hand, by the increased allocation for the year net of reversals for impairment of financial assets at fair value through other comprehensive income (+2.9 million euros), and on the other, by the decreased allocation for the year net of reversals for impairment of other financial assets at amortised cost (-0.4 million euros).

The value of the Impairment of other assets stood at 5.5 million euros in the first half of 2020, representing an increase of 2.1 million euros in relation to the value recorded in the same period of 2019, due to the lower reversal for the period for Impairments of other assets (-2.9 million euros), despite the reduction of the allocations to Impairments of other assets (-0.3 million euros).

In turn, Other provisions amounted to 1.8 million euros in the first half of 2020, revealing an increase of 3.1 million euros compared to the value of -1.3 million euros recorded in the same period of 2019. This evolution was the result, on the one hand, of the higher allocation for the year to Provisions for other risks and costs and for guarantees and commitments undertaken, and on the other hand, the lower reversal for the period for Provisions for other risks and costs and for guarantees and commitments undertaken.

IMPAIRMENT AND PROVISIONS

(million euros)

	Jun-19	Dec-18	Jun-20	Y.o.Y. Change Amount	Y.o.Y. Change %
Loan impairment	42.0	120.3	109.4	67.4	>100
Other financial assets impairment	3.1	9.5	5.6	2.5	81.5
Other assets impairment	3.4	11.7	5.5	2.1	62.6
Other provisions	(1.3)	(0.4)	1.8	3.1	>100
Total net impairment and provisions	**47.2**	**141.1**	**122.3**	**75.1**	**>100**

INCOME TAX

The current and deferred taxes in the first half of 2020 amounted to -24.9 million euros, compared to 10.7 million euros recorded in the first half of 2019, 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.

INCOME FROM DISCONTINUED OPERATIONS

The heading of Income from discontinued 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 6.2 million euros in the first half of 2020.

NON-CONTROLLING INTERESTS

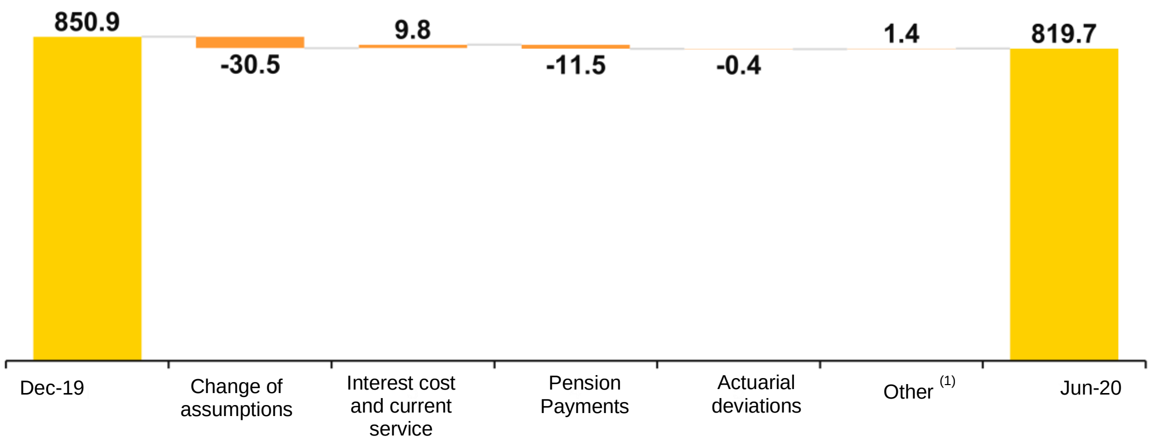
The Non-controlling interests recorded in the first half of 2020 correspond to the portion of equity held by third parties in the subsidiary Finibanco Angola, S.A.

PENSION FUND

The liabilities related to retirement and survivor's pensions amounted to 819.7 million euros as at 30 June 2020, compared to 850.9 million euros recorded as at 31 December 2019, showing a reduction of 31.2 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 a reduction of liabilities of 30.5 million euros, and by the payment of pensions in the period of the value of 11.5 million euros, and, on the other hand, by the increases derived from the cost of interest and current service of 9.8 million euros, as illustrated by the following chart.

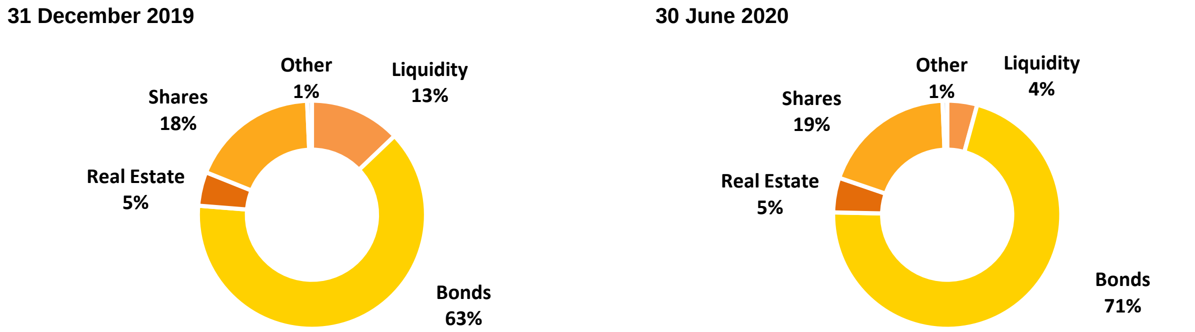
Evolution of pension liabilities in June 2020 (€Mn)



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

The value of the Pension Fund's assets decreased by 3.4%, reaching the total value of 809.0 million euros as at 30 June 2020, compared to 837.1 million euros recorded at the end of 2019, continuing to show a conservative distribution, with 71% of these assets invested in Bonds compared to 63% as at 31 December 2019.

Distribution of the pension fund assets portfolio



The evolution of the key indicators of the Pension Fund with reference to June 2020 and December 2019 are presented below, namely its liabilities, assets and their funding levels.

PENSION FUND

(million euros)

	Dec-19	Jun-20	Change Jun-20/Dec-19	
			Amount	%
Total liabilities	850.9	819.7	(31.2)	(3.7)
Minimum liabilities to be financed	825.5	795.1	(30.4)	(3.7)
Value of the Pension Fund's assets	837.1	809.0	(28.1)	(3.4)
Coverage:				
Minimum liabilities (1)	103.2%	103.4%	0.2 p.p.	
Total liabilities (2)	100.1%	100.3%	0.2 p.p.	

(1) Also considering, in Dec-19 and Jun-20, the component directly financed by Banco Montepio referring to employees who are temporarily suspended from employment contracts and the contribution to Social Welfare Services (defined contribution).

Banco Montepio's total liabilities were entirely funded, with a coverage level of 100.3% as at 30 June 2020.

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 1.70% as at 30 June 2020, compared to 1.50% as at 31 December 2019, taking into account the evolution occurred in the key market indices related to high quality bonds and the duration of the Pension Fund’s liabilities.

The main actuarial assumptions used to determine the liabilities in June 2020 and December 2019 were the following:

ACTUARIAL ASSUMPTIONS

	Dec-19	Jun-20
Financial Assumptions		
Salary growth rate	0.75%	0.75%
Pension growth rate	0.50%	0.50%
Rate of return of the Fund	1.50%	1.70%
Discount rate	1.50%	1.70%
Revaluation rate	0.00%	0.00%
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)	UCP	UCP

(1) UCP - Projected Credit Unit

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

RISK MANAGEMENT

RISK MANAGEMENT

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

INTERNAL CONTROL SYSTEM

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

a) An efficient and profitable performance of the activity, in the medium and long-term, which guarantees the effective use of the assets and resources, the continuity of the business and actual survival of the Group, through the adequate management and control of the risks of the activity, the prudent and appropriate evaluation of the assets and liabilities, as well as the implementation of mitigation mechanisms against non-authorised, intentional or negligent uses;
b) The existence of financial and managerial information which is complete, pertinent, reliable and timely, to support decision-making and control processes, both at an internal and external level;
c) Respect for the applicable legal and regulatory provisions including those relative to anti-money laundering and counter terrorist financing, as well as the professional and ethical standards and practice, the internal and statutory rules, the rules on conduct and relations with Customers, the guidelines of the governing bodies, the disclosure of relevant information on related parties namely pursuant to articles 85 and 109 of the Legal Framework of Credit Institutions and Financial Companies (as indicated in Note 53 of the notes to the consolidated financial statements) and the recommendations of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), in order to protect the Group's reputation and prevent it from being applied penalties.

Accordingly, the internal control system is based on:

a) An adequate control environment supported by a well-defined organisational structure, safeguarding the separation of functions and a code of conduct applicable to all the Employees that defines the standards of ethics, integrity and professionalism;
b) A robust risk management system, aimed at the identification, evaluation, follow-up and control of all risks which might influence the strategy and goals defined by the Group;
c) An efficient information and communication system, implemented to guarantee the collection, processing and exchange of relevant, encompassing and consistent data, within a period of time and manner allowing for the effective and timely management and control of the activity and of the Group's risks;

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

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

RISK MANAGEMENT SYSTEM

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

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

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

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

a) Promote the implementation of the Banco Montepio Group's risk policies approved by the Board of Directors in the context of the risk management and control function;
b) Ensure the appropriate identification of the nature of the risks underlying the activity of the entities comprising the Group, the assessment and precise measurement of the magnitude of these risks, as well as the monitoring and effective control of the respective impact;
c) Monitor the approved risk appetite indicators, proposing, where necessary, the measures that ensure their compliance;

d) Support the Executive Committee in taking decisions of material influence in the Group's risk profile; and
e) Ensure compliance with the legislation and regulations in force.

In the area of the risk management function, the following developments took place during 2020:

- Review of the model for calculating profitability and pricing adjusted to the risk of the credit operations.
- Continuation of the strengthening of the processes for calculation and reporting interest rate risk, pursuant to the new Banco de Portugal Instruction number 34/2018 and most recent EBA guidelines.
- Continuation of the implementation of a new definition of default in conformity with the EBA guidelines.
- Continuation of the updating/review of the impairment model for homogenous populations and for individually significant customers;
- Updating/review of the rating models of Banco Montepio and strengthening of the procedures for monitoring the performance of the models;
- Strengthening of business support processes, namely through the review of the credit risk warning system and implementation of new simulators of mortgage loans, consumer credit and online credit.
- In terms of Business Continuity, the Pandemic Plan was activated, which necessarily implied significant changes in the mode of working and in the implementation of some procedures that are currently underway without major disruptions in Customer relations.
- Adjustment of processes to the activity of BEM, in accordance with the new strategy.
- Reinforcement and improvement of the risk management information system and reporting produced by the Risk Department.
- Updating and review of internal rules and regulations on various processes related to risk management.

The compliance function 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 this function in the Bank's main procedures that imply compliance. To this end, Banco Montepio has a policy dedicated to this 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 has the necessary autonomy to perform its functions in an independent manner, reporting relevant matters to the Board of Directors and Audit Committee, such as for the approval of the activities and training plan, the budget and compliance policies.

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

In the first half of 2020, under anti-money laundering and counter terrorist financing (AML/CTF), special reference is made to the adoption of a new computer application for monitoring Customers and operations, based on predictive scenarios and following an approach according to the risk profile of the Customers. Therefore, the filtering of Customers and operations is now complemented by the reinforced monitoring of the transactionality, thus enhancing the robustness of the tools for combating financial crime to which Banco Montepio is strong committed. The intervention of the compliance function in the Customer account opening procedures has also been strengthened, enabling better control of the function of onboarding Customers that potentially present a higher risk to the Bank according to the model that is currently implemented.

It should also be noted that specific compliance structures have been created in particular entities of the Group (Banco Empresas Montepio, Montepio Crédito and Montepio Valor), thus enabling a closer management of the compliance risks at a micro level, without prejudice to the coordination made at the macro level by the compliance function of Banco Montepio.

The compliance function is active in the ongoing follow-up of legislative and regulatory changes and in the adjustment of Banco Montepio's activity so as to ensure timely compliance with the legal framework in force. In this regard, special reference is made to the legislative measures endorsed in response to the COVID-19 disease pandemic, especially those covering loan moratoriums, credit lines to support the economy and exemption from fees and commissions in certain services. These legislative changes require adaptation in a very short period of time and, on the other hand, the travel limitations arising from the confinement measures have implied the need to accelerate the digitalisation of business processes, requiring greater support of the compliance function to the Bank's different areas in these matters.

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

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

The internal audit function constitutes an integral part of the process of monitoring the internal control system and, as a third line of defence, assesses the activities, systems and processes, including the risk management function and the compliance function.

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.

For the procedures conducted by shared services that are not part of the organisational chart of Banco Montepio, the Internal Audit function should be assured the possibility of auditing them.

Risk Appetite Framework (RAF)

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

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

RISK MANAGEMENT GOVERNANCE MODEL

At Banco Montepio, the risk management function is the responsibility of the Risk Department (DRI) in partnership with the Specialised Credit Analysis Department (DAEC), which are organic units that conduct this function in a manner independent from the functional areas subject to assessment.

In the current internal governance model of Banco Montepio, the director of the DRI reports hierarchically to the member of the Executive Committee responsible for the risk area, and has access and regularly reports to the Board of Directors (including non-executive and independent members), namely to the Risk Committee, which is a delegated committee of the Board of Directors specialised in risk matters, exclusively composed of non-executive directors, and to the Audit Committee, the Bank's supervisory body.

The hierarchical and functional reporting lines are described in the internal governance structure defined in the Risk Management Policy of the Banco Montepio Group.

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

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

Audit Committee

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

Risk Committee

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

Risk Department and Specialised Credit Analysis Department

The Risk Department (DRI) and the Specialised Credit Analysis Department (DAEC) are the units of Banco Montepio that are entrusted with monitoring all the financial and operational risks, and perform their duties in an independent manner 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, counterparty risk, self-assessment of the adequacy of capital and liquidity, Market Discipline, Recovery Plan and Resolution Plan.

The DAEC conducts the process of attributing ratings to companies as well as the process of calculation of impairment on an individual basis. It also issues technical opinions on new loan operations for decision-making.

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 system, in the Banco

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

Model Validation Office

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

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

In the first half of 2020, the Model Validation Office completed a series of validation procedures relative to various models, among which particular reference should be made to the periodic validation of models, methods and results of the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP). Furthermore, under the action plans developed by the model owners, for the deactivation of the model risk limits, specific validations were done to the rating models for the Large, Mid and Small Corporate segments.

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 2020, with the support of various model owners and the Internal Audit function, 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.

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 the first half of 2020, the investments continued in the modernisation of the technological infrastructure and software tools to support the processes of governance and data quality that led to new progress in the effective implementation of the data policy of Banco Montepio.

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

CREDIT RISK

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

During the first half of 2020, work continued on review of the credit risk management models and policies, accompanying the changes in the regulatory framework, and the guidelines issued by the national and European supervisors and regulators, and best market practices.

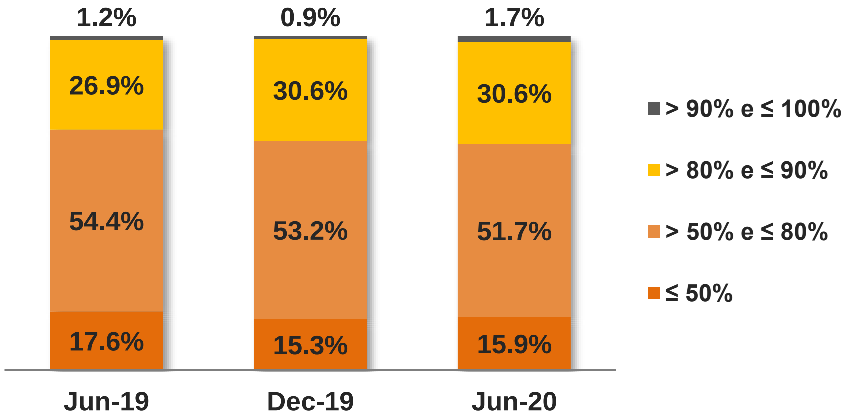
The decision-making process for loan operations is based on a series of policies using scoring models for the retail and business portfolios and rating models for the corporate segment. These models, developed based on internal historical data, enable obtaining an assessment which is reflected in the 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 regular basis by the Risk Department, with a process existing for regular updating in light of the results obtained, business or regulatory alterations that imply the need to review these models.

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

In the mortgage loan segment, the loans granted in the first half of 2020 recorded a decrease, in relation to 2019, of the Loan-to-Value (LTV) ratio – the loan value divided by the valuation of the collateral), to 70.7% (71.6% in 2019 and 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.

Mortgage loans distribution granted by LTV level



As at 30 June 2020, the weight of the non-performing exposures (NPE) measured based on the heading of Gross loans to customers recorded a reduction of 2.8 p.p. in relation to 30 June 2019, to stand at 11.9%. This evolution was caused by the positive effect of the reduction of non-performing exposures, despite the adverse effect of the evolution of the denominator of the ratio, derived from the contraction of the loan portfolio, which fell by approximately 161 million euros in the period.

The amount of impairments for credit risk reached 863 million euros as at 30 June 2020, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 122.9%, a reinforcement of 16.5 p.p. in relation to the same period of 2019. Moreover, the coverage of non-performing exposures stood at 58.4%, also considering the associated total collateral and financial guarantees this ratio reached 89.9%.

LOAN QUALITY INDICATORS

(million euros)

	Jun-18	Dec-18	Jun-19	Y.o.Y. Change Amount	Y.o.Y. Change %
Gross loans to customers	12 578	12 239	12 417	(161)	(1.3)
Loans and interest overdue by more than 90 days	863	685	702	(161)	(18.7)
Loans impairment	918	775	863	(55)	(6.0)
Ratios (%)					
Cost of credit risk	0.7	1.0	1.8	1.1 p.p.	
Loans and interest overdue by more than 90 days	6.9	5.6	5.7	(1.2 p.p.)	
Non-performing exposures (NPE) [a] / Gross loans to customers	14.7	12.2	11.9	(2.8 p.p.)	
Forborne exposures [a] / Gross loans to customers	7.5	7.1	7.4	(0.1 p.p.)	
Coverage by Impairments for balance sheet loans (%)					
Loans and interest overdue by more than 90 days	106.4	113.2	122.9	16.5 p.p.	
Non-performing exposures (NPE) [a]	49.7	52.1	58.4	8.7 p.p.	
Non-performing exposures (NPE), also including associated collaterals and financial guarantees [a]	82.9	87.2	89.9	7.0 p.p.	

(a) EBA definition.

CREDIT CONCENTRATION RISK

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

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

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

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

MARKET RISK

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

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

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

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

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

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

Pursuant to the policy of investment in the banking book, there was an increase of exposure to sovereign debt, especially Portuguese, Italian and Spanish. The weight of bonds classified as investment grade in the total bond portfolio in June 2020 represented 88.3% (in relation to 84.2% in December 2019).

STRUCTURE OF THE BOND PORTFOLIO BY RATING CLASSES

(millions of euros)

Rating	Dec-19		Jun-20		Change	
	Amount	%	Amount	%	Amount	%
AAA	8	0.3	4	0.2	(4)	(50.0)
AA+	1	-	1	-	0	0.0
AA	8	0.3	-	-	(8)	-
AA-	21	0.8	-	-	(21)	-
A+	18	0.7	1	-	(17)	(94.4)
A	32	1.2	1	-	(31)	(96.9)
A-	35	1.3	2	0.1	(33)	(94.3)
BBB+	280	10.3	394	13.7	114	40.7
BBB	90	3.3	17	0.6	(73)	(81.1)
BBB-	1 797	66.0	2 125	73.7	328	18.3
BB+	21	0.8	-	-	(21)	-
BB	21	0.8	1	-	(20)	(97.6)
B+	257	9.4	239	8.3	(18)	(7.0)
NR	46	1.6	23	0.8	(23)	(50.0)
Subtotal	**2 635**	**96.8**	**2 808**	**97.4**	**173**	**6.6**
Discontinued subsidiaries	88	3.2	76	2.6	(12)	(13.6)
Total	**2 723**	**100.0**	**2 884**	**100.0**	**161**	**5.9**

In June 2020 the value of 2,882 million euros (31 December 2019: 2,723 million euros) includes the value of 76 million euros (31 December 2019: 88 million euros), which corresponds to the securities portfolio of Finibanco Angola, belonging to the subsidiary subject to the application of the accounting standard IFRS 5 and that is consequently recorded under discontinued operations.

A summary of the value at risk (VaR) indicators in December 2019 and June 2020 is presented below:

VaR INDICATORS [1]

	Jun-20		Dec-19	
	Banking Book	Trading Portfolio	Banking Book	Trading Portfolio
Market VaR [1] [2] [3]	**2.55%**	**6.68%**	**0.58%**	**1.93%**
Interest Rate Risk	1.46%	1.65%	0.63%	1.32%
Exchange Rate Risk	0.01%	0.65%	0.01%	1.12%
Price Risk	0.09%	4.06%	0.01%	0.74%
Credit risk (spread)	1.93%	2.43%	0.58%	0.63%
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.

Reference is made to the increased VaR of the banking and trading books, in relation to the figures observed in 2019, derived from the situation of instability that affected the financial markets, especially in March, associated to the pandemic of the novel coronavirus, COVID-19. These circumstances are, by definition, a stress scenario.

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 the legacy positions derived from the conversion of the balances of the subsidiaries in their main currencies, namely the Kwanza and American Dollar, concerning Finibanco Angola.

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 result from the mismatch between the repricing dates and/or residual maturities between assets and liabilities (repricing risk), from the non-parallel change in the interest rate curves (yield curve risk), from the lack of a perfect correlation between different interest rates with the same repricing time limit (basis risk) and from the options associated with instruments enabling a diverse action on part of the stakeholders dependent on the level of contracted and practised interest rates in the moment (option risk).

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

In this context, limits are defined for exposure to interest rate risk factors which are monitored by the Capital, 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 on the interest rate curve. The test also measures impacts on net interest income at one year and on economic value arising from shocks on the interest rate curve specified 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 2020

(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	7 587	3 421	1 201	1 688	1 218
Off balance sheet	1	7	0	763	0
Total	**7 589**	**3 428**	**1 201**	**2 452**	**1 218**
Liabilities	2 793	1 353	2 940	3 926	57
Off balance sheet	750	0	0	0	1
Total	**3 543**	**1 353**	**2 940**	**3 926**	**58**
GAP (Assets - Liabilities) in Jun 2020	**4 046**	**2 075**	**(1 739)**	**(1 475)**	**1 160**
GAP (Assets - Liabilities) in Dec 2019	**3 590**	**1 079**	**(1 080)**	**(892)**	**816**

In view of the interest rate gaps observed as at 30 June 2020, 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 -37.0 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 disposable assets so as to meet financial needs in the short, medium and long-term. Liquidity risk is monitored daily, with various reports being prepared for control and monitoring purposes and to support decision-taking within the Capital, Asset and Liability Committee (CCAP). Under the control of risk levels, limits are defined for various liquidity risk indicators, which are monitored through monthly reports.

The evolution of the liquidity situation is analysed, in particular, based on estimated future cash flow projections for various time horizons, considering Banco Montepio’s balance sheet. The liquidity position on the day of the analysis and the amount of assets deemed highly liquid existing in the uncommitted securities portfolio are added to the ascertained values, thus determining the accumulated liquidity gap for many time horizons.

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

In June 2020, the liquidity gaps up to 12 months were as presented in the table below.

LIQUIDITY POSITION GAPS IN JUNE 2020

(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	3 402	3 393	3 376	3 351	3 351

Customer resources constitute the main source of funding, accounting for 75.2% of total funding sources in June 2020.

Liabilities	%
Resources from central banks	9.9
Resources from other credit institutions	3.2
Resources from Customers	75.2
Debt securities issued	8.0
Other liabilities	3.7
Total	**100.0**

The Liquidity Coverage Ratio (LCR) reached 224.4% in June of 2020, 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 2020, the Bank Montepio Group's exposure to real estate risk, in the components described above, fell by approximately 38 million euros, in shifting from 1,010 million euros at the end of 2019 to 972 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 the first half of 2020, the accumulated negative actuarial deviations of the Pension Fund stood at 295 million euros, which evolved favourably by 5 million euros in the first half of 2020.

OPERATIONAL RISK AND BUSINESS CONTINUITY

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

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

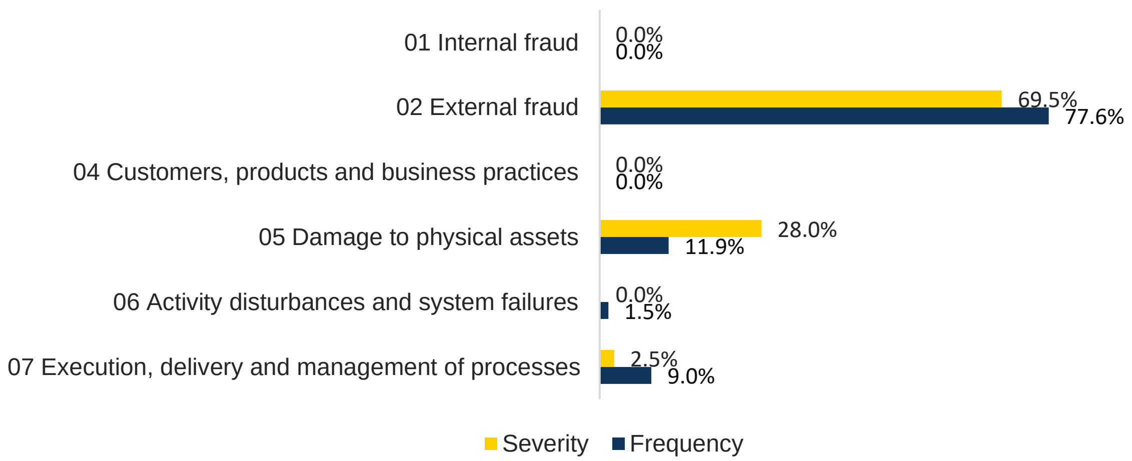
The Risk Department performs the corporate function of operational risk management for Banco Montepio This is supported by specific employees within different organic units that assure the appropriate implementation of the operational risk management.

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

With regard to the monitoring of operational risk in the first half of 2020, 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 (95.5% of the events with financial impact recorded a net loss of less than 5,000 euros).

In the first half of 2020, there was a growth of events related to external fraud and acts of vandalism, both in terms of quantity and in terms of value. On the other hand, events related to the incorrect execution of processes diminished significantly.

Operational Risk Typologies by Frequency and Severity in 1st Half of 2020



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

Monitoring

Under the Operational Risk Management System of Banco Montepio, the key risk indicators (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 KRIs, changing the measurement and limits of risk acceptance/appetite, and adding new indicators related to the main macroprocesses of Banco Montepio.

Self-assessment of Operational Risks

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

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

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

Business Continuity Management

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

The year of 2020 is being marked by the epidemiological situation related to the COVID-19 pandemic. This situation forced a reorganisation of various procedures arising from the Activation of the Business Continuity Plan and the rules issued by the Directorate-General of Health.

In this context, the Business Continuity Plan was activated, with the foreseen measures having been taken to deal with the crisis situation, aimed at ensuring that the critical processes are carried out without disruptions, or that the impact on them should be insignificant, which has been successfully achieved up to date.

As foreseen in the Business Continuity Plan, the Crisis Management Office was also activated, which is responsible for the management of the crisis, the management and implementation of the Operational Continuity Plans, and for the coordination of the business recovery and return to normality teams.

Although this situation has brought a series of challenges, Banco Montepio has managed to provide timely solutions to the emerging needs guided by the principle of protecting the safety and health of its Employees and Customers.

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 its risk and business strategies;
- Assure an appropriate identification, quantification, control and mitigation of the material risks to which the Group is exposed;
- Assure proper documentation of the demonstrated results, by reinforcing the integration of the risk management processes in the risk culture of the Group and in decision-making processes;
- Foresee a contingency plan to assure the management of the activity and the adequacy of the internal capital in the event of a recession or crisis.

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

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

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

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

The result of the capital adequacy assessment is supplemented 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. Additionally, the Funding and Capital Plan foresees measures that will enable strengthening the Group’s solvency levels.

STRESS TESTS

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

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

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

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

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

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

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

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

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

RATINGS

RATINGS

Rating events for the first half of 2020

In a press release dated 30 June 2020, the financial rating agency Fitch Ratings presented the revised risk ratings of Banco Montepio, namely changing: Long-Term Issuer Default Rating (IDR) from B+ to B- and Viability Rating (VR) from b+ to b-. The Rating Watch Negative status was withdrawn, with a Negative Outlook having been given to Long-Term Issuer Default Rating (IDR), to a large extent reflecting the medium-term risks derived from the economic consequences of the coronavirus crisis (COVID-19). As a consequence of the revision of the IDR and VR, the rating agency downgraded the risk rating of Long-Term Subordinated Debt, Long-Term Senior preferred debt and Long-Term senior non-preferred debt from B- to CCC, and of Long-Term deposits from BB- to B. this rating action also confirmed the risk rating of the Short-Term Issuer Default Rating, of Short-term deposits and Short-term senior preferred debt at B.

After the closing of the first half of 2020, in a press release dated 2 July 2020, the financial rating agency Fitch Ratings downgraded the risk rating attributed to Banco Montepio's Mortgage Bonds from AA- to A, with a Negative Outlook, following the change of the Long-Term Issuer Default Rating (IDR) disclosed on 30 June 2020.

Moreover, in a press release dated 15 July 2020, the financial rating agency DBRS presented the revision of risk ratings of Banco Montepio, namely: Confirmation of the Short-Term Issuer Rating and Short-Term Debt ratings at R-4; Revision of the Intrinsic Assessment, the Long-Term Issuer Rating and Long-Term Senior Debt rating to B; and of the Subordinated Debt rating to CCC (high); Revision of the rating of Long-term Deposits to B (high); These ratings were attributed a Negative Trend.- The rating of Short-Term Deposits was revised to R-4, with Stable Trend. In a press release dated 16 July 2020, the financial rating agency DBRS presented the revised risk rating attributed to Banco Montepio's Mortgage Bonds to BBB (high) following the change of the Long-Term Issuer Rating disclosed on 15 July 2020.

The risk ratings assigned to Banco Montepio by the rating agencies as at 30 June 2020 and 30 June 2019 are presented in the table below:

Rating Notes on 30 June 2020								
Rating Agencies	Covered Bonds (CPT[1])		Long-term*		Short-term		Outlook	
	30 June 2019	**30 June 2020**	30 June 2019	**30 June 2020**	30 June 2019	**30 June 2020**	30 June 2019	**30 June 2020**
Fitch Ratings[(2)]	AA-	**AA-**	B+	**B-**	B	**B**	Stable	**Negative**
Moody's Investors Service	A3	**A1**	Caa1	**b3**	NP	**NP**	Positive	**Stable**
DBRS Ratings Limited[(2)]	A	**A**	BB	**BB**	R-4	**R-4**	Negative	**Negative**

* Issuer Default Rating by Fitch, Baseline Credit Assessment (BCA) by Moody's and Intrinsic Assessment (IA) by DBRS.

(1) Conditional Pass-through Covered Bond Programme.

(2) Ratings as of 30 June 2020. After the end of the semester (2, 15 and 16 July 2020) Fitch and DBRS disclosed the changes to the ratings described in the text above.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Banco Montepio

Interim condensed consolidated balance sheet

for the period ended 30 June 2020 and 31 December 2019

(Euro thousand)

	Jun 2020	Dec 2019
Assets		
Cash and deposits at central banks	914 755	1 003 649
Loans and deposits to credit institutions payable on demand	48 562	29 445
Other loans and advances to credit institutions	286 486	275 598
Loans and advances to customers	11 554 304	11 464 542
Financial assets held for trading	43 955	35 905
Financial assets at fair value through profit or loss	371 469	384 675
Financial assets at fair value through other comprehensive income	1 199 387	1 859 691
Hedging derivatives	15 259	11 148
Other financial assets at amortized cost	1 703 767	899 145
Investments in associated companies	4 274	4 439
Non-current assets held for sale	167	-
Non-current assets held for sale - discontinued operations	179 481	216 538
Investment properties	134 828	144 868
Other tangible assets	242 761	248 469
Intangible assets	34 349	33 839
Current tax assets	11 627	15 284
Deferred tax assets	466 273	434 665
Other assets	670 389	678 242
Total Assets	17 882 093	17 740 142
Liabilities		
Deposits from central banks	1 636 639	1 291 033
Deposits from other credit institutions	535 388	522 161
Deposits from customers	12 421 589	12 524 697
Debt securities issued	1 327 340	1 389 980
Financial liabilities held for trading	13 185	13 368
Hedging derivatives	799	547
Non-current liabilities held for sale - discontinued operations	96 051	134 429
Provisions	33 399	31 633
Current tax liabilities	2 279	1 783
Other subordinated debt	211 164	157 847
Other liabilities	245 511	220 676
Total Liabilities	16 523 344	16 288 154
Shareholders' Equity		
Share capital	2 420 000	2 420 000
Other equity instruments	-	6 323
Fair value reserves	(28 236)	809
Other reserves and Retained earnings	(992 442)	(1 008 378)
Consolidated net income for the period attributable to the Shareholder	(51 291)	21 684
Total Equity Attributable to Shareholders	1 348 031	1 440 438
Non-controlling Interests	10 718	11 550
Total Shareholders' Equity	1 358 749	1 451 988
Total Liabilities and Shareholders' Equity	17 882 093	17 740 142

Banco Montepio

Interim condensed consolidated income statement
for the periods ended 30 June 2020 and 2019

(Euro thousand)

	June 2020	June 2019
Interest and similar income	146 149	164 490
Interest and similar expense	31 470	44 439
Net interest income	114 679	120 051
Dividends from equity instruments	1 719	6 210
Net fee and commission income	56 127	57 689
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(11 931)	2 260
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	18 836	(2 902)
Net gains/(losses) arising from exchange differences	268	270
Net gains/(losses) arising from sale of other financial assets	9 146	16 714
Other operating income/(expense)	(19 989)	(18 064)
Total income	168 855	182 228
Staff costs	78 819	77 854
General and administrative expenses	32 503	31 206
Depreciation and amortization	16 176	16 379
Total operating cost	127 498	125 439
Impairment of loans and advances	109 381	42 000
Impairment of other financial assets	5 580	3 074
Impairment of other assets	5 491	3 376
Other provisions	1 766	(1 316)
Operating income	(80 861)	9 655
Share of profits/(losses) booked under the equity method	(330)	(47)
Profit/(loss) before income tax	(81 191)	9 608
Income Tax		
Current	1 433	(2 051)
Deferred	23 466	(8 650)
Profit /(loss) after income tax from continuing operations	(56 292)	(1 093)
Profit/ (loss) from discontinued operations	6 234	5 854
Consolidated net profit/ (loss) after income tax	(50 058)	4 761
Consolidated net profit/ (loss) for the period attributable to the shareholders	(51 291)	3 603
Non-controlling Interests	1 233	1 158
Consolidated net profit/ (loss) for the period	(50 058)	4 761
Earnings per share (in Euro)		
From continuing operations		
Basic	-0.0233	-0.0005
Diluted	-0.0233	-0.0005
From discontinued operations		
Basic	0.0021	0.0019
Diluted	0.0021	0.0019

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

PART II

FINANCIAL STATEMENTS, NOTES TO THE FINANCIAL STATEMENTS AND EXTERNAL AUDITOR'S REVIEW REPORTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Banco Montepio

Interim condensed consolidated income statement
for the periods ended 30 June 2020 and 2019

(Euro thousand)

	Notes	June 2020	June 2019
Interest and similar income	3	146 149	164 490
Interest and similar expense	3	31 470	44 439
Net interest income	3	114 679	120 051
Dividends from equity instruments	4	1 719	6 210
Net fee and commission income	5	56 127	57 689
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	6	(11 931)	2 260
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	7	18 836	(2 902)
Net gains/(losses) arising from exchange differences	8	268	270
Net gains/(losses) arising from sale of other financial assets	9	9 146	16 714
Other operating income/(expense)	10	(19 989)	(18 064)
Total income		168 855	182 228
Staff costs	11	78 819	77 854
General and administrative expenses	12	32 503	31 206
Depreciation and amortization	13	16 176	16 379
Total operating cost		127 498	125 439
Impairment of loans and advances	14	109 381	42 000
Impairment of other financial assets	15	5 580	3 074
Impairment of other assets	16	5 491	3 376
Other provisions	17	1 766	(1 316)
Operating income		(80 861)	9 655
Share of profits/(losses) booked under the equity method	18	(330)	(47)
Profit/(loss) before income tax		(81 191)	9 608
Income Tax			
Current	33	1 433	(2 051)
Deferred	33	23 466	(8 650)
Profit /(loss) after income tax from continuing operations		(56 292)	(1 093)
Profit/ (loss) from discontinued operations	60	6 234	5 854
Consolidated net profit/ (loss) after income tax		(50 058)	4 761
Consolidated net profit/ (loss) for the period attributable to the shareholders		(51 291)	3 603
Non-controlling Interests	47	1 233	1 158
Consolidated net profit/ (loss) for the period		(50 058)	4 761
Earnings per share (in Euro)			
From continuing operations			
Basic		-0.0233	-0.0005
Diluted		-0.0233	-0.0005
From discontinued operations			
Basic		0.0021	0.0019
Diluted		0.0021	0.0019

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim condensed consolidated ctatement of comprehensive Income
for the period ended 30 June 2020

(Euro thousand)

	Notes	Jun 2020 Continuing Operations	Discontinued operations	Total	Shareholders	Non-controlling interests
Items that may be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	45	(22 772)	-	(22 772)	(22 772)	-
Loans and advances to customers	45	(269)	-	(269)	(269)	-
Own credit risk	45	(99)	-	(99)	(99)	-
Taxes related to fair value changes	33	6 954	-	6 954	6 954	-
Exchange difference arising from the consolidation	45	-	(12 905)	(12 905)	(10 840)	(2 065)
		(16 186)	(12 905)	(29 091)	(27 026)	(2 065)
Items that will not be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	45	(12 859)	-	(12 859)	(12 859)	-
Actuarial gains/(losses) for the period	50	5 254	-	5 254	5 254	-
		(7 605)	-	(7 605)	(7 605)	-
Other comprehensive income/(loss) for the period		(23 791)	(12 905)	(36 696)	(34 631)	(2 065)
Consolidated net income for the period		(56 292)	6 234	(50 058)	(51 291)	1 233
Total consolidated comprehensive income/(loss) for the perio		(80 083)	(6 671)	(86 754)	(85 922)	(832)

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

Banco Montepio

Interim condensed consolidated statement of comprehensive Income
for the period ended 30 June 2019

(Euro thousand)

	Notes	Jun 2019 Continuing Operations	Discontinued operations	Total	Shareholders	Non-controlling interests
Items that may be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	45	63 318	-	63 318	63 318	-
Loans and advances to customers	45	-	-	-	-	-
Own credit risk	45	779	-	779	779	-
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)
		43 926	(7 015)	36 911	38 639	(1 728)
Items that will not be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	45	4 589	-	4 589	4 589	-
Actuarial 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)	-
		(55 129)	-	(55 129)	(55 129)	-
Other comprehensive income/(loss) for the period		(11 203)	(7 015)	(18 218)	(16 490)	(1 728)
Consolidated net income for the period		(1 093)	5 854	4 761	3 603	1 158
Total consolidated comprehensive income/(loss) for the period		(12 296)	(1 161)	(13 457)	(12 887)	(570)

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

Banco Montepio

Interim condensed consolidated balance sheet

for the period ended 30 June 2020 and 31 December 2019

(Euro thousand)

	Notes	Jun 2020	Dec 2019
Assets			
Cash and deposits at central banks	19	914 755	1 003 649
Loans and deposits to credit institutions payable on demand	20	48 562	29 445
Other loans and advances to credit institutions	21	286 486	275 598
Loans and advances to customers	22	11 554 304	11 464 542
Financial assets held for trading	23	43 955	35 905
Financial assets at fair value through profit or loss	24	371 469	384 675
Financial assets at fair value through other comprehensive income	25	1 199 387	1 859 691
Hedging derivatives	26	15 259	11 148
Other financial assets at amortized cost	27	1 703 767	899 145
Investments in associated companies	28	4 274	4 439
Non-current assets held for sale	29	167	-
Non-current assets held for sale - discontinued operations	62	179 481	216 538
Investment properties	30	134 828	144 868
Other tangible assets	31	242 761	248 469
Intangible assets	32	34 349	33 839
Current tax assets	33	11 627	15 284
Deferred tax assets	33	466 273	434 665
Other assets	34	670 389	678 242
Total Assets		17 882 093	17 740 142
Liabilities			
Deposits from central banks	35	1 636 639	1 291 033
Deposits from other credit institutions	36	535 388	522 161
Deposits from customers	37	12 421 589	12 524 697
Debt securities issued	38	1 327 340	1 389 980
Financial liabilities held for trading	23	13 185	13 368
Hedging derivatives	26	799	547
Non-current liabilities held for sale - discontinued operations	62	96 051	134 429
Provisions	39	33 399	31 633
Current tax liabilities	-	2 279	1 783
Other subordinated debt	40	211 164	157 847
Other liabilities	41	245 511	220 676
Total Liabilities		16 523 344	16 288 154
Shareholders' Equity			
Share capital	42	2 420 000	2 420 000
Other equity instruments	43	-	6 323
Fair value reserves	45	(28 236)	809
Other reserves and Retained earnings	44 e 45	(992 442)	(1 008 378)
Consolidated net income for the period attributable to the Shareholder		(51 291)	21 684
Total Equity Attributable to Shareholders		1 348 031	1 440 438
Non-controlling Interests	47	10 718	11 550
Total Shareholders' Equity		1 358 749	1 451 988
Total Liabilities and Shareholders' Equity		17 882 093	17 740 142

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

Banco Montepio

Banco Montepio

Interim condensed consolidated statement of cash slows
for the periods ended 30 June 2020 and 2019

(Euro thousand)

	Jun 2020	Jun 2019
Cash from operating activities		
Interest income received	130 010	153 007
Interest expense paid	(13 561)	(37 717)
Fee and commission income received	67 119	71 787
Fee and commission expense paid	(11 077)	(14 569)
Costs with staff and suppliers	(109 415)	(79 942)
Recovery of loans and interest	1 132	3 455
Other payments and receivables	(45 540)	(16 409)
Income tax payment	5 586	981
	24 254	80 593
(Increases)/Decreases in operating assets		
Loans and advances to credit institutions and customers	(207 135)	361 438
Deposits held for monetary control purposes	55 442	168 901
(Purchase)/Sale of financial assets held for trading	(20 760)	(28 968)
Purchase)/Sale of financial assets at fair value through profit or loss	11 867	(403 822)
(Purchase)/Sale of financial assets at fair value through other comprehensive income	627 906	(878 145)
Interest received from financial assets at fair value through other comprehensive income	14 816	2 173
(Purchase)/Sale of hedging derivatives	(1 382)	(1 726)
(Purchase)/Sale of other assets at amortized cost	(806 614)	353 187
Other assets	7 194	146 402
	(318 666)	(280 560)
Increases/(decreases) in operating liabilities		
Deposits from customers	(99 887)	110 740
Deposits from credit institutions	13 361	54 650
Deposits from central banks	335 000	-
	248 474	165 390
	(45 938)	(34 577)
Cash from investing activities		
Non-current assets/liabilities held for sale - discontinued operations	4 913	(4 952)
Dividends received	1 719	6 210
Purchase of investments in associated companies	(12)	-
Purchase of fixed assets and investment properties	(10 756)	(10 938)
Sale of fixed assets and investment properties	10 816	25 352
	6 680	15 672
Cash from financing activities		
Dividends paid		(1 285)
Other equity instruments	(162)	(163)
Issuance of cash bonds and subordinated debt (notes 38 & 40)	50 000	100 000
Repayment of cash bonds and subordinated debt (notes 38 & 40)	(30 191)	(141 737)
Finance lease agreements	5 009	-
	24 656	(43 185)
Effects of exchange rate changes on cash and cash equivalents	268	270
Net change in cash and cash equivalents	(14 334)	(61 820)
Cash and cash equivalents at the beginning of the period		
Cash (note 19)	194 530	194 597
Loans and deposits to credit institutions payable on demand (note 20)	29 445	78 074
	223 975	272 671
Cash and cash equivalents at the end of the period		
Cash (note 19)	161 079	170 879
Loans and deposits to credit institutions payable on demand (note 20)	48 562	39 972
	209 641	210 851

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 period ended 30 June 2020 and 2019

(Euro thousand)

	Share capital (note 42)	Other equity instruments (note 43)	Fair value reserves (note 45)	General and Legal reserves (note 44)	Retained earnings (note 45)	Consolidated net income/ (loss) for the period	Equity attributable to Shareholders	Non-controlling interests (note 47)	Total Shareholders' Equity
Balances on 1 January 2019	**2 420 000**	**6 323**	**(18 710)**	**191 767**	**(1 111 608)**	**13 583**	**1 501 355**	**15 551**	**1 516 906**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(5 287)	-	(5 287)	(1 728)	(7 015)
Appropriation to retained earnings of net income of the previous	-	-	-	-	13 583	(13 583)	-	-	-
Remeasurements in the period (note 50)	-	-	-	-	(59 320)	-	(59 320)	-	(59 320)
Taxes related to changes in equity recorded against retained ear	-	-	-	-	(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)
Consolidated net income for the period	-	-	-	-	-	3 603	3 603	718	4 321
Total comprehensive income/(loss) for the period	-	-	48 711	-	(51 618)	(9 980)	(12 887)	(1 010)	(13 897)
Financial costs related to the issue of perpetual subordinated debt	-	-	-	-	(163)	-	(163)	-	(163)
Legal reserve	-	-	-	202	(202)	-	-	-	-
Reserves realized	-	-	-		25	-	25	-	25
Dividends paid	-	-	-	-	(1 147)	-	(1 147)	-	(1 147)
Other consolidation reserves	-	-	-	-	1 444	-	1 444	-	1 444
Balances on 30 June 2019	**2 420 000**	**6 323**	**30 001**	**191 969**	**(1 163 269)**	**3 603**	**1 488 627**	**14 541**	**1 503 168**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(15 274)	-	(15 274)	(5 002)	(20 276)
Remeasurements in the period (note 50)	-	-	-	-	(18 510)	-	(18 510)	-	(18 510)
Taxes related to changes in equity recorded against retained ear	-	-	-	-	(2 006)	-	(2 006)	-	(2 006)
Changes in fair value (note 45)	-	-	(39 233)	-	-	-	(39 233)	-	(39 233)
Taxes on changes in fair value (notes 33 and 45)	-	-	10 041	-	196	-	10 237	-	10 237
Consolidated net income for the period	-	-	-	-	-	18 081	18 081	1 779	19 860
Total comprehensive income/(loss) for the period	-	-	(29 192)	-	(35 594)	18 081	(46 705)	(3 223)	(49 928)
Financial costs related to the issue of perpetual subordinated debt	-	-	-	-	(158)	-	(158)	-	(158)
Dividends paid	-	-	-	-	-	-	-	(776)	(776)
Other consolidation reserves	-	-	-	-	(1 326)	-	(1 326)	1 008	(318)
Balances on 31 December 2019	**2 420 000**	**6 323**	**809**	**191 969**	**(1 200 347)**	**21 684**	**1 440 438**	**11 550**	**1 451 988**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(10 840)	-	(10 840)	(2 065)	(12 905)
Appropriation to retained earnings of net income of the previous	-	-	-	1 297	20 387	(21 684)	-	-	-
Remeasurements in the period (note 50)	-	-	-	-	5 254	-	5 254	-	5 254
Changes in fair value (note 45)	-	-	(35 999)	-	-	-	(35 999)	-	(35 999)
Taxes on changes in fair value (notes 33 and 45)	-	-	6 954	-		-	6 954	-	6 954
Consolidated net income for the period	-	-	-	-	-	(51 291)	(51 291)	1 233	(50 058)
Total comprehensive income/(loss) for the period	-	-	(29 045)	1 297	14 801	(72 975)	(85 922)	(832)	(86 754)
Reclassification of perpetual subordinated debt (note 43)	-	(6 323)	-	-	-	-	(6 323)	-	(6 323)
Financial costs related to the issue of perpetual subordinated debt	-	-	-	-	(162)	-	(162)	-	(162)
Other consolidation reserves	-	-	-	-	-	-	-	-	-
Balances on 30 June 2020	**2 420 000**	**-**	**(28 236)**	**193 266**	**(1 185 708)**	**(51 291)**	**1 348 031**	**10 718**	**1 358 749**

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

Explanatory notes to the condensed interim consolidated financial statements as at 30 June 2020

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

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

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

The financial statements of Banco Montepio are consolidated in the financial statements of MGAM. The following entities integrate the Group:

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

Montepio Holding is the central entity of a group of companies offering a range of financial products and services to companies and investors, institutional and individuals. Montepio Holding, S.G.P.S holds financial shareholdings of 100% of the share capital and voting rights of Montepio Investimento, S.A., Montepio Crédito – Instituição Financeira de Crédito, S.A., Montepio Valor – Sociedade Gestora de Organismos de Investimento Coletivo, 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 develop a varied set of activities, including the banking activity as well as asset management and the rendering of complementary financial services in the insurance, specialized consumer credit and long-term rental areas.

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

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

Pursuant to Law no. 79/IX/2020, of 23 March, which establishes a transitional period for credit institutions with restricted authorization, constituted and authorized to operate in the Cape-Verdean financial system, to, if they wish, proceed by 30 December 2020 with the statutory and organizational changes necessary to start operating as banks with generic authorization. According to the same legal framework, once that date is exceeded, the authorizations of institutions that do not promote these changes are revoked. In this context, the Group is analysing the set of strategic options available considering the new legal, economic, and financial framework.

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 made to credit institutions, on the acquisition of securities and other assets, activities which it is duly authorized to carry out. Finibanco Angola also renders other banking services and realizes various types of foreign-currency operations.

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

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

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

Banco de Empresas Montepio

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

Montepio Valor – Sociedade Gestora de Organismos de Investimento Coletivo, S.A.

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

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

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

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

Montepio Gestão de Activos Imobiliários, ACE

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

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

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

CESource

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

The remaining entities of the consolidation perimeter are disclosed in note 59.

1 Accounting policies

a) Bases of presentation

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council, of 19 July and Regulation no. 5/2015 of the Bank of Portugal, of 7 December, Banco Montepio Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The Group adopted in the preparation of the consolidated financial statements as at 30 June 2020 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2020.

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 24 September 2020. The condensed interim consolidated financial statements now presented refer to 30 June 2020. These financial statements have been prepared, for the purposes of recognition and measurement, in accordance with IAS 34 Interim Financial Reporting ("IAS 34"), as endorsed by the European Union. Consequently, these financial statements do not include all the information required in the preparation of individual financial statements prepared in accordance with IFRS, as endorsed by the European Union, so they must be read in conjunction with the financial statements for the financial year ended 31 December 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 financial statements were prepared on the going concern basis under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Financial assets and liabilities that are classified under hedge accounting are stated at fair value in respect of the risk that is being hedged.

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

Comparability of information

The Group adopted IFRS and interpretations of mandatory application for periods beginning on or after 1 January 2020, as described in note 56. The accounting policies have been applied consistently by all Group entities and are consistent with those used in the preparation of the financial statements of the previous financial year.

b) Bases of consolidation

The consolidated financial statements now presented reflect the assets, liabilities, income and expenses of Banco Montepio and its subsidiaries ("Group"), and the results attributable to the Group in respect of its financial investments in associated companies, as well as the book value of these financial investments measured under the equity method, for the periods ended 30 June 2020 and 2019.

Subsidiaries

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

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

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

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

Associated companies

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

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

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

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

Special purpose entities

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

Goodwill

Business combinations are recorded using the purchase method. The acquisition cost corresponds to the fair value, determined at the purchase date, of the assets transferred and the liabilities incurred or assumed. Costs directly related to the acquisition of a subsidiary are recognized directly in the income statement. The positive goodwill that results from acquisitions is recognized as an asset and carried at acquisition cost, not being subject to amortization. Goodwill arising on the acquisition of shareholdings in subsidiaries and associated companies is defined as the difference between the total value or the cost of the acquisition and the total or corresponding share of the fair value of the assets, liabilities and contingent liabilities of the investee, respectively, depending on the option taken. When at the date of acquisition of control the Group already holds a previously acquired shareholding, the fair value of such shareholding contributes to the determination of the goodwill or badwill. Negative goodwill arising on an acquisition is recognized directly in the income statement in the financial year the business combination occurs. The recoverable amount of the goodwill is assessed annually, regardless of the existence of any impairment triggers. Impairment losses determined are recognized in the income statement for the financial year. The recoverable amount is determined based on the highest between the value in use of the assets and their fair value less costs to sell, calculated using valuation methodologies supported by discounted cash-flow techniques, considering market conditions, the time value of money and the business risks.

Goodwill is allocated to the cash-generating units to which it belongs for the purpose of carrying out impairment tests, which are performed at least once a year. Goodwill impairment losses are not reversible. When the Group reorganizes its activity, implying a change in the composition of its cash-generating units, to which goodwill has been allocated, the allocation of the goodwill to the new cash-generating units is revised whenever there is a rationale for such. The reallocation is made applying a relative fair value approach, of the new cash-generating units resulting from the reorganization. Goodwill is not adjusted in function of the final determination of the contingent purchase price paid, with such difference being booked in the income statement, or reserves if applicable, when the determination of the final contingent price occurs 1 year after the acquisition of control of the business, or if the determination of this price occurs less than 1 year after the referred date, when the adjustments relate to information obtained in respect of facts occurring after the date of the acquisition.

Acquisition and dilution of non-controlling interests

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

Loss of control

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

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

Investments in foreign subsidiaries and associated companies

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

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

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

As at 31 December 2018, for Angola, the inflation rate accumulated in the past three years came close to 100%, which corresponds to an objective quantitative condition, in addition to the existence of other conditions set forth in IAS 29, implying that the functional currency of Finibanco Angola, S.A.'s financial statements as at that date corresponds to the currency of a hyperinflationary economy, as was also the case as at 31 December 2017, as per note 60. Accordingly, the financial statements of Finibanco Angola, S.A. were adjusted by the inflation indices, before being transposed into the Group's presentation currency and before their integration in the consolidation, with: i) the amounts of the non-monetary balance sheet items of Finibanco Angola, S.A., at cost or cost less depreciation being restated by applying the general price index in Angola; and ii) the loss on the net monetary position being included in the net result of Montepio.

During the first half of 2020, the conditions set out in IAS 29 for qualifying the Angolan economy as hyperinflationary were not met. The end of the application of IAS 29 results from inflation in Angola, at the end of 2019, standing at 16.9% and the accumulated inflation in the last three years being less than 100%. Thus, the Group ceased to apply the inflation indices with reference to 1 January 2019.

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

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

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

Balances and transactions eliminated on consolidation

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

c) Financial instruments – IFRS 9

c.1) Classification of financial assets

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

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

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

c.1.1) *Debt instruments*

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

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

- the Group’s business model for financial asset management, and
- the characteristics of the contractual cash flows from the financial assets.

Based on these elements, the Group classifies its debt instruments for valuation purposes into one of the following three categories:

a) Financial assets at amortized cost, when the following two conditions are met:
   - they are managed under a business model which objective is the holding of financial assets to receive contractual cash flows, and
   - the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

In addition to debt instruments managed based on a business model which purpose is to receive their contractual cash flows, which are recorded in the caption Other financial assets at amortized cost, the category of financial assets at amortized cost also includes Loans and advances to other credit institutions and Loans and advances to customers.

b) Financial assets at fair value through other comprehensive income, when the following two conditions are met:

- they are managed under a business model which purpose combines the receipt of contractual cash flows from financial assets and their sale, and
- the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

c) Financial assets at fair value through profit or loss, whenever due to the Group's business model or the characteristics of their contractual cash flows, it is not appropriate to classify financial assets in any of the previous categories. At the transition date, to classify financial assets in this category, the Group also considered whether it expects to recover the book value of the asset through the sale to a third party.

Also included in this portfolio are all instruments in respect of which any of the following characteristics are met:

- that were originated or acquired for the purpose of being traded in the short term.
- that are part of a group of identified and jointly managed financial instruments for which there is evidence of recent actions aimed at achieving short-term gains.
- that are derivative instruments that do not meet the definition of a financial collateral agreement and have not been designated as hedging instruments.

Assessment of the business model

The business model reflects the way the Group manages its assets from a cash flow generation perspective. Therefore, it is important to understand whether the Group's objective is only to receive contractual cash flows from assets or whether it intends to receive the contractual cash flows and the cash flows from the sale of the assets. If none of these situations apply (e.g. financial assets are held for trading), then financial assets are classified as part of “another” business model and recognized at fair value through profit or loss. Factors considered by the Group in identifying the business model for a set of assets include past experience of how (i) cash flows are received, (ii) how asset performance is assessed and reported to management, (iii) how risks are assessed and managed and (iv) how directors are remunerated.

Securities held for trading are held, primarily, for the purpose of being sold in the short term, or as part of a portfolio of jointly managed financial instruments, for which there is clear evidence of a recent pattern of short-term gains. These securities are classified under “other” business models and recognized at fair value through profit or loss.

The assessment of the business model does not depend on the intentions for an individual instrument, but rather for a set of instruments, taking into account the frequency, value, the timing of sales in previous financial periods, the reasons for such sales and the expectations regarding future sales. Infrequent, or insignificant, or near-maturity sales and those motivated by the increased credit risk of the financial assets, or to manage concentration risk, among others, may be consistent with the model of holding assets to receive contractual cash flows.

If a financial asset contains a contractual clause that may modify the timing or value of the contractual cash flows (such as early amortization or extension of the term), the Group determines whether the cash flows that will be generated during the life of the instrument, due to the exercise of said contractual clause, are only payments of principal and interest on the principal outstanding.

If a financial asset includes a periodic interest rate adjustment, but the frequency of such adjustment does not match with the reference interest rate term (for example, the interest rate is adjusted every three months), the Group assesses, on initial recognition, such inconsistency in the interest component to determine whether the contractual cash flows represent only payments of principal and interest on the principal outstanding.

Contractual conditions that, on initial recognition, have a minimal effect on cash flows or depend on the occurrence of exceptional or highly unlikely events (such as settlement by the issuer) do not preclude their classification in the portfolios at amortized cost or at fair value through other comprehensive income.

SPPI assessment

When the business model involves holding assets for the purpose of (i) receiving contractual cash flows or (ii) receiving contractual cash flows and selling these assets, the Group assesses whether the cash flows of the financial instrument correspond solely to payments of principal and interest on the principal outstanding (the "solely payments of principal and interest" ("SPPI") test). In this assessment, the Group considers whether the contractual cash flows are consistent with a basic loan agreement, i.e. the interest includes only considerations regarding the time value of money, credit risk, other normal credit risks and a profit margin that is consistent with a basic loan agreement. When the contractual terms introduce risk exposure or cash flow variability that is inconsistent with a simple loan agreement, the financial instrument is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether cash flows correspond solely to payments of principal and interest on the principal outstanding ("SPPI" test).

c.1.2) *Equity instruments*

Equity instruments are instruments that meet the definition of capital from the issuer's perspective, that is, they are instruments that do not contain a contractual obligation to pay and that show a residual interest in the issuer's net assets. An example of equity instruments are the ordinary shares.

Investments in equity instruments are an exception to the general valuation criteria described above. As a general rule, the Group exercises the option, on initial recognition, to irrevocably designate in the category of financial assets at fair value through other comprehensive income the investments in equity instruments that are not classified as held for trading and which, in the case of not exercising said option, would be classified as financial assets at fair value through profit or loss. Impairment losses (and impairment reversals) are not recorded separately from other fair value changes.

c.2) Classification of financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be realized through the delivery of cash or another financial asset, regardless of its legal form. Financial liabilities are classified in the following categories:

(i) Financial liabilities at amortized cost

This category includes deposits from central banks and other credit institutions, deposits from customers and other loans;

(ii) Financial assets held for trading

This category includes derivative financial instruments with a negative fair value, as per note 1 d);

(iii) Financial liabilities at fair value through profit or loss (Fair Value Option)

This category includes financial instruments designated by the Bank, on initial recognition, in this category provided that at least one of the following requirements is met:

- the financial liabilities are internally managed, valued and analysed based on their fair value;
- derivative operations are contracted to hedge these assets or liabilities, in this manner ensuring consistency in the valuation of assets or liabilities and the derivatives (countering accounting mismatch);
- the financial liabilities contain embedded derivatives.

c.3) Recognition and initial valuation of financial instruments

On initial recognition all financial instruments are recorded at fair value. For financial instruments that are not recorded at fair value through profit or loss, the fair value is adjusted by adding or subtracting transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, directly attributable transaction costs are recognized immediately in profit or loss.

Transaction costs are defined as costs directly attributable to the acquisition or disposal of a financial asset, or the issue or assumption of a financial liability, which would not have been incurred if the Group had not made the transaction. These include, for example, commissions paid to intermediaries (such as promoters) and mortgage formalization expenses.

Financial assets are recognized in the balance sheet on the transaction date - the date on which the Group undertakes to purchase the assets, unless there is a contractual stipulation or applicable legal figure stating that the transfer of the rights occurs at a later date.

On initial recognition, when the fair value of financial assets and liabilities differs from the transaction price, the entity shall recognize this difference as follows:

- When the fair value is evidenced by the quotation in an active market of an equivalent asset or liability (i.e. level 1 inputs) or based on a valuation technique that uses only observable market data, the difference is recognized as a gain or loss, and
- In the remaining cases, the difference is deferred, and the moment of the initial recognition of the gain or loss is determined individually. This difference may then be (i) amortized over the life of the instrument, (ii) deferred until the fair value of the instrument can be determined using observable market data, or (iii) recognized through the liquidation of the asset or liability.

c.4) Subsequent valuation of financial instruments

Subsequent to initial recognition, the Group values its financial assets at (i) amortized cost, (ii) fair value through other comprehensive income or (iii) fair value through profit or loss.

Amounts receivable from commercial operations that do not have a significant financing component and commercial loans and short-term debt instruments that are initially valued at transaction price or outstanding principal, respectively, are valued at said amount net of impairment losses.

Immediately after initial recognition, an impairment is also recognized for expected credit losses (ECL), of financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income, resulting in the recognition of an impairment loss when the asset is originated.

Financial liabilities are initially recorded at fair value less transaction costs incurred and subsequently at amortized cost, based on the effective interest rate method, except for financial liabilities designated at fair value through profit or loss, which are recorded at fair value.

c.5) Interest recognition

Interest income and expense on assets and liabilities measured at amortized cost is recognized in interest and similar income or interest and similar expense (net interest income) using the effective interest rate method. Interest on financial assets at fair value through other comprehensive income is calculated at the effective interest rate and recognized in net interest income, as well as the interest on financial assets and liabilities at fair value through profit or loss.

The effective interest rate is the rate that discounts the estimated future payments or receipts over the expected life of the financial instrument (or, where appropriate, over a shorter period) to the net present book value of the financial asset or liability.

For the determination of the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepayment options), but not considering any impairment losses. The calculation includes commissions paid or received as an integral part of the effective interest rate, transaction costs and all premiums or discounts directly related to the transaction, except in respect of financial assets and liabilities at fair value through profit or loss.

Interest income recognized in profit or loss associated with contracts classified in Stage 1 or 2 is calculated by applying the effective interest rate of each contract to its gross book value.

The gross book value of a contract is its amortized cost before deducting the respective impairment. For financial assets included in Stage 3, interest is recognized in profit or loss based on their book value net of impairment. Interest is always recognized prospectively, i.e., for financial assets that enter Stage 3, interest is recognized on the amortized cost (net of impairment) in the subsequent periods.

For financial assets originated or acquired in credit impairment ("POCI"), the effective interest rate reflects the expected credit losses determined based on the expected future cash flows receivable from the financial asset.

For derivative financial instruments, except for those classified as interest rate risk hedging instruments, the interest component is not separated from the changes in their fair value, being classified as Net gains/(losses) arising from 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).

c.6) Reclassifications between financial instrument categories

Reclassifications of financial assets can only occur when the Group changes its financial asset management business model, which changes are expected to be very infrequent. In this case, all affected financial assets shall be reclassified. The reclassification shall be applied prospectively from the date of the reclassification and there shall be no restatement of any previously recognized gains, losses (including impairment gains or losses) or interest. IFRS 9 does not permit the reclassification of investments in equity instruments measured at fair value through other comprehensive income or when the fair value option has been exercised for financial assets or liabilities. Financial liabilities may not be reclassified between categories.

Modification of loans

Occasionally, the Group renegotiates or modifies contractual cash flows from loans to customers. In this situation, the Group assesses whether the new contract terms are substantially different from the original terms. The Group makes this analysis considering, among others, the following factors:

- if the debtor is in financial difficulty, whether the modification only reduces the contractual cash flows to an amount that the debtor is expected to be able to pay;
- a significant new term such as profit sharing or an equity-based return that substantially affects credit risk has been introduced;
- a significant extension of the contract maturity when the debtor is not in financial difficulty;
- a significant change in interest rate;
- a change from the currency in which the credit was contracted;
- the inclusion of a collateral, a guarantee or another credit enhancement instrument that significantly affects the credit risk associated with the loan.

If the terms of the contract differ significantly, the Group derecognizes the original financial asset and recognizes the new asset at fair value, calculating its new effective interest rate. The renegotiation date is considered the initial recognition date for the purpose of calculating impairment and is also considered for the purpose of assessing whether a significant increase in credit risk has occurred. However, the Group also assesses whether the newly recognized financial asset is impaired on initial recognition, especially when the renegotiation is related to the fact that the debtor did not make the originally agreed payments. Differences in book value are recognized in profit or loss as a de-recognition gain or loss.

If the terms of the contract are not significantly different, the renegotiation, or modification, does not result in de-recognition and the Group recalculates the gross book value based on the revised cash flows of the financial asset and recognizes a gain or loss from this modification in profit or loss. The new gross book value is recalculated by discounting the modified cash flows at the original effective interest rate (or adjusted effective interest rate for impaired financial assets, originated or acquired).

Following the modification, the Group may determine that credit risk has significantly improved, and assets have moved from Stage 3 to Stage 2 ("ECL lifetime") or from Stage 2 to Stage 1 ("ECL 12 months"). This situation can only occur when the performance of the modified asset is in accordance with the new contract terms for a period of twelve consecutive months. Additionally, the Group continues to monitor whether there has been a significant increase in the credit risk of these assets, applying specific models for modified assets.

c.7) De-recognition that does not result from a modification

Financial assets granted are derecognized when the associated cash flows are extinguished, collected or disposed of to third parties and (i) the Group substantially transfers all risks and rewards associated with holding the asset, or (ii) the Group neither transfers nor substantially holds all risks and rewards associated with holding the asset and does not control the asset. Gains and losses from the disposal of loans and advances to customers on a definitive basis are recorded in Other operating income/(expense). These gains or losses correspond to the difference between the sale value set and the book value of these assets, net of impairment losses.

The Group engages in transactions in which it has the contractual right to receive cash flows from assets but assumes a contractual obligation to pay 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.8) Write-off policy

The Group recognizes a loan write-off from assets when it has no reasonable expectation of fully or partially recovering that asset. This recognition occurs after all recovery actions performed by the Group turn out to be unsuccessful. Loans written off from assets are recorded in off-balance sheet accounts.

c.9) Impairment of financial assets

The Group determines impairment losses of debt instruments that are measured at amortized cost and fair value through other comprehensive income, as well as for other exposures that have an associated credit risk such as bank guarantees and commitments. The requirements of IFRS 9 have as their objective to recognize expected losses from operations, assessed on an individual or collective basis, considering all reasonable, reliable, and duly substantiated information that is available, including forward-looking information.

Impairment losses of debt instruments that are measured at amortized cost are recognized against an accumulated impairment caption in the balance sheet, which reduces the book value of the asset, while impairment of assets measured at fair value through other comprehensive income is recognized against other comprehensive income.

Impairment losses of loans and advances to customers are recognized in the income statement in the caption Impairment of customers and those of the remaining financial assets in the caption Impairment of other financial assets. Impairment losses of exposures that have an associated credit risk and that are not positions recorded in assets are recorded as a provision in the caption Provisions under liabilities, in the balance sheet. The changes and reversals are recorded in the caption Other provisions in the income statement.

For the purpose of accounting for impairment losses of debt instruments, the following definitions shall be considered:

a) Credit losses: correspond to the difference between all cash flows owed to the Group, according to the contractual conditions of the financial asset, and all cash flows that the Group expects to receive (i.e., the total cash-flow shortfall), discounted at the original effective interest rate or, for financial assets purchased or originated in impairment with credit losses, at the effective interest rate adjusted for credit quality, or at the interest rate on the financial statements' reporting date, when it is variable.

   For commitments assumed, the contractual cash flows owed to the Group that are expected to be received in the event of the use of the commitment are compared with the cash flows expected to be received on the recognition of the asset. In the case of bank guarantees, the payments that the Group expects to make less the cash flows it expects to receive from the originator are considered.

   The Group estimates cash flows considering the contractual term defined for the operations. For the purpose of determining the cash flows, those arising from the sale of collateral received are also included, taking into account the flows that would be obtained from their sale, less the costs necessary to obtain, maintain and subsequently sell them, or other guarantees that may be part of the contractual conditions, such as financial collateral.

b) Expected credit losses: correspond to the weighted average of credit losses, using as weighting factor the probability of the occurrence of default events. The following distinction shall be taken into account: (i) expected credit losses over the lifetime of the operation: these are the expected credit losses that result from possible default events over the expected life of the operation; (ii) expected credit losses over a 12-month period: these are part of the expected credit losses over the life of the instrument representing the expected credit losses that result from default events of a financial instrument that may occur within the period of 12 months from the reference date.

c.10.1) *Impairment model of loans and advances to customers*

IFRS 9 considers the expected losses throughout the lifetime of the financial instruments. Thus, macroeconomic factors are considered when determining ECL, which changes have an impact on expected losses.

The impairment model is applicable to the following instruments of the Group that are not measured at fair value through profit or loss:

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

No impairment is recognized on equity instruments since these are measured at fair value.

Instruments that are subject to impairment calculations are divided into three stages considering their credit risk level, as follows:

- Stage 1: no significant increase in credit risk since initial recognition. In this case, impairment losses reflect expected credit losses resulting from default events that may occur within twelve months after the reporting date;
- Stage 2: instruments for which there is a significant increase in credit risk since initial recognition, but for which there is still no objective evidence of impairment. In this case, impairment losses reflect expected credit losses resulting from default events that may occur over the expected residual life of the instrument;
- Stage 3: instruments for which there is objective evidence of impairment as a result of events that resulted in losses. In this case, impairment losses reflect expected credit losses over the expected residual life of the instrument.

The calculation of impairment losses is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since initial recognition; and
- Incorporation of forward-looking information in the ECL calculation.

Calculation of ECLs

ECLs correspond to unbiased weighted estimates of credit losses that are determined as follows:

- Financial assets without signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Group expects to receive;
- Financial assets with signs of impairment at the reporting date: difference between the gross book value and the present value of the estimated cash flows;
- Unused credit commitments: the present value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that the Group expects to receive;
- Financial guarantees: the present value of the expected reimbursement payments less the amounts that the Group expects to recover.

c.10.2) *Definition of default*

The Group aligned the definition used in the regulatory perspective with the accounting perspective, with financial assets classified in stage 3 corresponding to the internal definition of default.

c.10.3) *Significant increase in credit risk (SICR)*

In order to determine if a significant increase in credit risk has occurred since the financial instrument´s initial recognition (i.e. risk of default), the Group considers as relevant information all the information available and without costs and/or excessive effort, including both quantitative and qualitative information, as well as an analysis based on the Group´s history (expert judgment).

The identification of a significant increase in credit risk is performed by comparing:

- The exposure's risk rating at the reporting date, and
- The exposure's risk rating attributed at the initial moment of the exposure´s recognition.

The Group identifies the occurrence of a significant increase in credit risk through a comparison of the actual risk rating with the risk rating attributed at the contract's inception, with the change in the risk rating necessary to identify a significant increase in credit risk being lower the higher the original rating was.

When evaluating the significant increase in credit risk, the Group also considers the existence of arrears of more than 30 days, as well as other indicators of customer behaviour vis-à-vis the Group and/or the financial system.

c.10.4) *Credit risk levels*

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

The Group uses these risk levels as a primary factor for the identification of a significant increase in credit risk.

c.10.5) *Inputs for the measurement of ECL*

The main inputs used for measuring ECLs on a collective basis include the following parameters:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are obtained through internal statistic models, and other relevant historical data, based on the existing regulatory models adjusted to reflect the forward-looking information.

The PDs are estimated based on a certain historical period and are calculated using statistical models. These models are based on internal data, including qualitative and quantitative factors. If a change in the degree of risk of the counterparty or the exposure occurs, the estimate of the associated PD is also changed.

The risk levels are a very important input for the determination of the PDs associated with each exposure. The Group collects default and performance indicators regarding its credit risk exposures through analyses by type of customers and products.

LGD is the magnitude of the loss that is expected to occur if the exposure enters in default. The Group estimates LGD parameters based on historical recovery rates after the counterparties' entry into default. The LGD models consider associated collateral and time in default as well as recovery costs. In case of contracts collateralized by real estate, LTV (loan-to-value) ratios are an extremely important parameter in the determination of the LGD.

The EAD represents the expected loss if the exposure and/or customer enters default. The Group obtains the EAD values from the counterparty´s current exposure and from potential changes to its current value, permitted by the contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the EAD value includes both the amount of credit used as well as the expectation of the potential future value that may come to be used in accordance with the contract.

As described above, except for the financial assets that consider a 12-month PD because they do not present a significant increase in credit risk, the Group calculates the ECL considering the risk of default during the maximum maturity period of the contract or, in certain specific situations, based on the behavioural maturity.

c.11) <u>Securitized loans and advances not derecognized</u>

The Group does not derecognize from assets the credits sold in securitization operations when:

- it maintains control over the operations;
- it continues to receive a substantial portion of their remuneration; and
- it maintains a substantial portion of the risk of the transferred credits.

Credits sold and not derecognized are recorded in the caption Loans and advances to customers and are subject to accounting criteria identical to those of other loan operations.

The maintenance of the risk and/or benefit is represented by the higher-risk bonds issued by the securitization vehicle. The amount recorded in the assets and liabilities of Banco Montepio's separate financial statements represents the proportion of the risk/benefit held by Banco Montepio (continuing involvement). The bonds issued by the securitization vehicles and held by Banco Montepio are eliminated in the consolidation process.

d) Derivative financial instruments and hedge accounting

The Banco Montepio Group designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading derivatives.

Derivative financial instruments can be classified for accounting purposes as hedging instruments provided they meet, cumulatively, the following conditions:

(i) Hedging instruments and hedged items are eligible for the hedging relationship;

(ii) At the start date of the transaction, the hedging relationship is identified and formally documented, including the identification of the hedged item, the hedging instrument, the nature of the hedged risk and the assessment of the hedge's effectiveness;

(iii) There is an economic relationship between the hedged item and the hedging instrument;

(iv) The credit risk effect does not dominate the changes in value that result from this economic relationship;

(v) The effectiveness of the hedge can be reliably measured at the start date of the transaction and throughout the life of the operation.

<u>Fair value hedging</u>

In a fair value hedging operation of an asset or liability, the balance sheet value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in its fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognized in the income statement, together with changes in the fair value of the hedged assets or liabilities, attributable to the hedged risk. In cases where the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income, the changes in fair value are also recognized in other comprehensive income. If the hedge no longer meets the effectiveness requirement, but the risk management objective remains, the

Group may adjust the hedge to comply with the eligibility criteria. If the hedge fails to meet the criteria required for hedge accounting (in the event that the hedge instrument expires, is sold, terminated or exercised, without having been replaced according to the entity's documented risk management objective), the derivative financial instrument is transferred to the trading book and hedge accounting is discontinued prospectively. If the hedged asset or liability corresponds to a fixed-income instrument, the revaluation adjustment is amortized via the income statement until its maturity using the effective interest rate method.

Cash flow hedging

In a highly probable future cash flow hedging operation, the effective part of the changes in the fair value of the hedging derivative is recognized in reserves, being transferred to results in the financial years in which the respective hedged item affects results. The ineffective part of the hedge is recorded in the income statement. When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria required for hedge accounting, changes in the fair value of the derivative accumulated in reserves are recognized in the income statement when the hedged operation also affects results. If it is foreseeable that the hedged operation will not take place, the amounts still recorded in equity are immediately recognized in the income statement and the hedging instrument is transferred to the trading portfolio.

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 from the amount of the issue. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs. Income from equity instruments (dividends) are recognized when the right to receive such income is established and are deducted from equity.

f) Financial and performance guarantees

Financial guarantees

Financial guarantees are contracts that require the issuer to make payments to compensate the holder for losses incurred as a result of breaches of the contractual terms of debt instruments, namely the payment of capital and/or interest. Financial guarantees issued are initially recognized at their fair value. Subsequently, these guarantees are measured at the higher of (i) the initially recognized fair value and (ii) the amount of any obligation arising from the guarantee contract, measured at the balance sheet date.

Any change in the amount of the obligation associated with financial guarantees issued is recognized in profit or loss. Financial guarantees issued by the Group usually have a defined maturity and a periodic prepaid commission, which varies according to counterparty risk, amount and period of the contract. On that basis, the fair value of the guarantees on the date of their initial recognition is approximately equivalent to the amount of the initial commission received, considering that the agreed conditions are market. Thus, the amount recognized on the contract date equals the amount of the initial commission received, which is recognized in profit or loss over the financial year to which it relates. Subsequent commissions are recognized in profit or loss in the financial year to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of one of the parties if same does not fulfil a contractual obligation. Performance guarantees are initially recognized at fair value, which is usually evidenced by the amount of commissions received over the term of the contract. Upon breach of contract, the Group has the right to revert the guarantee, and the amounts are recognized in Loans and advances to customers after the compensation of the losses has been transferred to the guarantee beneficiary.

g) Securities' loan and repurchase agreement transactions

Securities' loans

Securities loaned under securities' loan agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. Cash collateral received in respect of securities loaned is recognized as a financial liability. Securities borrowed under securities' borrowing agreements are not recognized on-balance sheet. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either customers or credit institutions. Income and expenses arising from the securities' lending and borrowing business are recognized on an accrual basis over the period of the transactions and are included in interest and similar income or interest and similar expense (net interest income).

Repurchase agreements

The Group carries out acquisitions/sales of securities under reselling/repurchase agreements of substantially equivalent securities at a future date at a predetermined price.

The securities acquired subject to reselling agreements (reverse repos) at a future date are not recognized in the balance sheet. The amounts paid are recognized in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralized by the related securities.

Securities sold through repurchase agreements (repos) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. The proceeds from the sale of these securities are considered as deposits from customers or from other credit institutions.

The difference between the acquisition/sale and resale/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest and similar income or interest and similar expense (net interest income).

h) Assets received in recovery of credit, non-current assets held for sale and discontinued operations

Non-current assets and groups of non-current assets held for sale (groups of assets together with their respective liabilities, which include at least one non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets or groups of assets are available for immediate sale and their sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to their subsequent disposal, which are available for immediate sale and which sale is highly probable. Immediately before their classification as non-current assets held for sale, the measurement of all the non-current assets or of all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and their fair value less costs to sell, except for deferred tax assets, employee-benefit related assets, financial assets in the scope of IFRS 9 and non-current assets at fair value according to IAS 40, with the unrealized losses being, in this manner, recorded in the profit or loss for the financial year. When the book value corresponds to the fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds to level 3

Regarding the classification of financial shareholdings classified as held for sale:

I. in the case of subsidiaries, they continue to be consolidated up to the date of their disposal, with all their assets and liabilities being classified as Non-current assets held for sale and Non-current liabilities held for sale, measured at the lower of book value and fair value less costs to sell, with the recording of depreciation/amortization ceasing;

II. in the case of associated companies measured under the equity method, these are measured at the lower of book value and fair value less costs to sell, with the application of the equity method ceasing.

When, due to changes in circumstances of the Group, non-current assets held for sale and/or disposal groups no longer meet the conditions to be classified as held for sale, these are reclassified according to the underlying nature of the assets and measured at the lower of: i) the book value before they were classified as held for sale, adjusted for any depreciation/amortization costs, or revaluation amounts that would have been recognized had these assets not been classified as held for sale; and (ii) the recoverable amounts of the items on the date they are reclassified according to their underlying nature. These adjustments shall be recognized in the income statement.

In the case of financial shareholdings in associated companies measured under the equity method, the cessation of their classification as held for sale implies the retrospective replacement of the equity method.

Although the Group intends to immediately sell all properties and other assets received in recovery of credit, during financial year 2019 the Group changed the classification of these assets from non-current assets held for sale to the caption Other assets, due to their length of stay in the portfolio exceeding 12 months. However, the accounting method has not changed from that laid down above, with these being recorded at initial recognition at the lower of their fair value less costs to sell and the book value of the loan being recovered.

i) Leases (IFRS 16)

Definition of lease

The definition of lease entails a focus on the control of the identified asset, i.e. an agreement constitutes or contains a lease if it conveys the right to control the use of an identified asset, i.e. substantially obtaining all the economic benefits of using same and the right to direct the use of this identified asset for a certain period of time in exchange for consideration.

Impact from the lessee's perspective

The Group recognizes for all leases, except for leases with a period of less than 12 months or for leases relating to assets of a reduced unitary value:

- a right-of-use asset, initially measured at cost, taking into account the Net Present Value (NPV) of the lease liability, plus payments made (fixed and/or variable) minus lease incentives received, penalties for termination (if reasonably certain), as well as any estimated costs to be borne by the lessee with the dismantling and removal of the underlying asset and/or with the restoration of the location where it is located. It is subsequently measured according to the cost model (subject to amortization according to the lease term of each agreement and to impairment tests);
- a lease liability, initially recorded at the present value of the future lease cash flows (NPV), which includes:
  - fixed payments, less lease incentives receivable;
  - variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date of the agreement;
  - the amounts to be paid by the lessee as residual value guarantees;
  - the exercise price of a call option if the lessee is reasonably certain to exercise that option;
  - payments of lease termination penalties, if the lease term reflects the exercise of a lease termination option by the lessee.

When it is not possible to easily determine the interest rate implicit in the lease (paragraph 26 of IFRS 16), lease payments are discounted at the lessee's incremental financing interest rate, which incorporates the risk-free interest rate curve (swap curve), increased by a Group risk spread, applied to the weighted average term of each lease agreement. For agreements with a termination date, such date is considered the lease termination date, and for other agreements without a termination date the period during which it will be enforceable is assessed. In the assessment of enforceability, the specific clauses of the agreements are considered as is the current legislation for Urban Leases.

It is subsequently measured as follows:

- by increasing its book value to reflect interest on same;
- by decreasing its book value to reflect lease payments;
- the book value is re-measured to reflect any revaluations or changes in the lease, as well as to incorporate the revision of lease payments that are, in substance, fixed and the revision of the lease term.

The Group re-measures a lease liability and calculates the related adjustment to the right-of-use asset whenever:

- there is a change in the lease term, or in the valuation of a call option on the underlying asset. In this situation, the lease liability is re-measured, discounting the revised lease payments and also using a revised discount rate;
- there is a change in the amounts payable under a residual value guarantee, or in the future lease payments resulting from a change in an index or rate used to determine such payments. In this situation, the lease liability is re-measured, discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments results from a change in variable interest rates, in which case a revised discount rate should be used);
- a lease agreement is modified but such modification in the lease is not accounted for as a separate lease. In this situation, the lease liability is re-measured, discounting the revised lease payments using a revised discount rate.

The Group did not make any adjustments for the financial years presented.

Right-of-use assets are amortized from the date of the agreement's entry into force to the end of the useful life of the underlying asset, or until the end of the lease term, if earlier. If the lease transfers ownership of the underlying asset, or if the cost of the right-of-use asset reflects the fact that the Group will exercise a call option, the right-of-use asset shall be amortized from the date of the agreement's entry into force to the end of the useful life of the underlying asset. Amortization begins on the date of the lease agreement's entry into force.

The recording of the lease agreements in the consolidated income statement is made in the following captions:

(i) recording in Net interest income of the interest expense related to lease liabilities;

(ii) recording in Other general and administrative expenses of the amounts related to short-term lease agreements and low-value asset lease agreements; and

(iii) recording in Depreciation and amortization of the amortization cost for the financial year of the right-of-use assets.

The recording of the lease agreements in the consolidated balance sheet is made in the following captions:

(i) recording in Other tangible assets of the right-of-use assets recognized; and

(ii) recording in Other liabilities of the amount of the lease liabilities recognized.

As regards the classification of the cash flows originated by the lease agreements, these are recorded in the statement of cash flows:

(i) in the caption Cash flows from operating activities – Costs with staff and suppliers, which includes the amounts related to short-term and to low-value lease agreements;

(ii) the caption Cash flows from investing activities - Finance lease agreements, which includes the amounts related to payments of the capital portion of the lease liabilities.

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operating.

j) Net gains/(losses) arising from financial operations (Net gains/(losses) arising from financial assets at fair value through other comprehensive income and Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss)

Net gains/(losses) arising from financial operations include gains and losses arising from financial assets and financial liabilities at fair value through profit or loss, that is, fair value changes and interest on trading derivatives and embedded derivatives, as well as dividends received associated with these portfolios. This caption also includes gains and losses arising from the sale of debt instruments, of financial assets at fair value through other comprehensive income and of other financial assets at amortized cost. The changes in fair value of hedging derivatives and hedged items, when applicable to fair value hedging, are also recognized in this caption.

k) Fee and commission income

Fee and commission income are recognized as revenue from contracts with customers to the extent the performance obligations are met:

1. When obtained and to the extent the services are provided, they are recognized in income in the financial year to which they relate (for example: account maintenance fees);
2. When they result from the execution of a significant act they are recognized as income when the respective service is complete and are recorded in the income statement on being charged (for example: foreign currency exchange, consultancy or loan assemblage/syndication);
3. When they are an integral part of the effective interest rate of a financial instrument, they are recognized in net interest income. Their characteristics are:

    (i) Commissions received on credit operations realized that are not valued at fair value through profit or loss (for example: valuation of guarantees, preparation and processing of documentation). These commissions are received in advance and are deferred and recognized over the life of the operation;

    (ii) Commissions agreed for the commitment to provide financing and the granting of credit is likely. These are commissions are received in advance and are deferred over the expected life of the financing. If the commitment expires without the operation having materialized, the commission is recognized in profit or loss;

    (iii) Commissions paid on the issuance of financial liabilities at amortized cost. These are included in the financial liabilities' amount, being recognized in profit or loss at the effective cost of the operation.

l) 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.

m) 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
Betterments in leasehold buildings	10
Other fixed assets	4 to 10

Betterments 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.

n) Investment properties

Real estate owned by the investment funds consolidated in the Group, are recognized as investment properties given that the main objective subjacent to these is capital appreciation on a long-term basis and not their sale in the short term nor their own use. These investments are initially recognized at their acquisition cost, including the transaction costs, and subsequently revaluated at their fair value. The fair value of the investment property should reflect the market conditions at the balance sheet date. Changes in fair value are recognized in results in the financial year in which they occur, in the caption Other operating income/(expense). The fair value level according to the IFRS 13 hierarchy corresponds to level 3.

Fair value is determined by independent appraisers duly certified for the effect, and being registered with the CMVM (Portuguese Securities' Market Commission), using at least two of the following methods:

- Comparative market method - This method considers similar real estate transaction values comparable to the property under study obtained through market surveys carried out in the area where the property is located.
- Income method - This method aims to estimate the value of the property from the capitalization of its net income, discounted to the present moment, using the discounted cash-flow method, and should be used when the property is intended for lease, when the lease market is active for the type of property being valued or when the property is intended for economic exploration.
- Cost method - The cost method is the determination of the replacement value of the property under consideration taking into account the cost of building another one with the same functionality, net of the amount related to the functional, physical and economic depreciation/obsolescence verified.

For properties held by investment funds within the consolidation perimeter, and in accordance with Law no. 16/2015, of 24 February, their fair value is considered as the simple arithmetic average of two independent expert valuations, determined according to the best price that could be obtained if it were put up for sale, under normal market conditions, at the time of the valuations, which is reviewed at least once a year or, in the case of open-ended collective investment entities, based on the redemption periodicity if lower than that, and whenever there are acquisitions or disposals or significant changes in the value of the property.

o) 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.

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 at other credit institutions. Cash and cash equivalents exclude deposits at Central Banks.

q) 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.

r) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate as at the reporting date. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated into the respective functional currency at the foreign exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency at the foreign exchange rate on the date that the fair value was determined and recognized against profit or loss, except for financial assets at fair value through other comprehensive income, for which the difference is recognized against equity.

s) Post-employment and long-term benefits

Defined benefit plans

Banco Montepio, Montepio Crédito and Montepio Valor have the responsibility to pay their employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of the Collective Labour Agreement (ACT) they signed. In 2016, amendments were made to this agreement, namely the change in the retirement age, in line with the General Social Security System and the attribution of an end-of-career award corresponding to 1.5 times the monthly remuneration received at the retirement date.

Arising from the signing of the Collective Labour Agreement (ACT) and subsequent amendments, the Group set up a Pension Fund to cover the liabilities assumed with pensions on retirement, disability and survival, healthcare benefits and death subsidy.

On and as from 1 January 2011, bank employees were integrated in the General Social Security System, which ensures their protection in maternity, paternity, adoption, and old age. Protection associated with sickness, disability, survival, and death remains under the banks' responsibility (Decree-Law no. 1-A/2011, of 3 January).

The contribution rate is 25.4%, 22.4% paid by the Group and 3.0% by the employees, replacing the Caixa de Abono de Família dos Empregados Bancários ("CAFEB") extinguished by the same Decree-Law. As a result, the pension rights of active employees came to be covered by the terms defined in the General Social Security System, considering the period of service rendered since 1 January 2011 and up to their retirement age. The differential vis-à-vis the minimum pension guaranteed, in accordance with the terms defined in the Collective Labour Agreement ("Acordo Colectivo de Trabalho") is supported by the banks.

Following the Government's approval of Decree-Law no. 127/2011, of 31 December, a three-party agreement between the Government, the Portuguese Bank Association and the Union of Bank Employees was established, regarding the transfer to the Social Security's domain of the liabilities with pensions under payment to retired employees and pensioners as at 31 December 2011.

This Decree-Law established that the liabilities to be transferred were the liabilities with pensions under payment, as at 31 December 2011, to retired employees and pensioners, at constant amounts (update rate of 0%) for the component foreseen in the Collective Labour Regulation Instrument ("IRCT"). The liabilities in respect of the updating of pensions, complementary benefits, contributions to the Social-Medical Assistance Services ("SAMS") on the retirement and survival pensions, death subsidy and the deferred survival pension are still under the responsibility of the Institutions.

In December 2016, the Group signed a new ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the General Social Security System, and the attribution of an end-of-career award which replaced the extinguished seniority bonus, as disclosed in note 50.

The actuarial calculation is made using the projected unit credit method and considering actuarial and financial assumptions, in accordance with the parameters required by IAS 19.

The liabilities are covered by the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The Group´s net liability regarding the defined benefit pension plan and other benefits is calculated separately for each plan by estimating the amount of future benefits that each employee will receive in return for his/her service in the current and prior financial years. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates associated with high-quality bonds and with a similar maturity to the date of termination of the plan’s liabilities. The net liability is determined after deducting the fair value of the assets of the Pensions Fund.

The interest income/(expense) with the pension plan is calculated by multiplying the net asset/(liability) with retirement pensions (liabilities less the fair value of the Fund's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned above. On this basis, the net interest income/(expense) includes the interest expense associated with retirement pension liabilities and the return expected from the Fund's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) gains and losses resulting from differences between the actuarial assumptions used and the amounts actually observed (experience gains and losses) and from changes in the actuarial assumptions and (ii) gains and losses arising from the difference between the return expected from the Fund's assets and the amounts obtained, are recognized against equity under other comprehensive income.

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 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 2020 and 31 December 2019, the Group has a defined contribution plan for employees who were admitted after 3 March 2009. This plan, designated as contributory, receives monthly and equal contributions, based on the effective remuneration: 1.5% to be made by the company and 1.5% to be made by the employee.

Variable remuneration of employees and members of the Board of Directors (bonus)

In accordance with IAS 19 - Employee benefits, the variable remuneration (profit-sharing, bonuses and other) attributed to employees and to the members of the Board of Directors is recognized in profit or loss in the year to which it relates.

Employment termination benefits

The occurrence that gives rise to this obligation is the termination of the employment relationship between the Bank and the employee as a consequence of a Bank decision, the creation of a valid expectation for the employee or the decision of an employee to accept benefits for an irrevocable offer from the Bank in return for terminating the employment contract.

Employment termination benefits are recognized as a liability and a non-recurring cost from the moment when the Bank cannot withdraw the offer made to the employee or from the moment when the costs are recognized for a restructuring that includes the payment of benefits for termination of the employment contract. These benefits are recorded as a liability in the caption Charges payable - Staff costs in the balance sheet up to the time of their settlement or until their transfer to the Pension liabilities.

End-of-career award

As a result of the signing of the new ACT on 5 July 2016, the seniority bonus was extinguished and the Group paid its employees the proportional bonus that would be due up to the date of the entry into force of the new ACT. In lieu of 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 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.

t) Income taxes

Until 31 December 2011, the Group was an entity exempt from Corporate Income Tax (“IRC”), in accordance with paragraph a) of no. 1 of article 10 of the IRC Code. This exemption had been recognized under an Order of 3 December 1993 of the Secretary of State for Tax Affairs and confirmed by Law no. 10-B/96, of 23 March, approving the State Budget for 1996.

With effect from 1 January 2012, the Group is now subject to the regime established by the Corporate Income Tax Code (“CIRC”). Additionally, deferred taxes resulting from timing differences between the accounting net income and the net income accepted by the Tax Authorities for IRC assessment purposes are accounted for whenever there is a reasonable probability that those taxes will be paid or recovered in the future. Income tax recognized in the income statement includes the current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case the corresponding income tax is recognized in equity. Deferred taxes recognized in equity arise from the revaluation of financial assets at fair value through other comprehensive income and from cash-flow hedging derivatives. Only deferred taxes related to fair value hedging derivatives are subsequently recognized in profit or loss at the same moment the gains and losses that originated the deferred taxes are recognized.

Current tax corresponds to the tax assessed on the taxable income for the financial period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxes assessed in respect of previous financial periods. Deferred taxes are calculated for timing differences between the book values of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes, using the tax rates approved or substantially approved at the balance sheet date and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for intangible assets with an indefinite life, which are not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither the accounting nor the taxable income and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the future, and to the extent that the Group does not exercise control over the period of the reversal of the differences. Deferred tax assets are recognized when it is probable that future taxable income will be available to absorb the deductible timing differences for taxation purposes (including reportable taxable losses).

As established in IAS 12, paragraph 74, the Group offsets the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In the year 2018, Banco Montepio became the dominant company of the Group subject to Corporate Income Tax under the Special Taxation Regime of Groups of Companies ("Regime Especial de Tributação dos Grupos de Sociedades" ("RETGS")), constituted by the companies in which it holds a shareholding equal to or higher than 75% and which meet the conditions provided for in article 69 et sec of the IRC Code.

The companies included in the RETGS calculate and record income tax as if they were taxed on a separate basis. The liabilities determined are, however, payable to the parent company of the tax group, the Group, which is responsible for the global calculation and self-assessment of the tax. Gains or losses arising from the application of this regime are recorded in each of the companies that originate them.

u) Segmental reporting

The Group adopted IFRS 8 – Operating Segments for the purpose of disclosing financial information by operating segments. An operating segment is a component of the Group: (i) that engages in business activities from which it may earn revenues or incur costs; (ii) which operating results are regularly reviewed by the main responsible for Group operating decisions regarding the allocation of resources to the segment and the assessment of it performance; and (iii) for which distinct financial information is available.

The Group controls its business activity through the following main segments: (i) Operating: Commercial Banking, Investment Banking, International Activity, Markets and Other Segments, and (ii) Geographic: Domestic Area and International Area (Angola and Cape Verde).

v) 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 the expected cost, the most likely result for the ongoing processes considering the risks and uncertainties inherent to the process and taking into account the best information available as to the consequences of the event that led to its constitution. In cases where the discount effect is material, provisions correspond to the present value of the expected future payments, discounted at a rate that considers the risk associated with the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reversed through profit or loss in the proportion of the payments that cease to be probable. This caption also includes the impairment losses related to exposures that have an associated credit risk such as bank guarantees, and commitments assumed.

Contingent assets

A contingent asset is a possible asset that arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events that are not entirely under the control of the entity.

Contingent liabilities

A contingent liability is an obligation that is:

- Possible, which arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events, which are not entirely under the control of the entity; or
- Present, which arises from past events, but is not recognized because:
    - It is unlikely that an outflow of resources incorporating economic benefits will be required to settle that obligation;
    - The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, being, in accordance with IAS 37, disclosed whenever the possibility of an outflow of resources encompassing economic benefits is not remote.

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 and deposits at other credit institutions;

- Operating Activities: the indirect method is used for the presentation of cash flows from operating activities, reflecting the flows of the typical activities of credit institutions, as well as other activities that do not qualify as investment or financing;

- Investment activities: the acquisition, sale or other disposals of long-term assets, such as financial shareholdings in subsidiaries and associated companies, the acquisition of tangible and intangible assets and other strategic investments not included in operating activities;

- Financing activities: activities that produce changes in the Group's medium- and long-term financing operations that are not part of the operating activities, such as securitized and subordinated debt, capital increases and dividend distributions.

x) Insurance and reinsurance brokerage services

The Group is duly authorized by the Insurance and Pension Funds Supervisory Authority ("Autoridade de Supervisão de Seguros e Fundos de Pensões" - "ASF") to provide insurance brokerage services, under the category of Tied Insurance Broker, in accordance with article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, operating in the life and non-life insurance brokerage areas.

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

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

1. commissions that include a fixed and a variable component. The fixed component is calculated by applying a predetermined rate to the amount of the subscriptions made by the Group and the variable component is calculated based on predetermined criteria, with the total annual commission being the sum of the commissions calculated monthly;

2. commissions in the form of profit-sharing in the results of the insurance contracts, which are calculated annually and paid by the Insurance Companies in the beginning of the year following that to which they relate.

Commissions received for insurance brokerage services are recognized on an accrual basis. Fees paid in a different period from that to which they relate are recorded as a receivable in the caption Other assets with a corresponding entry in the caption Fee and commission income - For insurance brokerage services.

y) Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the Group by the weighted average number of ordinary shares outstanding. For the calculation of diluted earnings per share, when applicable, the weighted average number of ordinary shares outstanding is adjusted to reflect the effect of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The effect of the dilution translates into a reduction in earnings per share resulting from the assumption that convertible instruments are converted or that the options granted are exercised.

z) Subsequent events

The Bank analyses events occurring after the balance sheet date, that is, favourable and/or unfavourable events that occur between the balance sheet date and the date on which the financial statements were authorized for issue. Within this scope, two types of events can be identified:

i) those that provide proof of conditions that existed at the balance sheet date (events after the balance sheet date that give rise to adjustments); and
ii) those that are indicative of conditions that arose after the balance sheet date (events after the balance sheet date that do not give rise to adjustments).

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

aa) Significant judgements and estimates in the application of the accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgment and make the necessary estimates in deciding which treatment is most appropriate. The most significant of these accounting estimates and judgments used in the application of the accounting policies by the Group are discussed in the following paragraphs in order to improve understanding of how their application affects the Group’s reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, the Group´s reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present the Group’s financial position and results fairly in all material aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment losses of financial assets at amortized cost and debt instruments at fair value through other comprehensive income

The determination of impairment losses of financial instruments involves judgments and estimates regarding the following aspects, among others:

a) *Significant increase in credit risk:*

Impairment losses correspond to the expected losses in the event of default within a 12-month time horizon, for stage 1 assets, and the expected losses considering the likelihood of a default event occurring at some point up to the maturity date of the financial instrument, for stage 2 and 3 assets. An asset is classified as stage 2 whenever there is a significant increase in its credit risk since its initial recognition. In assessing the existence of a significant increase in credit risk, the Group considers reasonable and sustainable qualitative and quantitative information.

b) *Definition of asset groups with common credit risk characteristics:*

When the expected credit losses are measured on a collective basis, financial instruments are grouped based on common risk characteristics. The Group monitors the appropriateness of credit risk characteristics on a regular basis to assess whether they maintain their similarity. This is necessary to ensure that in the event of a change in credit risk characteristics, the asset segmentation is revised. This revision may result in the creation of new portfolios or the transfer of assets to existing portfolios that better reflect their credit risk characteristics.

c) *Definition of the number and relative weighting of prospective information for each type of product/market and determination of relevant prospective information:*

In estimating the expected credit losses, the Group uses reasonable and sustainable forward-looking information that is based on assumptions about the future evolution of different economic drivers and how each driver impacts the others.

d) *Probability of default:*

The probability of default represents a determining factor in measuring expected credit losses. The probability of default corresponds to an estimate of the probability of default in a given time period, which is calculated based on historical data, assumptions and expectations about future conditions.

e) *Loss given default:*

This corresponds to an estimate of the loss in a default scenario, being determined by the difference between the contractual and the expected cash flows that the Group expects to receive, through cash flows generated by the Customer's business or from the credit collateral. The calculation of the estimated loss given default is based, among other things, on the different recovery scenarios, historical information, the costs involved in the recovery process and the estimated valuation of the collateral associated with credit operations.

COVID-19 Pandemic

In the context of the pandemic crisis caused by COVID-19, and in accordance with the stipulations in IFRS 9, the Banco Montepio Group proceeded, for the purposes of measuring credit impairment losses, to update the prospective information related to the macroeconomic data available at the end of the 1st half of 2020 in the risk parameters, determining impacts at the level of PD and LGD (see note 14).

Alternative methodologies and the use of different assumptions and estimates could result in a different level of the impairment losses recognized and presented in notes 21, 22, 25 and 27, with a consequent impact in the income statement of the Group.

Fair value of derivative financial instruments and other financial assets measured at fair value

Fair values are based on listed market prices, if available, being, in their absence, determined based either by recent transaction prices, similar and realized under market conditions or based on discounting techniques applied to future cash flows which take into account market conditions, time value, yield curve and volatility factors. These methodologies may require assumptions or judgments in the estimation of fair value.

Consequently, the use of different methodologies or of different assumptions or judgments in applying a particular model could result in financial results different from those reported in notes 23, 24, 25 and 26.

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 59.

Income taxes

The Group is subject to the payment of corporate income taxes in several jurisdictions. Significant interpretations and estimates are required in determining the global amount of corporate income taxes. There are various transactions and calculations for which the assessment of the ultimate tax payable is uncertain during the ordinary course of business.

The Group complies with the guidelines of IFRIC 23 - Uncertainties related to the treatment of income tax related to the determination of taxable income, tax bases, tax losses to be carried forward, tax credits to be used and tax rates in scenarios of uncertainty regarding income tax treatment, with no material impact on its financial statements having resulted from the application of same.

Different interpretations and estimates could result in a different level of corporate income taxes, current and deferred, to those recognized in the period and presented in note 33.

This aspect has an increased relevance in the deferred tax recoverability analysis, in which the Group considers projections of future taxable income based on a set of assumptions, including estimated pre-tax income, adjustments to the tax base, the evolution of tax legislation and its interpretation. Accordingly, the recoverability of deferred tax assets depends on the implementation of the strategy of the Bank's Board of Directors, namely the ability to generate the estimated taxable income, the evolution of tax legislation and its respective interpretation.

Proposed Law no. 178/XIII, which established the tax regime of credit impairment and provisions for guarantees for tax periods beginning on or after 1 January 2019, 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 year 2023, the rules in force until 2018 will continue to apply, unless the option to apply the new regime is exercised in advance.

The estimated taxable income for the financial year considered the maintenance of the tax rules in force until 2018, with the option of the early adoption of the new regime not being exercised.

In the future taxable income projections, namely for the purpose of the deferred tax asset recoverability analysis carried out as at 30 June 2020, the tax rules resulting from Law no. 98/2019, of 4 September, were considered, with tax rules identical to those in force in financial years 2015 through 2019 having been considered insofar as Banco Montepio did not adhere to the definitive regime on impairment, as a result of which the limits set forth in Bank of Portugal Notice no. 3/95 and other specific rules must be considered for the purpose of determining the maximum amounts of impairment losses accepted for tax purposes.

In 2018, the Group adopted IFRS 9 - Financial Instruments, and since in this respect there is no transitional regime that establishes the tax treatment of transition adjustments to IFRS 9, the treatment given resulted from the Group's interpretation of the application of the general rules of the IRC Code.

The Portuguese Tax and Customs Authority is entitled to review the annual taxable income assessment made by the subsidiaries resident in Portugal, for a period of four years, save where any deduction or tax credit has been made, in which case the period is that of the exercise of that right. In the case of the subsidiary with registered office in Angola, the above-mentioned period is 3 years. Hence, corrections to the assessments may occur, mainly because of differences in interpretation of tax law. The Board of Directors considers it improbable that these will have a materially relevant effect on the financial statements.

Pensions and other post-employment and long-term benefits

The determination of the pension payment liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as the discount rate, pension and salary growth rates and mortality tables, estimated return on investments and others factors that may have an impact on the pension plan costs and liabilities.

Changes to these assumptions could have a significant impact on the amounts determined and presented in note 50.

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

The classification of the real estate received in recovery of credit and non-current assets held for sale is determined in accordance with IFRS 5 and of the investment properties in accordance with IAS 40.

Assets received in recovery of credit and non-current assets held for sale are measured at the lower amount between their fair value net of selling costs and the book value of the loan on the date the asset is received in recovery. Investment properties are measured at fair value which is determined based on periodic assessments made by external experts registered with the CMVM. Different methodologies and assumptions could have an impact on the classification and on the determination of the assets' fair value, which are presented in notes 29, 30 and 34.

Provisions

The measurement of provisions considers the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely outcome of ongoing litigation and considering the risks and uncertainties inherent in the processes. Different assumptions and judgments could have an impact on the calculation of the amount of the provisions, which are presented in note 39.

2 Net interest income and net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income

The existing IFRS require a separate disclosure of net interest income, net gains/(loss) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income, as presented in notes 3, 6 and 7. A particular business activity can generate impacts either in the net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income or in the net interest income captions. Therefore, the disclosure now presented highlights the contribution of the different business activities to the net interest income and to the net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income. The combined analysis of this caption is presented as follows:

(Euro Thousand)

	Jun 2020	**Jun 2019**
Net interest income	114 679	120 051
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(11 931)	2 260
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	18 836	(2 902)
	121 584	119 409

3 Net interest income

The amount of this caption has the following breakdown:

	(Euro thousand)	
	Jun 2020	**Jun 2019**
Interest and similar income		
Loans and advances to customers	128 914	143 374
Other financial assets at amortized cost	2 882	5 670
Deposits and other loans and advances	3 951	4 168
Financial assets held for trading	5 737	6 407
Financial assets at fair value through other comprehensive income	1 327	1 388
Hedging derivatives	3 263	3 254
Financial assets at fair value through profit or loss	68	173
Other interest and similar income	7	56
	146 149	164 490
Interest and similar expense		
Deposits from customers	11 026	19 636
Deposits from central banks and other credit institutions	1 115	6 839
Other subordinated debt	7 494	4 508
Securities Issued	4 347	5 404
Financial liabilities held for trading	5 317	5 606
Hedging derivatives	1 801	1 895
Lease liabilities	368	548
Other interest and similar expense	2	3
	31 470	44 439
Net interest income	114 679	120 051

The caption Interest and similar income – Loans and advances to customers, as at 30 June 2020, includes, respectively, the amount of Euro 8,382 thousand and the amount of Euro 4,243 thousand (30 June 2019: Euro 9,844 thousand and Euro 4,268 thousand), related to commissions and to other gains/(losses), which are accounted for under the effective interest rate method, as referred to in the accounting policy described in note 1 c).

The caption Interest and similar income – Financial assets at fair value through profit or loss, as at 30 June 2020, includes the amount of Euro 68 thousand (30 June 2019: 173 thousand) related to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

The caption Interest and similar income – Loan and advances to customers, as at 30 June 2020, also includes the amount of Euro 9,075 thousand (30 June 2019: Euro 8,824 thousand) related to customers classified under stage 3.

The caption Interest and similar expense – Lease liabilities refers to the interest cost related to the lease liabilities recognized in the scope of IFRS 16, as indicated in accounting policy 1 i).

4 Dividends from equity instruments

As at 30 June 2020, this caption records the amount of Euro 1,719 thousand (30 June 2019: Euro 6,210 thousand) which includes Euro 950 thousand (30 June 2019: Euro 2,375 thousand) related to dividends received from the company Almina and Euro 550 thousand (30 June 2019: Euro 2,672 thousand) related to dividends received from the company Monteiro Aranha, S.A..

5 Net fee and commission income

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2020	**Jun 2019**
Fee and commission income		
From banking services	47 695	50 884
From transactions on behalf of third parties	10 872	12 109
From insurance brokerage services	4 919	4 277
Guarantees provided	2 146	2 502
Commitments to third parties	405	855
Operations with financial instruments	171	157
Other fee and commission income	922	1 473
	67 130	72 257
Fee and commission expense		
From banking services rendered by third parties	9 133	10 309
From transactions with securities	140	215
Other fee and commission expense	1 730	4 044
	11 003	14 568
Net fee and commission income	56 127	57 689

As at 30 June 2020 and 2019, the caption Insurance brokerage services has the following breakdown:

		(Euro thousand)
	Jun 2020	**Jun 2019**
Life insurance	2 319	2 385
Non-life insurance	2 600	1 892
	4 919	4 277

The remuneration of insurance brokerage services resulted, essentially, from insurance intermediation for Lusitania, Companhia de Seguros, S.A. and for Lusitania Vida, Companhia de Seguros, S.A.

6 Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020			Jun 2019		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	2 574	2 331	243	2 087	732	1 355
Issued by other entities	161	8	153	81	-	81
Shares	546	1 091	(545)	659	640	19
Investment units	471	704	(233)	389	9	380
	3 752	4 134	(382)	3 216	1 381	1 835
Derivative financial instruments						
Interest rate contracts	36 121	34 754	1 367	35 042	36 413	(1 371)
Exchange rate contracts	17 525	18 084	(559)	11 378	11 502	(124)
Futures contracts	2 713	3 159	(446)	1 088	1 942	(854)
Option contracts	1 225	1 715	(490)	1 470	1 406	64
Commodities contracts	-	12 940	(12 940)	423	479	(56)
	57 584	70 652	(13 068)	49 401	51 742	(2 341)
Financial assets at fair value through profit or loss						
Investment units	1 638	520	1 118	9 663	4 212	5 451
Loans and advances to customers	87	10	77	364	1 689	(1 325)
	1 725	530	1 195	10 027	5 901	4 126
Other financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed-income securities						
Issued by other entities	-	36	(36)	-	-	-
Shares	17	-	17	-	1 742	(1 742)
Loans and advances to customers	28	14	14	143	5	138
	45	50	(5)	143	1 747	(1 604)
Financial liabilities at fair value through profit or loss						
Deposits from customers	-	-	-	11	-	11
Debt securities issued	149	49	100	901	812	89
	149	49	100	912	812	100
Hedging derivatives						
Interest rate contracts	17 229	16 214	1 015	23 001	14 197	8 804
	17 229	16 214	1 015	23 001	14 197	8 804
Hedged financial liabilities						
Debt securities issued	3 248	4 034	(786)	1 462	10 122	(8 660)
	3 248	4 034	(786)	1 462	10 122	(8 660)
	83 732	95 663	(11 931)	88 162	85 902	2 260

The Group recognizes in profit or loss the day one profit, generated primarily by the intermediation of derivative and foreign exchange financial products, since the fair value of these instruments, both on the date of initial recognition or subsequently, is determined based solely on observable market variables and reflects Banco Montepio's access to the wholesale financial market.

In the 1st half of 2020, the caption Assets and liabilities held for trading shows the impact of the valuation of the derivative instruments portfolio, including, namely, the loss of value in a derivative resulting from a credit disposal operation, including the respective mortgage guarantees, as a result of the non-realization of that portfolio's performance compared to what was initially expected.

7 Net gains/(losses) arising from financial assets at fair value through other comprehensive income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020			Jun 2019		
	Gains	Losses	Total	Gains	Losses	Total
Fixed-income securities						
Bonds						
Issued by public entities	24 339	9 928	14 411	144	3 223	(3 079)
Issued by other entities	4 698	273	4 425	177	-	177
	29 037	10 201	18 836	321	3 223	(2 902)

As at 30 June 2020, the caption Bonds – Issued by public entities includes net capital gains obtained on the sale of Portuguese sovereign bonds in the amount of Euro 11,536 thousand, of Greek sovereign bonds in the amount of Euro 2,294 thousand and of Croatian, Italian, Chilean and Spanish sovereign bonds in the amount of Euro 581 thousand. On 30 June 2019, this caption included the amount of Euro 144 thousand related to capital gains generated on the sale of Spanish sovereign bonds, as well as capital losses of Euro 3,223 thousand on the sale of Italian and Greek sovereign debt.

8 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020			Jun 2019		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	36 490	36 222	268	14 365	14 095	270

This caption includes the results arising from the restatement of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 r).

9 Net gains/ (losses) from sale of other financial assets

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2020	**Jun 2019**
Disposal of financial assets at amortized cost	-	10 024
Disposal of other assets	9 316	6 986
Disposal of loans and advances to customers	(170)	(296)
	9 146	16 714

As at 30 June 2019, the caption Disposal of financial assets at amortized cost includes the capital gains realized on the sale of Portuguese sovereign bonds of Euro 9,983 thousand and of Italian sovereign debt of Euro 41 thousand.

The caption Disposal of other assets includes the result generated by the sale of real estate.

10 Other operating income/ (expense)

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2020	**Jun 2019**
Other operating income		
Revaluation of investment properties	3 358	4 154
Management fees on demand deposits	1 889	2 877
Rentals of investment properties	842	1 477
Services rendered	2 283	2 206
Reimbursement of expenses	1 826	3 298
Repurchase of own issues	380	45
Other	4 210	5 287
	14 788	19 344
Other operating expenses		
Contributions:		
Banking sector	9 253	9 819
Ex-ante to the Single Resolution Fund	6 145	6 559
National Resolution Fund	4 441	4 296
Deposits Guarantee Fund	23	22
Revaluation of investment properties	2 216	3 446
Servicing and expenses with recovery and disposal of loans	1 595	1 353
Expenses with issuances	580	349
Taxes	893	1 314
Donations and memberships	618	337
Other	9 013	9 913
	34 777	37 408
Other operating income/ (expense)	(19 989)	(18 064)

The caption Other, in the breakdown of Other operating income, includes the recovery of some customers' assets.

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 in the balance sheet less the core capital (Tier 1) and the supplementary capital (Tier 2) and the deposits covered by the Deposits Guarantee Fund; and (ii) the notional amount of the derivative financial instruments.

The caption Contribution ex-ante to the Single Resolution Fund corresponds to the annual contribution, determined in accordance with number 1 of article 153-H of the Legal Framework of Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" – "RGICSF"), which transposed articles 100(4)(a) and 103(1) of Directive 2015/59/EU of the European Parliament and of the Council, of 15 May 2014, and article 20 of Delegated Regulation (EU) no. 2015/63 of the Commission, of 21 October 2014 ("Delegated Regulation") and with the conditions provided for in Implementing Regulation 2015/81 of the Council, of 19 December 2014 ("Implementing Regulation").

This contribution was determined by the Bank of Portugal, in its quality as national resolution authority, based on the methodology defined in articles 4, 13 and 20 of the Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund by 30 June of each year, as stipulated in the Agreement for the Transfer and Mutualization of the contributions to the Single Resolution Fund, signed in Brussels on 21 May 2014 and approved by Portuguese National Assembly Resolution 129/2015, of 3 September, pursuant to article 67(4) of Regulation (EU) no. 806/2014 of the European Parliament and of the Council, of 15 July 2014 ("MUR Regulation").

In addition, it is the responsibility of the Single Resolution Council ("CUR"), in close cooperation with the Bank of Portugal, in its quality as national resolution authority, to calculate these contributions on an annual basis, pursuant to and for the purposes of article 70(2) of the MUR Regulation. Banco Montepio opted, in the 1st half of 2020 and 2019, to use irrevocable payment commitments, in the proportion of 15% of the contribution amount, as provided for in article 8(3) of the Implementing Regulation. On this basis, in the 1st half of 2020, Banco Montepio settled Euro 7,093 thousand (30 June 2019: Euro 6,024 thousand), in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposits, as disclosed in note 21. For irrevocable payment commitments only cash collateral is accepted.

The caption Contribution to the National Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are determined using a base rate, determined based on an Instruction of the Bank of Portugal, which may be adjusted in function of the credit institution's risk profile, that is to be applied in each year on the objective incidence base of said contributions. The periodic contributions have as incidence base the liabilities of the credit institutions participating in the Fund, defined in accordance with article 10 of said Decree-Law, less the liability elements integrating Tier 1 and Tier 2 and the deposits covered by the Deposits Guarantee Fund.

The caption Other operating costs - Servicing and expenses with the recovery and disposal of loans registers the servicing costs charged by third parties related to a portfolio of non-performing loans.

The caption Other, in the breakdown of Other operating costs, includes maintenance costs with equipment and motor vehicles under operating leases, costs with real estate received in recovery of credit, accounted for in the caption Other assets (note 34), and legal costs.

11 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Remuneration	56 879	56 716
Mandatory social charges	16 279	16 146
Charges with the Pension Fund	3 619	3 450
Other staff costs	2 042	1 542
	78 819	77 854

The remuneration of the members of the Board of Directors aims to compensation them for their direct activities in the Group and for any and all functions performed in companies or corporate bodies to which they have been designated by indication or in representation of the Group.

In the 1st half of 2020 and 2019, neither the members of the Corporate bodies nor Other key management staff received any variable remuneration. First-line managers are considered Other key management staff.

The costs with remuneration and other benefits, including the respective social charges, attributed to the General Meeting Board, the Supervisory Board, the Board of Directors (including the members of the Audit Committee), the Board of Directors of Banco Montepio's subsidiaries and Other key management staff of the Group, during the 1st half of 2020, are presented as follows:

(Euro thousand)

	General Meeting Board	Supervisory Board	Board of Directors	Board of Directors of Banco Montepio's subsidiaries	Other key management staff	Total
Remuneration and other short-term benefits	7	115	1 607	657	2 544	4 930
Pension costs	-	-	13	9	59	81
Costs with healthcare benefits (SAMS)	-	-	9	4	52	65
Social Security Charges	1	24	344	140	564	1 073
	8	139	1 973	810	3 219	6 149

The costs with remuneration and other short-term benefits, including the respective social charges, attributed to the General Meeting Board, the Supervisory Board, the Board of Directors (including the members of the Audit Committee), the Board of Directors of Banco Montepio's subsidiaries and Other key management staff of the Group, during the 1st half of 2019, are presented as follows:

(Euro thousand)

	General Meeting Board	Supervisory Board	Board of Directors	Board of Directors of Banco Montepio's subsidiaries	Other key management staff	Total
Remuneration and other short-term benefits	7	140	1 535	531	2 096	4 309
Pension costs	-	-	11	1	60	72
Costs with healthcare benefits (SAMS)	-	-	8	4	38	50
Social Security Charges	1	27	328	114	462	932
	8	167	1 882	650	2 656	5 363

As at 30 June 2020, loans granted to members of the Board of Directors of Banco Montepio (including the members of the Audit Committee) amounted to Euro 639 thousand (30 June 2019: Euro 676 thousand), to members of the Board of Directors of Banco Montepio's subsidiaries Euro 2,450 thousand (30 June 2019: Euro 2,455 thousand) and to key management staff Euro 4,248 thousand (30 June 2019: Euro 3,740 thousand).

12 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Rental costs	483	710
Specialized services		
IT services	6 219	5 681
Independent work	1 432	762
Other specialized services	9 196	8 491
Communication costs	3 275	3 010
Maintenance and repairs	2 462	2 310
Water, energy and fuel	1 722	2 127
Advertising costs	1 377	1 240
Transportation	940	1 310
Consumables	709	479
Travel, accommodation and entertainment expenses	388	580
Insurance	531	529
Training	117	158
Other general and administrative costs	3 652	3 819
	32 503	31 206

The caption Rental costs includes, as at 30 June 2020, the amount of Euro 278 thousand (30 June 2019: Euro 575 thousand) related to short-term lease agreements, of which Euro 66 thousand (30 June 2019: Euro 284 thousand) correspond to leasehold rentals and Euro 212 thousand (30 June 2019: Euro 291 thousand) to rentals paid on motor vehicles, in both cases used by Banco Montepio as lessee.

As part of the development of its activity, the Group records under the caption Other specialized services the costs incurred with the hiring of external consultants, with the payment of services related to databases, with charges associated with processing carried out by SIBS and also with costs related to the payment of fees and retainer fees.

The caption Other general and administrative expenses includes, as at 30 June 2020, the amount of Euro 1,615 thousand (30 June 2019: Euro 1,791 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

13 Depreciation and amortization

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Intangible assets		
Software	7 850	7 395
Other tangible assets		
Real estate		
For own use	1 673	1 661
Leasehold improvements in rented buildings	327	326
Equipment		
IT equipment	1 728	1 685
Fixtures	840	774
Furniture	76	120
Security equipment	71	68
Machinery and tools	19	8
Transportation	53	47
Right-of-use assets		
Real estate	3 488	3 761
Motor vehicles	51	534
	8 326	8 984
	16 176	16 379

The caption Right-of-use assets corresponds, essentially, to properties (branches and central buildings) and the car fleet, being depreciated according to the period of each lease agreement, as indicated in accounting policy 1 i).

14 Impairment of loans and advances

The amount of this caption has the following breakdown:

(Euro thousand)	Jun 2020	Jun 2019
Other loans and advances to credit institutions (note 21)		
Charge for the period	1 349	487
Reversals for the period	(1 349)	(702)
	-	(215)
Loans and advances to customers (note 22)		
Charge for the period net of reversals	110 513	45 670
Recovery of loans and interest	(1 132)	(3 455)
	109 381	42 215
	109 381	42 000

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

During financial year 2019, the Group revisited the models and processes associated with the assessment of impairment for credit risks, including, namely, the definitions of staging, EADs and LGDs.

The Banco Montepio Group, in the 1st half of 2020, registered an impact resulting from the COVID-19 pandemic on credit impairment in the estimated amount of Euro 39.5 million.

15 Impairment of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)	Jun 2020	Jun 2019
Impairment of financial assets at fair value through other comprehensive income (note 25)		
Charge for the period net of reversals	3 589	689
	3 589	689
Impairment of other financial assets at amortized cost (note 27)		
Charge for the period net of reversals	1 991	2 385
	1 991	2 385
	5 580	3 074

16 Impairment of other assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Impairment of non-current assets held for sale (note 29)		
Charge for the period	70	-
Reversals for the period	(62)	-
	8	-
Impairment of other assets (note 34)		
Charge for the period	6 461	6 743
Reversals for the period	(978)	(3 367)
	5 483	3 376
	5 491	3 376

17 Other provisions

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Provisions for guarantees and commitments (note 39)		
Charge for the period	19 359	9 109
Reversals for the period	(17 031)	(10 178)
	2 328	(1 069)
Provisions for other risks and charges (note 39)		
Charge for the period	185	1 435
Reversals for the period	(747)	(1 682)
	(562)	(247)
	1 766	(1 316)

18 Share of profits/(losses) booked under the equity method

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

(Euro thousand)

	Jun 2020	Jun 2019
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(330)	(47)

19 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousands)

	Jun 2020	Dec 2019
Cash	161 079	194 530
Deposits at central banks		
Banco de Portugal	753 676	809 119
	914 755	1 003 649

The caption Deposits at central banks - Banco de Portugal includes the amount to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of the deposits and other effective liabilities. The cash reserve constitution regime, in accordance with directives of the European Central Bank System for the Eurozone, establishes the maintenance of a deposit at the Central Bank equivalent to 1% of the average value of the deposits and other liabilities, over each reserve constitution period.

20 Loans and deposits to credit institutions payable on demand

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Credit institutions in Portugal	2 087	1 320
Credit institutions abroad	29 030	11 774
Amounts to be collected	17 445	16 351
	48 562	29 445

The caption Amounts to be collected refers to cheques drawn by third parties on other credit institutions and which are due for collection.

21 Other loans and advances to credit institutions

This caption is presented as follows:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Loans and advances to credit institutions in Portugal		
Term deposits	6 433	6 416
	6 433	6 416
Loans and advances to credit institutions abroad		
CSA's	29 049	29 109
Term deposits	30 092	37 964
Reverse repos	56 186	54 199
Other loans and advances	164 845	148 020
	280 172	269 292
	286 605	275 708
Impairment for credit risk of loans and advances to credit institutions	(119)	(110)
	286 486	275 598

Credit Support Annexes ("CSA's") are contracts that regulate the delivery, reception and monitoring of collateral delivered/received to cover the exposure of a counterparty of the contract to the other, as a result of open positions in over-the-counter derivatives. As provided for in most CSA's celebrated by the Group, this collateral might be in the form of securities or cash, with, however, in the Group's case, all collaterals being in cash.

Collaterals in cash delivered (constitution of reinforcement) or received (collateral release) result from the changes in the fair value of the various derivative instruments that the Group negotiated with each one of the counterparties and are materialized through an effective transfer of cash, through TARGET2 transfers to each one of the counterparties in question, as a guarantee/security of Banco Montepio Group's exposure vis-à-vis the counterparty.

On this basis, and in the scope of the operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, the Group holds an amount of Euro 29,049 thousand (31 December 2019: Euro 29,109 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 7,093 thousand (31 December 2019: Euro 6,024 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 note 10.

The caption Loans and advances to credit institutions abroad – Other loans and advances includes the amounts deposited by vehicles incorporated for the purpose of the Group's securitization operations.

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

(Euro thousand)

	Jun 2020	Jun 2019
Opening balance	110	399
Charge for the period net of reversals	-	(215)
Other	9	-
Closing balance	119	184

In the 1st half of 2020, the Other loans and advances to banks were remunerated at the average rate of 0.66% (31 December 2019: 0.91%).

22 Loans and advances to customers

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Corporate		
Loans not represented by securities		
Loans	2 702 644	2 561 639
Current account loans	435 295	424 254
Finance leases	444 995	446 149
Discounted bills	51 350	63 251
Factoring	171 298	196 896
Overdrafts	1 027	1 935
Other loans	509 811	547 713
Loans represented by securities		
Commercial paper	457 898	294 310
Bonds	259 149	168 634
Retail		
Mortgage loans	5 639 260	5 771 290
Finance leases	55 436	59 453
Consumer credit and other loans	906 151	924 679
	11 634 314	11 460 203
Value correction of assets subject to hedging operations		
Other loans	60	46
Overdue loans and advances and interest		
Less than 90 days	80 929	94 667
More than 90 days	701 631	684 549
	782 560	779 216
	12 416 934	12 239 465
Impairment for credit risks	(862 630)	(774 923)
	11 554 304	11 464 542

As at 30 June 2020, the caption Loans and advances to customers includes the amount of Euro 2,728,716 thousand (31 December 2019: Euro 2,719,463 thousand) related to the issue of covered bonds realized by the Group, as referred to in note 38.

As at 30 June 2020, loans and advances, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that the Group granted to its shareholders and to related parties amounted to Euro 31,550 thousand (31 December 2019: Euro 30,718 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 proposal 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 563 thousand as at 30 June 2020 (31 December 2019: Euro 130 thousand).

As at 30 June 2020, the caption Loans and advances to customers includes the amount of Euro 1,974,142 thousand (31 December 2019: Euro 2,130,303 thousand) related to loans and advances that were the object of securitization and that, in accordance with the accounting policy outlined in note 1 c), were not the object of derecognition, as described in note 53.

The caption Value correction of assets subject to hedge operations contains the fair value of the part of the portfolio that is hedged. This appreciation is accounted for through the income statement, in accordance with the accounting policy described in note 1 c). The Group periodically tests the effectiveness of the existing hedging relationships.

As at 30 June 2020 and in financial year 2019, the caption Loans and advances to customers includes loans recorded at fair value through profit or loss in the amount of Euro 1,207 thousand. As at 30 June 2020, the fair value adjustment amounted to a positive Euro 60 thousand (31 December 2019: positive in Euro 46 thousand), and the impact on profit or loss as at 30 June 2020 was positive in the amount of Euro 14 thousand (31 December 2019: positive in Euro 153 thousand), as per note 23.

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

The analysis of the caption Loans and advances to customers, by interest rate type, as at 30 June 2020 and 31 December 2019, is as follows:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Variable-rate loans and advances	10 531 710	10 583 230
Fixed-rate loans and advances	1 885 224	1 656 235
	12 416 934	12 239 465

The analysis of Past due loans and advances and interest, by credit type, is as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Asset-backed loans	548 360	554 305
Other guaranteed loans	141 405	130 828
Finance leases	7 638	8 696
Secured loans	34 800	34 800
Other loans and advances	50 357	50 587
	782 560	779 216

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 30 June 2020, is as follows:

(Euro thousand)

	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	139 323	642 911	7 875 970	548 360	9 206 564
Other guaranteed loans	453 527	144 472	311 059	141 405	1 050 463
Financial leases	38 033	226 302	236 096	7 638	508 069
Secured loans	457 449	172 241	87 357	34 800	751 847
Other loans and advances	219 462	116 225	513 947	50 357	899 991
	1 307 794	1 302 151	9 024 429	782 560	12 416 934

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 31 December 2019, is as follows:

(Euro thousand)

	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	149 111	626 711	7 919 262	554 305	9 249 389
Other guaranteed loans	453 403	208 871	266 959	130 828	1 060 061
Financial leases	14 873	238 582	252 147	8 696	514 298
Secured loans	370 240	77 597	15 001	34 800	497 638
Other loans and advances	236 389	134 487	496 616	50 587	918 079
	1 224 016	1 286 248	8 949 985	779 216	12 239 465

The outstanding amount of Finance leases, by residual maturity, as at 30 June 2020, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	57 577	246 741	127 123	431 441
Outstanding interest	(11 776)	(34 018)	(19 389)	(65 183)
Residual values	26 775	60 007	47 391	134 173
	72 576	272 730	155 125	500 431

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2019, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	60 741	236 621	135 776	433 138
Outstanding interest	(9 677)	(33 942)	(21 424)	(65 043)
Residual values	4 843	81 030	51 634	137 507
	55 907	283 709	165 986	505 602

As regards operating leases, the Group does not have significant agreements as Lessor.

The analysis of Overdue loans and advances and interest, by customer type and purpose, is as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Corporate		
Construction/Production	154 757	159 455
Investment	314 260	312 716
Treasury	204 344	201 083
Other	26 324	22 071
Retail		
Mortgage loans	43 973	39 728
Consumer credit	19 471	21 664
Other	19 431	22 499
	782 560	779 216

The movements in impairment for credit risks are analysed as follows:

(Euro thousand)

	Jun 2020	Jun 2019
Balance on 1 January	774 923	944 576
Charge for the period net of reversals		
Continuing operations	110 513	45 670
Discontinued operations	(624)	(213)
Utilization	(22 806)	(86 655)
Transfers related to discontinued operations	624	213
Consolidation perimeter change	-	14 282
Closing balance	862 630	917 873

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

(Euro thousand)

	Jun 2020	Jun 2019
Asset-backed loans and financial leases	616 961	611 313
Other guaranteed loans	171 672	191 533
Unsecured loans	73 997	115 027
	862 630	917 873

The analysis utilization of impairment losses, by credit type, is as follows:

	(Euro thousand)	
	Jun 2020	Jun 2019
Asset-backed loans and finance leases	4 370	32 008
Other guaranteed loans	17 385	36 371
Unsecured loans	1 051	18 276
	22 806	86 655

The total amount of loans and advances and interest recovered as at 30 June 2020 amounted to Euro 1,132 thousand (30 June 2019: Euro 3,455 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 in the amount to Euro 924,911 thousand (31 December 2019: Euro 868,739 thousand) with an impairment of Euro 434,358 thousand (31 December 2019: Euro 365,280 thousand).

The Group has adopted forbearance measures and practices, aligned in terms of risk, in order to adjust the disposable income or the financial capacity of customers to their debt service. On this basis, the recommendations legislated in the scope of the non-compliance regimes (Decree-Law no. 227/2012) and for companies (SIREVE, PER) were adopted, with these being widely disclosed in the institutional website, in the internal rules and communications, to be disclosed and implemented vis-à-vis customers presenting evidence of financial difficulties.

Regarding the forbearance measures and in accordance with Implementing Regulation (EU) 2015/227, of 9 January 2015, contractual changes were considered (grace period of the principal, extension of the term, deferral of the principal, etc.) as were the consolidation of debts in another contract with conditions adjusted to the customer's current situation.

Additionally, the restructured loans and advances to customers' portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent celebration of a new loan to replace the previous loans. The restructuring may result from a reinforcement of guarantees and/or liquidation of part of the loan and involve an extension of maturities or a change in the interest rate. The analysis of restructured loans entered into as at 30 June 2020 and 31 December 2019, by credit type, is as follows:

	(Euro thousand)	
	Jun 2020	Dec 2019
Corporate		
Loans not represented by securities		
Loans	114 697	149 396
Current account loans	130	311
Finance leases	693	1 525
Other loans	400	2 018
Retail		
Mortgage loans	1 662	4 893
Consumer credit and other loans	1 757	6 424
	119 339	164 567

Restructured loans are also subject to an impairment analysis that results from the revaluation of the expectations given the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate, and considering the new collaterals presented.

As regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 59,255 thousand, which corresponds to an impairment rate of 49.7% (31 December 2019: Euro 58,584 thousand, impairment rate of 35.6%).

The Group uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revalued based on market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility. Most of the real collaterals are revalued at least once a year.

23 Financial assets and liabilities held for trading

The caption financial assets and liabilities held for trading is analysed as follows:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Financial assets held for trading		
Securities		
Shares	2 549	1 089
Bonds	28 227	11 793
Investment Units	2 798	127
	33 574	13 009
Derivative instruments		
Derivative instruments with positive fair value	10 381	22 896
	43 955	35 905
Financial liabilities held for trading		
Derivative instruments		
Derivative instruments with negative fair value	13 185	13 368
	13 185	13 368

As provided for in IFRS 13, financial instruments are measured in accordance with the following valuation levels, described in note 49, as follows:

(Euro thousand)

	Jun 2020			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	2 549	-	-	2 549
Bonds	28 227	-	-	28 227
Investment Units	2 798	-	-	2 798
	33 574	-	-	33 574
Derivative instruments				
Derivative instruments with positive fair value	-	3 767	6 614	10 381
	33 574	3 767	6 614	43 955
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	13 185	-	13 185
	-	13 185	-	13 185

(Euro thousand)

	Dec 2019			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	1 089	-	-	1 089
Bonds	11 793	-	-	11 793
Investment Units	127	-	-	127
	13 009	-	-	13 009
Derivative instruments				
Derivative instruments with negative fair value	-	7 785	15 111	22 896
	13 009	7 785	15 111	35 905
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	13 368	-	13 368
	-	13 368	-	13 368

The book value of the derivative financial instruments as at 30 June 2020 and the comparison with the respective assets and liabilities recorded at fair value, in the specific case of derivatives held for risk management, can be analysed as follows:

(Euro thousand)

		Jun 2020								
		Derivative					Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Positive fair value	Negative fair value	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	-	-	-	-	(191)	34	17	2 196	2 148
Interest rate swap	Deposits from customers	-	-	-	-	-	-	-	-	-
Interest rate swap	Loans and advances to customers	1 200	5	(69)	(64)	(15)	60	14	1 207	1 200
Interest rate swap	Others	1 729 737	10 902	(12 921)	(2 019)	1 282	-	-	-	-
Currency Swap (Short)	-	50 253	5	(177)	(172)	(475)	-	-	-	-
Currency Swap (Long)	-	50 081								
Futures (Short)	-	6 006	8	-	8	8	-	-	-	-
Futures (Long)	-	7 691								
Forwards (Short)	-	29 371	-	-	-	-	-	-	-	-
Forwards (Long)	-	29 119								
Options (Short)	-	63 714	(539)	(18)	(557)	(12 941)	-	-	-	-
Options (Long)	-	139 789								
		2 106 961	10 381	(13 185)	(2 804)	(12 332)	94	31	3 403	3 348

(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 2019 and the comparison with the respective assets and liabilities recorded at fair value, can be analysed as follows:

(Euro thousand)

		Dec 2019								
		Derivative					Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Positive fair value	Negative fair value	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	225	(34)	191	(110)	17	(61)	3 461	3 300
Interest rate swap	Deposits from customers	-	-	-	-	32	-	(11)	-	-
Interest rate swap	Loans and advances to customers	1 200	4	(53)	(49)	(172)	46	153	1 207	1 200
Interest rate swap	Others	1 820 428	9 499	(12 800)	(3 301)	(1 209)	-	-	-	-
Currency Swap (Short)	-	53 682	311	(8)	303	341	-	-	-	-
Currency Swap (Long)	-	53 974								
Futures (Short)	-	3 410	-	-	-	-	-	-	-	-
Futures (Long)	-	-								
Forwards (Short)	-	1 493	-	-	-	-	-	-	-	-
Forwards (Long)	-	1 494								
Options (Short)	-	56 539	12 857	(473)	12 384	402	-	-	-	-
Options (Long)	-	342 592								
		2 338 112	22 896	(13 368)	9 528	(716)	63	81	4 668	4 500

Within the scope of the loan obtained from the EIB, a set of Italian and Spanish sovereign bonds with a nominal value of Euro 11,500 thousand (31 December 2019: Euro 1,000 thousand of the Italian State) are part of the collateral, as described in note 36.

The nominal value of the assets pledged as collateral to the European Central Bank in the context of liquidity-providing operations amounts, as at 31 December 2019, to Euro 3,357 thousand after the application of a haircut, as described in note 35. As at 30 June 2020 there were no assets given in guarantee under this category.

24 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Variable income securities		
Investment Units	361 354	373 220
Loans and advances to customers at fair value		
Loans not represented by securities	10 115	11 455
	371 469	384 675

The caption Variable-income securities – Investment units includes, as at 30 June 2020, the amount of Euro 80,805 thousand (31 December 2019: Euro 83,830 thousand) related to investment units in specialized credit funds acquired in the scope of the sale of loans and advances to customers, as referred in note 57.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 49, as follows:

(Euro thousand)

	Jun 2020			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment Units	6 824	-	354 530	361 354
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	10 115	10 115
	6 824	-	364 645	371 469

	Dec 2019			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment Units	7 551	-	365 669	373 220
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	11 455	11 455
	7 551	-	377 124	384 675

As at 30 June 2020, 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 354,530 thousand (31 December 2019: Euro 365,669 thousand), of which Euro 251,944 thousand (31 December 2019: Euro 256,298 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 2020, for all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial assets, with an impact of Euro 35,453 thousand (31 December 2019: Euro 36,567 thousand) having been determined.

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

(Euro thousand)

	Jun 2020	Dec 2019
Opening balance	365 669	457 946
Acquisitions	97	699
Remeasurements	(3 451)	3 426
Disposals	(7 785)	(96 402)
Closing balance	354 530	365 669

The movements occurred in level 3 of the Loans and advances to customers at fair value relate, in their entirety, to revaluations made in the 1st half of 2020 and financial year 2019.

25 Financial assets at fair value through other comprehensive income

This caption is presented as follows:

(Euro thousand)

	Jun 2020				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	262 193	873	(3 380)	(587)	259 099
Foreign	791 381	2 520	(1 443)	(3 007)	789 451
Bonds issued by other entities					
Domestic	13 266	329	(851)	(608)	12 136
Foreign	15 417	18	(116)	(39)	15 280
Variable income securities					
Shares					
Domestic	74 336	9 885	(2 150)	-	82 071
Foreign	71 554	5 353	(35 557)	-	41 350
	1 228 147	18 978	(43 497)	(4 241)	1 199 387

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

(Euro thousand)

	Dec 2019				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	602 723	15 115	-	(1 360)	616 478
Foreign	805 728	6 239	(497)	(3 609)	807 861
Bonds issued by other entities					
Domestic	58 699	292	(2 077)	(175)	56 739
Foreign	240 962	2 435	(785)	(183)	242 429
Variable income securities					
Shares					
Domestic	74 240	9 885	(2 150)	-	81 975
Foreign	71 554	5 294	(22 639)	-	54 209
	1 853 906	39 260	(28 148)	(5 327)	1 859 691

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

The main assumptions used in the valuation of shares are as follows:

Almina

The Group holds 19.0% of the share capital of Almina. The book value of Almina in the Group's financial statements amounts to Euro 67,200 thousand both as at 30 June 2020 and 31 December 2019.

The valuation of Almina with reference to 31 December 2019 was carried out by an external entity based on the Almina Holding Group's business plan, as well as other information provided by Almina's management.

As at 30 June 2020, the Banco Montepio Group considers that said valuation continues to reflect the fair value, with the valuation being expected to be updated by the end of financial year 2020.

Almina's valuation exercise considers a set of variables and assumptions, namely:

- Macroeconomic assumptions - forecasts of the outlook for inflation and the €/USD exchange rate;
- Forecasts on the evolution of metal prices (copper, zinc, lead, silver and tin);
- Discount rate parameters;
- Reasonableness of the KPIs assumed in the projection period, namely, on the zinc recovery and on commercial costs.

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

SIBS

The fair value of the shareholding held in SIBS, presented in the financial statements as at 30 June 2020, is supported by a valuation that considers the methodologies of the multiples of comparable companies (market and transaction) and of the Discounted Cash Flows (DCF) and is based on the performance projected by the company for 2019 and the adoption of a conservative approach in the assumptions used to project the forecast period.

Unicre

The fair value of the shareholding held in Unicre, presented in the financial statements as at 30 June 2020, is supported by a valuation that considers the methodologies of the multiples of comparable companies (market and transaction) and of the Gordon Growth Model, assuming for the projections a flat growth for the evolution of the company's operating results.

As at 30 June 2020 and 31 December 2019, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Euro thousand)

	Jun 2020				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	258 065	1 034	-	-	259 099
Foreign	789 451	-	-	-	789 451
Bonds issued by other entities				-	
Domestic	4 043	-	8 093	-	12 136
Foreign	3 095	12 185	-	-	15 280
	1 054 654	13 219	8 093	-	1 075 966
Variable income securities					
Shares					
Domestic	-	-	81 400	671	82 071
Foreign	29 751	-	11 138	461	41 350
	29 751	-	92 538	1 132	123 421
	1 084 405	13 219	100 631	1 132	1 199 387

(Euro thousand)

	Dec 2019				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	616 478	-	-	-	616 478
Foreign	807 861	-	-	-	807 861
Bonds issued by other entities				-	
Domestic	50 585	3 052	3 102	-	56 739
Foreign	229 858	12 571		-	242 429
	1 704 782	15 623	3 102	-	1 723 507
Variable income securities					
Shares					
Domestic	-	-	81 400	575	81 975
Foreign	42 669	-	11 079	461	54 209
	42 669	-	92 479	1 036	136 184
	1 747 451	15 623	95 581	1 036	1 859 691

As provided for in IFRS 13, financial instruments are measured according to the valuation levels described in note 49.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset, with an impact of Euro 10,063 thousand as at 30 June 2020 (31 December 2019: Euro 9,558 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the positive amount of Euro 12,554 thousand (31 December 2019: positive amount of Euro 11,459 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.

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

(Euro thousand)

	Jun 2020	**Dec 2019**
Opening balance	95 581	87 226
Acquisitions	5 143	-
Remeasurements	491	8 224
Transfers to level 3		1 603
Reimbursements	(584)	(1 472)
Closing balance	100 631	95 581

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

	(Euro thousand)	
	Jun 2020	Jun 2019
Balance on 1 January	5 327	671
Change for the period		
Continuing operations	3 589	690
Discontinuing operations	420	-
Reversals for the period		
Continuing operations	-	(1)
Utilization	(4 675)	(494)
Transfers	-	2 413
Transfers related to discontinuing operations	(420)	-
Closing balance	4 241	3 279

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 2020, to Euro 843,628 thousand after haircut (31 December 2019: Euro 1,608,159 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 2020 and 31 December 2019;

- As at 30 June 2020, the EIB loan obtained is collateralized by a set of Portuguese, Spanish and Italian sovereign bonds with a nominal value of Euro 93,499 thousand (31 December 2019: Euro 205,201 thousand of Portuguese, Spanish, Greek, Dutch, French and German States sovereign bonds), as described in note 36; and

- Securities pledged as collateral to the Deposits Guarantee Fund have a nominal amount of Euro 23,000 thousand as at 30 June 2020 (31 December 2019: Euro 21,500 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 celebrated contracts.

26 Hedging derivatives

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Assets		
Interest rate swaps	15 259	11 148
Liabilities		
Interest rate swaps	799	547
Net value	14 460	10 601

Banco Montepio contracted an interest rate swap to hedge its interest rate risk arising from a bond issued 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 to the hedging relationships.

The analysis of the hedging derivatives' portfolio, by residual maturity, as at 30 June 2020 and 31 December 2019, is as follows:

(Euro thousand)

	Jun 2020			
	Notional by maturity date		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	14 460	14 460
	750 000	750 000	14 460	14 460

(Euro thousand)

	Dec 2019			
	Notional by maturity date		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk				
Interest rate swap	750 000	750 000	10 601	10 601
	750 000	750 000	10 601	10 601

As at 30 June 2020 and 31 December 2019, the fair value hedging operation can be analysed as follows:

(Euro thousand)

Jun 2020							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivative** (1)	**Changes in fair value of derivative in the period**	**Fair value of hedged element**(2)	**Changes in fair value of hedged element in the period** (2)
Interest rate swap	Debt securities issued	Interest rate	750 000	14 460	848	(10 009)	(786)
			750 000	14 460	848	(10 009)	(786)

(1) Includes accrued interest

(2) Attributable to hedged risk

(Euro thousand)

Dec 2019							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivative** (1)	**Changes in fair value of derivativ e in the period**	**Fair value of hedged element**(2)	**Changes in fair value of hedged element in the period** (2)
Interest rate swap	Debt securities issued	Interest rate	750 000	10 601	4 935	(9 224)	(4 807)
			750 000	10 601	4 935	(9 224)	(4 807)

(1) Includes accrued interest

(2) Attributable to hedged risk

27 Other financial assets at amortized cost

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Fixed income securities		
Bonds issued by public entities		
Domestic	1 300 573	699 604
Foreign	406 935	201 291
	1 707 508	900 895
Impairment for other financial assets at amortized cost	(3 741)	(1 750)
	1 703 767	899 145

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

The caption Other financial assets at amortized cost, as at 30 June 2020, can be analysed as follows:

(Euro thousand)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
OT 4,95% 25-OCT-2023	10 june 2008	25 october 2023	4.95%	198 000	232 162
OT 5.65% 15-FEV-2024	14 may 2013	15 february 2024	5.65%	109 500	132 523
OT 2,200% 17-OCT-2022	09 september 2015	17 october 2022	2.2%	212 500	224 300
OT APR21	23 february 2005	15 april 2021	3.85%	120 000	124 264
OT 2,875% 15-OUT-2025	20 january 2015	15 october 2025	2.875%	110 100	122 735
OT 2,875% 21JUL2026	21 january 2016	21 july 2026	2.875%	115 000	132 143
OT 4,125% 14APR2027	18 january 2017	14 april 2027	4.125%	80 000	96 599
OT 0.475% 18OCT2030	15 january 2020	18 october 2030	0.475%	15 000	14 781
OT 2.125% 17OCT2028	17 january 2018	17 october 2028	2.125%	68 000	77 839
OT 1.950% 15JUN2029	16 january 2019	15 june 2029	1.95%	5 000	5 618
OT 0.700% 15OCT2027	8 april 2020	15 october 2027	0.7%	35 000	34 983
BT ZERO COUPON 18SEP2020	20 september 2019	18 september 2020	-	50 000	49 892
BT ZERO COUPON 17JUL2020	19 july 2019	17 july 2020	-	50 000	49 891
BONOS 0,750% 30JUL2021	8 march 2016	30 july 2021	0.75%	35 000	35 478
BONOS 0,350% 30JUL2023	22 may 2018	30 july 2023	0.35%	166 000	165 949
GREECE T BILL 10JUL2020	14 april 2020	10 july 2020	-	20 000	19 812
GREECE T BILL 02OCT2020	3 april 2020	02 october 2020	-	15 000	14 850
BOTS ZERO COUPON 14SEP2020	13 septembr 2019	14 september 2020	-	10 000	9 974
BOTS ZERO COUPON 30SEP2020	31 march 2020	30 september 2020	-	10 000	9 973
BOTS ZERO COUPON 14APR2021	14 april 2020	14 april 2021	-	25 000	24 895
BOTS ZERO COUPON 14MAY2021	14 may 2020	14 may 2021	-	45 000	44 830
BOTS ZERO COUPON 14JUN2021	12 june 2020	14 june 2021	-	64 000	63 940
ADIF 1.875% 28JAN2025	28 january 2015	28 january 2025	1.875%	15 200	16 336
				1 573 300	1 703 767

The caption Other financial assets at amortized cost, as at 31 December 2019, can be analysed as follows:

(Euro thousand)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
OT APR21	23 february 2005	15 april 2021	3.850%	120 000	128 830
BONOS 0,750% 30JUL2021	08 march 2016	30 july 2021	0.750%	35 000	35 474
OT 2,200% 17-OCT-2022	09 september 2015	17 october 2022	2.200%	212 500	223 931
BONOS 0,350% 30JUL2023	22 may 2018	30 july 2023	0.350%	166 000	165 596
OT 4,95% 25-OCT-2023	10 june 2008	25 october 2023	4.950%	170 000	198 183
OT 5.65% 15-FEV-2024	14 may 2013	15 february 2024	5.650%	5 000	6 184
OT 2,875% 15-OCT-2025	20 january 2015	15 october 2025	2.875%	65 000	70 991
OT 2,875% 21JUL2026	21 january 2016	21 july 2026	2.875%	25 000	27 695
OT 4,125% 14APR2027	18 january 2017	14 april 2027	4.125%	35 000	42 261
				833 500	899 145

Other financial assets at amortized cost are recognized in accordance with the accounting policy described in note 1 c). As at 30 June 2020, the loan obtained from EIB is collateralized by Portuguese, Italian and Spanish sovereign bonds with a nominal value of Euro 259,825 thousand (31 December 2019: Euro 182,300 thousand of the Portuguese and Spanish States), provided as collateral and recorded in the caption Other financial assets at amortized cost, as disclosed in note 36. As at 30 June 2020, the nominal value of the assets pledged as collateral to the European Central Bank under liquidity-providing operations amounts to Euro 1,044,200 thousand (31 December 2019: Euro 824,250 thousand) after the application of a haircut.

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

(Euro thousand)

	Jun 2020	Jun 2019
Balance on 1 January	1 750	2 550
Charge for the period net of reversals		
Continuing operations	1 991	2 385
Discontinued operations	(208)	-
Utilization	-	(710)
Transfers	-	(2 413)
Transfers related to discontinued operations	208	-
Closing balance	3 741	1 812

28 Investments in associated companies

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 564	3 741
Montepio Gestão de Activos Imobiliários, ACE	710	698
Naviser - Transportes Marítimos Internacionais, S.A.	150	150
	4 424	4 589
Impairment of investments in associated companies	(150)	(150)
	4 274	4 439

The associated companies included in the Group's consolidation perimeter are listed in note 59. The financial information of the associated companies, excluding the shareholding held in Naviser that is fully impaired, is presented in the following tables:

(Euro thousand)

	Assets	Liabilities	Equity	Income	Net profit / (loss)	Acquisition cost
30 june 2020						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	36 046	18 227	17 819	1 497	(1 652)	3 564
Montepio - Gestão de Ativos Imobiliários, ACE	5 250	2 800	2 450	2 250	-	711
CESource, ACE	-	-	-	-	-	-
31 december 2019						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	35 015	16 310	18 705	11 297	1 441	3 741
Montepio - Gestão de Ativos Imobiliários, ACE	5 869	3 419	2 450	6 060	-	698
CESource, ACE	-	-	-	-	-	-

(Euro thousand)

	Percentage held		Book vaue		Net income / (loss) of Associated companies	
	Jun 2020	Dec 2019	Jun 2020	Dec 2019	Jun 2020	Dec 2019
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20%	20%	3 564	3 741	330	(47)
Montepio Gestão de Activos Imobiliários, ACE	29%	29%	711	698	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20%	20%	-	-	-	-
Cesource, ACE	18%	18%	-	-	-	-

The gross movement in this caption is analysed as follows:

	(Euro thousand)	
	Jun 2020	**Dec 2019**
Opening balance	4 439	4 282
Acquisitions	12	-
Share of profit of associated companies	(330)	208
Other reserves and retained earnings	153	(51)
Closing balance	4 274	4 439

The Group analyses, on a regular basis, the impairment related to its investments in associated companies.

In the 1st half of 2020, there was a transfer of a shareholding from Montepio Imóveis – Sociedade Imobiliária, S.A. to Ssagincentive of 0.5% of Montepio – Gestão de Activos Imobiliários, ACE, in the amount of Euro 12 thousand.

29 Non-current assets held for sale

As at 30 June 2020, this caption was analysed as follows:

	(Euro thousand)
	Jun 2020
Properties and other assets resulting from the resolution of customer loan agreements	245
Impairment for non-current assets held for sale	(78)
	167

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.

The resolution of loans and advances to customers' agreements results from (i) the simple foreclosure, delivery with a repurchase option or delivery with a leasing option, being accounted for upon the celebration of the contract or with the promissory contract to deliver the asset and the respective irrevocable power of attorney issued by the customer in the Group's name; or (ii) the adjudication of the assets as a result of a judicial guarantee execution process, being accounted for based on the title of adjudication or the adjudication request after having registered the first pledge.

The Group has implemented a plan aimed at the immediate sale of the non-current assets held for sale. According to the Group's expectation, it is intended that these assets be available for sale in a period under 1 year and that there is a strategy for their sale. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period.

The movements occurred, in the 1st half of 2020, in non-current assets held for sale are analysed as follows:

	(Euro thousand)
	Jun 2020
Opening balance	97
Acquisitions	607
Disposals	(459)
Closing balance	245

The movements in impairment of non-current assets held for sale is analysed as follows:

	(Euro thousand)
	Jun 2020
Balance on 1 January	70
Charge for the period	70
Reversal for the period	(62)
Balance on 30 June	78

30 Investment properties

The caption Investment properties includes the real estate owned by "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", by "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", by "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", by "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", by "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular" and by "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto", all of which are consolidated by the full consolidation method, according to the accounting policy described in note 1 b) and also the real estate held by Ssagincentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.

As at 30 June 2020, the amount of rental income received related to investment properties amounts to Euro 842 thousand (31 December 2019: Euro 2,581 thousand) and maintenance costs of leased and non-leased properties amounts to Euro 1,401 thousand (31 December 2019: Euro 3,750 thousand).

The movements in this caption are analysed as follows:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Opening Balance	144 868	253 097
Acquisitions	47	-
Revaluations	2 523	7 512
Disposals	(12 039)	(85 728)
Transfers	(571)	(30 013)
Closing balance	134 828	144 868

31 Other tangible assets

This caption is presented as follows:

	(Euro thousand)	
	Jun 2020	**Dec 2019**
Investments		
Land and buildings		
For own use	223 732	218 179
Leasehold improvements in rented buildings	29 374	40 150
Equipment		
IT equipment	96 344	95 625
Interior installations	32 338	32 276
Furniture	18 782	19 003
Security equipment	7 689	7 670
Machinery and tools	2 845	2 847
Transportation	1 622	1 532
Other equipment	5	5
Works of art	2 870	2 870
Assets in operating lease	109	109
Right-of-use assets		
Land and buildings	27 477	28 038
Vehicles	1 129	240
Other property, plant and equipment	2 097	2 130
Work in progress	1 694	1 227
	448 107	451 901
Accumulated depreciation		
Charge for the period	(8 326)	(16 837)
Accumulated charge in previous periods	(197 020)	(186 595)
	(205 346)	(203 432)
	242 761	248 469

The caption Right-of-use assets corresponds, essentially, to real estate (branches and central buildings) and to the car fleet, being depreciated according to the lease term of each agreement, as indicated in accounting policy 1 i).

32 Intangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Investment		
Software	144 582	138 455
Other Intangible Assets	2 239	2 239
Work in progress	6 509	4 275
	153 330	144 969
Accumulated depreciation		
Charge for the period	(7 850)	(14 406)
Accumulated charge in previous periods	(111 131)	(96 724)
	(118 981)	(111 130)
	34 349	33 839

33 Taxes

Deferred tax assets and liabilities, as at 30 June 2020 and 31 December 2019, can be analysed as follows:

(Euro thousand)

	Assets		Liabilities		Net	
	Jun 2020	Dec 2019	Jun 2020	Dec 2019	Jun 2020	Dec 2019
Deferred taxes not dependent on future profitability						
Impairment on loans granted	42 625	42 123	-	-	42 625	42 123
Benefits to employees	22 067	16 149	-	-	22 067	16 149
	64 692	58 272	-	-	64 692	58 272
Deferred taxes dependent on future profitability						
Financial instruments	-	-	(15 795)	(19 772)	(15 795)	(19 772)
Provisions / Impairment						
Impairment on loans granted	189 736	170 140	-	(306)	189 736	169 834
Other risks and charges	9 170	8 813	-	-	9 170	8 813
Impairment in securities and non-financial asse	5 940	4 887	-	-	5 940	4 887
Impairment in financial assets	1 177	109	-	-	1 177	109
Benefits to employees	34 639	40 273	-	-	34 639	40 273
Other	1 658	1 984	(130)	(1 401)	1 528	583
Taxes losses carried forward	175 186	171 666	-	-	175 186	171 666
Net deferred tax assets/ (liabilities)	482 198	456 144	(15 925)	(21 479)	466 273	434 665

Special regime applicable to deferred tax assets

On 6 July 2016, the Extraordinary General Meeting of Banco Montepio was held, approving the adherence to the special regime applicable to deferred tax assets, approved by Law no. 61/2014, of 26 August, which is applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as to deferred tax assets recorded in the annual accounts for the last tax period prior to that date and to the part of the costs and negative equity changes associated with same. In accordance with Law no. 23/2016, of 19 August, this special regime is not applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor to their associated deferred tax assets.

Law no. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. net loss in separate annual accounts or in settlement accounts on the voluntary winding-up, insolvency decided by law or withdrawal of the respective authorization), there will be a conversion into tax credits of deferred tax assets that resulted from the non-deduction of costs and of deductions of asset values resulting from credit impairment losses and post-employment or long-term employment benefits. In such case, a special reserve corresponding to 110% of their amount shall be constituted, requiring the simultaneous constitution of conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State of the same amount. Tax credits may be offset against tax debts of the beneficiaries (or of an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under this regime, the recovery of deferred tax assets covered by the regime approved by Law no. 61/2014, of 26 August, is not dependent upon future profits.

The aforementioned legal framework was regulated by Ordinance no. 259/2016, of 4 October, on the control and use of tax credits, and by Ordinance no. 293-A/2016, of 18 November, the latter altered by Ordinance no. 272/2017, of 13 September, determining the conditions and procedures for the acquisition of the referred State rights by the shareholders. According to this legislation, State rights are, among other factors, subject to a right of acquisition by the shareholders on their inception date, exercisable in periods to be established by the Board of Directors up to 10 years after the respective constitution, with the issuing bank depositing in the State's name the full amount corresponding to the rights issued, within 3 months from the confirmation date of the deferred tax asset conversion into tax credit. Such deposit shall be redeemed when and to the extent that the State rights are acquired by the shareholders or exercised by the State.

Deferred taxes are determined using tax rates that are expected to be in force on the date of reversal of the timing differences, which correspond to the rates approved or substantially approved in the balance sheet date.

The caption Post-employment and long-term employment benefits includes, as at 30 June 2020, the amount of Euro 9,168 thousand (31 December 2019: Euro 9,168 thousand) related to deferred taxes associated with the remeasurements recognized against reserves as a result of the change in accounting policy. As at 30 June 2020, this caption also includes the amount of Euro 2,562 thousand (31 December 2019: Euro 2,811 thousand) related to deferred taxes associated with the cost generated by the transfer of liabilities with pensioners to the General Social Security System.

The negative equity variation due to the change in accounting policy made in 2011 is deductible for tax purposes, in equal parts, over a 10-year period, starting on 1 January 2012. The cost generated by the transfer of liabilities with pensioners to the General Social Security System is deductible for tax purposes, in equal parts, starting on 1 January 2012, according to the number of years of life expectancy of the pensioners whose liabilities were transferred (20 years in the case of the Banco Montepio Group).

In the 1st half of 2020 and financial year 2019, deferred taxes associated with Employee benefits include the amount of Euro 21,853 thousand related to employee benefits in excess of the existing limits.

In the 1st half of 2020 and financial year 2019, and in function of (i) the tax rates effective after 1 January 2018 and ii) the expectation of the conversion into tax-accepted costs and profits and the prospects of tax profits or tax losses in each one of the subsequent periods, the Group considered the rates (base rate and surcharges) used to calculate deferred taxes, depending on the specific cases associated with timing differences or tax loss carry-forwards, of 30.5% and 21%, respectively.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to losses carried forward are recognized only if the existence of future taxable income is probable, for which reason the uncertainty associated with the recoverability of the tax losses carried forward is considered in the calculation of deferred tax assets.

As referred in the accounting policy described in note 1 t), and in accordance with the requirements defined in IAS 12, the deferred tax assets recognized in the Banco Montepio Group's financial statements have an underlying high expectation of recoverability. The assessment of the recoverability of deferred tax assets is based on the business plan used to draw up the Funding and Capital Plan submitted to the Bank of Portugal, which incorporates the macroeconomic scenario, the estimates, and the assumptions disclosed by the Bank of Portugal in the context of the pandemic caused by COVID-19, on the one hand, and the expectations regarding the impacts of the pandemic at the level of the financial markets, economic activity, and the evolution of credit risk levels, on the other.

The recovery of the profitability, liquidity and capital levels of the Banco Montepio Group, is sought from four strategic focuses, having as the first condition the sustainability of the capital position, the growth in strategic business areas, with lower capital consumption and lower risk, the improvement of the efficiency and profitability, with a focus on cost control, and the simplification of the organizational structure and processes.

In this context, the prospects of sustainable improvements in the profitability levels derive from the following principles:

- Reduction of operating costs, eliminating redundancies, taking advantage of synergies, and simplifying the organizational structure.
- Increase in the commercial network business with growth in credit portfolios with less risk and less capital consumption, based on an appropriate management of return on capital, exploring the potential for growth in the complementary margin in cross-selling and new business areas, and leveraging the potential of the customer base of Banco Montepio Group, benefiting from the unique positioning of an almost bicentennial and mutualistic institution.
- The strategy outlined reflects a favourable effect at the level of net interest income, as well as of commissions, the latter evidencing the impacts of the management of the price list by adjusting it same to Banco Montepio Group's value proposal for each segment, defined in function of its life cycle and financial profile, as well as in terms of the growth of its "first bank" quota, leading to the progressive increase of the customer base with a greater transactionality and level of commitment.
- Funding cost management, considering the adequacy of the liquidity position and sources of financing vis-à-vis market conditions. The increase in the deposits' portfolio reflects the objective of strengthening customer resources as the main source of financing for the activity, together with the gradual reduction in the cost of deposits, namely through the mix between demand and time deposits.

- Deleveraging in non-strategic assets with the objective of enhancing the profitability of the assets, either through the sustained decline in non-performing credit based on the improvement of credit recovery processes and the sale of portfolios, or through the reduction of trading properties.
- Positive evolution of the loan portfolio's risk profile in the new origination component, due to the change in the credit granting policy, as well as the growth strategy focus on business segments with lower risk, with favourable impacts in terms of the cost of the prospective risk and the return on the allocated capital.
- Improvement in efficiency and in the cost-to-income ratio, supported essentially by the reduction of operating costs, based on the rationalization and implementation of a set of measures outlined by the Board of Directors, as well as by the effect of the growth in the core banking product.

Following this assessment, and with reference to the first half of 2020 and as at 31 December 2019, the Banco Montepio Group recognized all deferred tax assets; hence, there are no deferred tax assets to be recognized.

In addition, a sensitivity analysis was carried out considering a scenario in which profit or loss before tax evolved at a rate 10% lower than that considered in the aforementioned projections, with no impact at the level of deferred taxes being determined.

The deferred tax assets associated with tax losses carried forward, by expiry year, are presented as follows:

		(Euro thousand)
Expiry Date	**Jun 2020**	**Dec 2019**
2027	-	42 836
2028	-	128 830
2029	42 836	-
2030	128 831	-
2032	3 519	-
	175 186	171 666

Following the approval of the Supplementary State Budget for 2020 (Law no. 27-A/2020, of 24 July), tax losses assessed in the tax periods of 2020 and 2021 are now deductible in one or more of the 12 subsequent tax periods (instead of the carry-forward period of 5 tax periods), and as from 2021 and thereafter, inclusive the deduction of tax losses carried forward may amount to 80% of the taxable income (instead of 70%). In addition, the counting of the period to deduct tax losses carried forward until tax period 2019, inclusive, is suspended during the tax periods of 2020 and 2021.

Tax recognized in net income/(loss) and in reserves during the 1st half of 2020 and financial year 2019 originated as follows:

(Euro thousand)

	Jun 2020		Dec 2019	
	Recognized in net income/ (loss)	**Recognized to reserves and retained earnings**	**Recognized in net income/ (loss)**	**Recognized to reserves and retained earnings**
Financial instruments	(328)	7 142	(8 317)	(9 934)
Provisions / Impairment	20 222	-	(17 600)	-
Employee benefits	171	(188)	2 064	(734)
Tax losses carried forward	3 520	-	1 474	-
Other	(119)	-	362	(1 670)
Deferred taxes recognised as profit/ (losses)	23 466	6 954	(22 017)	(12 338)
Current taxes	1 433	-	(722)	-
	24 899	6 954	(22 739)	(12 338)

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

(Euro thousand)

	Jun 2020		Jun 2019	
	%	Value	%	Value
Profit before income tax		(81 191)		9 608
Income tax based on the current nominal tax rate	(21.0)	17 050	(21.0)	(2 018)
Capital gains and losses for tax purposes	0.2	(156)	-	-
Extraordinary lew on the banking sector	2.4	(1 943)	(21.6)	(2 072)
Post-emploeyement benefits and Pension Fund	(0.2)	196	-	-
Constitution/reversal of provisions/impairment taxed	1.6	(1 339)	(8.7)	(837)
Autonomous taxation	0.6	(498)	(5.7)	(546)
Other	(0.5)	417	(19.4)	(1 864)
Corrections related to prior financial periods	(2.9)	2 346	(0.5)	(46)
Effect of differences in income tax for the period	(6.2)	5 045	(13.4)	(1 287)
Deductions / (add-backs) for taxable income purposes (*)	(4.7)	3 781	(21.1)	(2 031)
Income tax for the period	(30.7)	24 899	(111.4)	(10 701)

(*) It correspond to the losses from the Investment Funds in the Consolidation perimeter and other consolidation adjustments.

Law no. 98/2019, of 4 September, amends the rules applicable to impairment losses recognized as at 1 January 2019, as well as impairment losses recorded in tax periods beginning before 1 January 2019 and not yet accepted for tax purposes. The new regime includes a maximum adjustment period of 5 years, i.e., until 31 December 2023.

Banco Montepio has not opted for the application of the new tax regime on impairment, for which reason, for the current and deferred tax assessment as at 30 June 2020, it estimated its taxes based on the regime that was in force until 31 December 2018. The entity Montepio Crédito adopted the new tax regime for impairment.

The Tax Authority can review Banco Montepio's taxable income during a period of four years, except in the event of the carry-forward of tax losses, as well as any other deduction or tax credit, in which case the period is the period of the exercise of that right.

Banco Montepio was subject to inspection by the Tax Authority up to and including the 2017 tax period, with the inspection of the 2018 tax period being 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.

The caption Current tax assets, in the amount of Euro 11,627 thousand (31 December 2019: Euro 15,284 thousand) relates, essentially, to IRC recoverable, additional payments on account and special payments on account.

34 Other assets

This caption is presented as follows:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Assets received in recovery of credit	716 274	737 057
Other debtors	46 325	50 819
Sunry debtors	40 404	19 271
Deposits placed with courts	11 589	13 502
Bonifications to be received from the Portuguese State	6 797	6 338
Deferred costs	7 145	4 998
Other receivable amounts	3 398	3 354
	831 932	835 339
Impairment for other assets	(161 543)	(157 097)
	670 389	678 242

The caption Assets received in recovery of credit is presented as follows:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Assets received in recovery of credit	716 274	737 057
Impairment for Assets received in recovery of credit	(130 924)	(128 100)
	585 350	608 957

The assets included in the caption Assets received in recovery of credit are accounted for in accordance with the accounting policy described in note 1 h).

As at 30 June 2020 the caption Assets received in recovery of credit includes the amount of Euro 1,655 thousand (31 December 2019: Euro 1,637 thousand) related to equipment resulting from the resolution of loans and advances to customers' contracts, which have an associated impairment of Euro 1,655 thousand (31 December 2019: Euro 1,533 thousand).

The resolution of loans and advances to customers' contracts results from (i) the simple foreclosure, delivery with a repurchase option or delivery with a leasing option, being accounted for upon the celebration of the contract or the promissory contract to deliver the asset and the respective irrevocable power of attorney issued by the customer in the Group's name; or (ii) the adjudication of the assets as a result of a judicial guarantee execution process, being accounted for based on the title of adjudication or the adjudication request after having registered the first pledge.

The Group has implemented a plan aimed at the immediate sale of the assets received in recovery of credit. According to the Group's expectation, it is intended that these assets be available for sale in a period under 1 year and that there is a strategy for their sale. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period. The referred caption includes, as at 30 June 2020, properties for which promissory contracts to buy and sell, in the amount of Euro 17,120 thousand, have already been celebrated.

The movements in the 1st half of 2020 and financial year 2019 in Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Opening balance	737 057	876 762
Acquisitions	7 737	33 130
Disposals	(28 924)	(198 530)
Other movements	404	3 208
Transfers	-	22 487
Closing Balance	716 274	737 057

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

(Euro thousand)

	Jun 2020	Jun 2019
Balance on 1 January	128 100	138 825
Charge for the financial period	2 990	5 720
Reversals for the financial period	(790)	(93)
Utilization and other	624	(8 222)
Balance on 31 December	130 924	136 230

As at 30 June 2020 and 31 December 2019, the caption Other debtors is analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Supplementary capital contributions	14 910	14 910
Public entities	2 300	2 300
Other	29 115	33 609
	46 325	50 819

The caption Supplementary capital contributions considers the value of supplementary capital contributions subscribed in the scope of a loans and advances sales operation in the amount of Euro 14,910 thousand, which are fully provided against as at 30 June 2020 and 31 December 2019.

As at 30 June 2020, the caption Public Entities includes the amounts receivable from public entities, mostly related to courts in the context of insolvency proceedings and loan claims lodged.

The amount shown in Others, included in the caption Other debtors, considers amounts receivable related to sales operations of non-productive assets, in accordance with the contracts signed, and also amounts invoiced by the Group with financial settlement in 2020.

The caption 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 2020 and 31 December 2019, the caption Recoverable grants receivable from the Portuguese State are presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Bonifications overdue and not yet claimed	2 483	2 398
Bonifications claimed from State not yet settled	3 737	3 350
Bonifications processed and not yet claimed	577	590
	6 797	6 338

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

(Euro thousand)

	Jun 2020	Jun 2019
Balance on 1 January	28 997	32 109
Charge for the financial year	3 471	1 024
Reversals for the financial year	(188)	(3 275)
Utilization	(1 661)	(1 763)
Balance on 31 December	30 619	28 095

The impairment of Other assets includes the exposures of Supplementary capital contributions (Euro 14,910 thousand), Deposits in court (Euro 5,084 thousand) and Other debtors (Euro 10,625 thousand).

35 Deposits from central banks

This caption includes deposits obtained from the European System of Central Banks, which are collateralized by the pledge of securities from the portfolio of financial assets at fair value through other comprehensive income and the portfolio of other financial assets at amortized cost, as described in notes 25 and 27.

These funds are composed of three operations with maturities in March 2021, in the amount of Euro 451,791 thousand, in March 2023, in the amount of Euro 284,873 thousand and in June 2023, in the amount of Euro 899,975 thousand.

The operations are remunerated at the Bank of Portugal rates in force as at the contract date.

36 Deposits from other credit institutions

This caption is presented as follows:

(Euro thousand)

	Jun 2020			Dec 2019		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	39 291	-	39 291	29 559	-	29 559
Term deposits	-	9 210	9 210	-	14 294	14 294
Other deposits	39	-	39	-	-	-
	39 330	9 210	48 540	29 559	14 294	43 853
Deposits from credit institutions abroad						
EIB loan	-	350 355	350 355	-	350 359	350 359
Demand deposits	21 803	-	21 803	12 119	-	12 119
Term deposits	-	-	-	-	576	576
Sales operations with repurchase agreement	-	109 620	109 620	-	109 756	109 756
Other deposits	5 070	-	5 070	5 498	-	5 498
	26 873	459 975	486 848	17 617	460 691	478 308
	66 203	469 185	535 388	47 176	474 985	522 161

The amount of the EIB loan is collateralized by Portuguese, Spanish, and Italian sovereign bonds in the nominal amount of Euro 364,824 thousand (31 December 2019: Euro 388,501 thousand of the Portuguese, Greek, Spanish, Dutch, Italian, French and German States), 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 amortized cost, as described in notes 23, 25 and 27, respectively.

37 Deposits from customers

This caption is presented as follows:

(Euro thousand)

	Jun 2020			Dec 2019		
	Non-interest	Interest bearing	Total	Non-interest	Interest bearing	Total
Demand deposits	4 937 801	38 493	4 976 294	4 284 276	313 817	4 598 093
Term deposits	-	7 296 935	7 296 935	-	7 783 733	7 783 733
Savings deposits	-	126 468	126 468	-	123 952	123 952
Other funds	21 892	-	21 892	18 919	-	18 919
	4 959 693	7 461 896	12 421 589	4 303 195	8 221 502	12 524 697

Ordinance no. 180/94, of 15 December, gave rise to the incorporation of the Deposits Guarantee Fund to guarantee, under certain conditions, the reimbursement of funds deposited at credit institutions authorized to receive deposits. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

In the 1st half of 2020, deposits from customers were remunerated at the average rate of 0.18% (31 December 2019: 0.27%).

38 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(Euro thousand)

	Jun 2020	Dec 2019
Cash bonds	3 162	7 357
Covered bonds	1 223 750	1 255 904
Securitizations	100 428	126 719
	1 327 340	1 389 980

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 3,162 thousand (31 December 2019: Euro 6,611 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 at fair value through profit or loss included in this caption are revalued in accordance with the accounting policy presented in note 1 c), with a gain having been recognized in the 1st half of 2020 in the amount of Euro 100 thousand (31 December 2019: Euro 192 thousand).

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 2020 and 31 December 2019.

As at 30 June 2020, the main characteristics of the covered bonds issues in circulation are as follows:

(Euro thousand)

Description	Nominal value	Value at amortized cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	*Rating (Moody´s/Fitch/Dbrs)*
Covered bonds - 6S	300 000	300 226	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A1/AA-/A
Covered bonds - 8S	500 000	500 104	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A1/AA-/A
Covered bonds - 9S	250 000	250 154	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A1/AA-/A
Covered bonds - 10S	750 000	763 343	763 343	October 2017	October 2022	annual	Fixed at 0.875%	A1/AA-/A
Covered bonds - 11S	500 000	460 407	460 407	November 2019	November 2024	annual	Fixed at 0.125%	A1/AA-/A
	2 300 000	2 274 234	1 223 750					

As at 31 December 2019, the main characteristics of the covered bonds issues in circulation are as follows:

(Euro thousand)

Description	Nominal value	Value at amortized cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	*Rating (Moody´s/Fitch/Dbrs)*
Covered bonds - 6S	300 000	300 167	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A1/AA-/A
Covered bonds - 8S	500 000	500 105	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A1/AA-/A
Covered bonds - 9S	250 000	250 120	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A1/AA-/A
Covered bonds - 10S	750 000	759 001	759 001	October 2017	October 2022	annual	Fixed at 0.875%	A1/AA-/A
Covered bonds - 11S	500 000	496 903	496 903	November 2019	November 2024	annual	Fixed at 0.125%	A1/AA-/A
	2 300 000	2 306 296	1 255 904					

In financial year 2019, under Banco Montepio's Mortgage Bond Issuance Program, the amount of Euro 500,000 thousand, with a 5-year maturity and a fixed annual interest rate of 0.125% was issued and the issue of the series 5 mortgage bonds in the amount of Euro 500,000 thousand was repaid.

The covered bonds are guaranteed by a pool of mortgage loans which are segregated as an autonomous asset in the Group's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

The legal and regulatory framework of these bonds is set out in Decree-Law no. 59/2006, in Bank of Portugal Notices no. 5/2006, of 20 June, no. 6/2006, of 11 October, no. 7/2006, of 11 October, and no. 8/2006, of 11 October and Instruction no. 13/2006, of 15 November, of the Bank of Portugal.

As at 30 June 2020, the value of the loans collateralizing these issues amounted to Euro 2,728,716 thousand (31 December 2019: Euro 2,719,463 thousand), according to note 22.

The movements in Debt securities issued during the period ended 30 June 2020, are analysed as follows:

(Euro thousand)

	Balance on 1 January	**Reimbursements**	**Other movements (a)**	**Balance on 30 June**
Cash bonds	7 357	(3 900)	(295)	3 162
Covered bonds	1 255 904	-	(32 154)	1 223 750
Securitisations	126 719	(26 291)	-	100 428
	1 389 980	(30 191)	(32 449)	1 327 340

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variation.

The movements in Debt securities issued during financial year 2019, are analysed as follows:

(Euro thousand)

	Balance on 1 January	**Issues**	**Reimbursements**	**Other movements (a)**	**Balance on 31 December**
Cash bonds	124 719	-	(114 000)	(3 362)	7 357
Covered bonds	753 612	500 000	-	2 292	1 255 904
Securitisations	215 603	-	(88 884)	-	126 719
	1 093 934	500 000	(202 884)	(1 070)	1 389 980

(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.

As at 30 June 2020, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description	Issue date	Maturity	Interest rate	Book value
CAIXA-MG BONDS FIXED RATE SEPTEMBER 2010-2020	09/09/2010	09/09/2020	Annual fixed rate of 4%	100
CAIXA- MG CAPITAL CERTO BONDS 2013/2021- 1ST SERIES	28/02/2013	01/03/2021	Annual fixed rate: 5.15% (3rd year: 5.30%; 4th year: 5.30%; 5th year: 5.90%; 6th coupon Max[5.95%; Min (IPC+2%;8.25%)];7th coupon Max[6.15%; Min (IPC+2%;8.50%)]; 8th coupon Max[6.45%; Min (IPC+2%;8.50%)])	2 148
CAIXA-MG CAPITAL CERTO BONDS 2013/2021- 2nd SERIES	28/06/2013	29/06/2021	Annual fixed rate of 4.9% (3rd year: 5.1%, 4th year: 5.1%, 5th year: 5.65% and of 6th to 8th years: Max(5.95%;Min(IPC+2%;8.15%))	812
COVERED BONDS - 10S	17/11/2017	17/11/2022	Annual fixed rate of 0.875%	750 000
PELICAN MORTGAGES n.º 3	30/03/2007	15/09/2054	Euribor 3M + 0.13%	43 468
AQUA FINANCE n.º 4 A	11/07/2017	23/06/2035	Euribor 3M + 1.05%	41 960
AQUA FINANCE n.º 4 B	11/07/2017	23/06/2035	Euribor 3M + 2.65%	15 000
COVERED BONDS - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
				1 353 488
			Adjustments of hedging operations	10 063
			Accrual based accounting, deferred income and costs	(36 211)
				1 327 340

As at 31 December 2019, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description	Issue date	Maturity	Interest rate	Book value
CAIXA-MG BONDS FIXED RATE SEPTEMBER 2010-2020	09/09/2010	09/09/2020	Annual fixed rate of 4%	100
CAIXA-CRPC BONDS 2012-2020-1.SERIE	30/03/2012	31/03/2020	Annual fixed rate 5.25% (4th year: 6% e 5th year: 6.75%; 6th, 7th e 8th cupon Max[6.25% e Min (IPC+2%;9.15%)]	3 300
CAIXA-MONTEPIO CAPITAL CERTO BONDS 2012-2020-2nd SERIES	31/05/2012	01/06/2020	Annual fixed rate of 8.2583% (4th year: 9.7083%; 5th year: 10.7250%; 6th year: 7.4750%; 7th year: 8.3% e 8thano: 11.1583%)	600
CAIXA-MG CAPITAL CERTO BONDs 2013/2021-1.SERIE	28/02/2013	01/03/2021	Annual fixed rate: 5.30%; 5th year rate: 5.90%; 6th cupon Max[5.95%; Min (IPC+2%;8.25%)];7th cupon Max[6.15%; Min (IPC+2%;8.50%)]; 8th cupon Max[6.45%; Min (IPC+2%;8.50%)])	2 148
CAIXA-MG CAPITAL CERTO BONDS 2013/2021-2.SERIE	28/06/2013	29/06/2021	Annual fixed rate 4.9% (3rd year rate: 5.1%, 4th year rate: 5.1%, 5th year rate: 5.65% and from 6th to 8th year rate: Max(5.95%;Min(IPC+2%;8.15%))	812
COVERED BONDS - 10S	17/10/2017	17/10/2022	Annual fixed rate of 0.875%	750 000
PELICAN MORTGAGES no. 3	30/03/2007	15/09/2054	Euribor 3M + 0,13%	45 799
AQUA FINANCE no. 4 A	11/07/2017	23/06/2035	Euribor 3M + 1,05%	65 919
AQUA FINANCE no. B	11/07/2017	23/06/2035	Euribor 3M + 2,65%	15 000
COVERED BONDS - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0,125%	500 000
				1 383 678
			Value corrections of hedging operations	9 279
			Accrual based accounting, deferred income and costs	(2 977)
				1 389 980

39 Provisions

This caption is presented as follows:

	(Euro thousand) Jun 2020	Dec 2019
Provisions for guarantess and commitments	17 725	15 397
Provisions for other risks and charges	15 674	16 236
	33 399	31 633

The Provisions for other risks and charges were set up based on the probability of the occurrence of certain contingencies related to risks inherent to the Group's activity.

This caption includes provisions for tax contingencies (Stamp Duty, Income Tax (IRC), Property taxes (IMI) and TSC), lawsuits and frauds.

The movements in provisions for guarantees and commitments occurred in the first half of 2020 and 2019, are analysed as follows:

	(Euro thousand) Jun 2020	Jun 2019
Opening balance	15 397	14 438
Charge for the period		
Continuing operations	19 359	9 109
Discontinuing operations	5 914	329
Reversal for the period		
Continuing operations	(17 031)	(10 178)
Discontinuing operations	(5 228)	(179)
Transfers related to discontinuing operations	(686)	692
Closing balance	17 725	14 211

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

	(Euro thousand) Jun 2020	Jun 2019
Opening balance	16 236	16 642
Charge for the period	185	1 435
Reversal for the period	(747)	(1 682)
Closing balance	15 674	16 395

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 to reflect the best estimate of the loss amount.

40 Other subordinated debt

As at 30 June 2020 and 31 December 2019, the main characteristics of subordinated debt, are analysed as follows:

(Euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Jun 2020	Dec 2019
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	52 033	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%	102 531	107 803
MONTEPIO EMTN SUB 2020/2030	Mar 2019	Jun 2030	50 000	10,5% the first 5 years and at EurSwap for 5y + Fixing ICE (FFT 11:00 AM) + 9,742%	50 277	-
FINIBANCO VALOR INVEST 2010	Feb 2010	-	15 000	7% for the first 4 coupon dates and Max[Euribor 6M + 2.75%; 5%] for the remaining years	6 323	-
					211 164	157 847

The movements in Other subordinated debt during the first half of 2020 and financial year 2019, were as follows:

(Euro thousand)

	Jun 2020			
	Balance at 1 January	Issued	Other movements (a)	Balance at 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	1 989	52 033
MONTEPIO EMTN SUB 2019/2029	107 803	-	(5 272)	102 531
MONTEPIO EMTN SUB 2020/2030	-	50 000	277	50 277
FINIBANCO VALOR INVEST 2010	-	-	6 323	6 323
	157 847	50 000	3 317	211 164

(a) Includes accrued interest

	Dec 2019			
	Balance at 1 January	Issued	Other movements (a)	Balance at 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	50 044
MONTEPIO EMTN SUB 2019/2029	-	100 000	7 803	107 803
	50 044	100 000	7 803	157 847

(a) Includes accrued interest

In financial year 2019, under the Euro Medium Term Note Programme (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 100,000 thousand, with a 10-year maturity, with a rate of 10.50% in the first five years and a call option, at par, in the 5th year.

In the 1st half of 2020, under the Euro Medium Term Note Programme (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 50,000 thousand, with a 10-year maturity, with a rate of 9.5% in the first five years and a call option, at par, in the 5th year.

The issue of “Finibanco Valor Invest 2010” was transferred to this liability category, as described in note 41. The main characteristics of this issue are as follows:

- Interest rate: fixed rate of 7% on the first 4 interest payment dates and on the following interest payment dates, a variable rate corresponding to the Euribor rate for the period of 6 months plus 2.75%, with a minimum of 5%;
- Maturity: Not applicable (not subject to mandatory refund);
- Refund amount: Refund at nominal value. As a result of applicable laws or regulations, including any European Union directives or regulations, which establish a legal regime for the recovery and liquidation of credit institutions (Directive 2015/59/EU of the European Parliament and of the Council, of 15 May 2014 and Law no. 23-A/2015, of 26 March), or any implementation of those in Portugal, the amounts may be used to cover the issuer's losses, and may be called upon to absorb losses.

41 Other liabilities

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Domestic and foreign operations pending settlement	136 994	95 523
Sundry creditors	25 445	8 838
Post-employment benefits	10 643	13 807
Staff costs payable	25 176	25 633
Lease liabilities	18 758	21 273
Other costs payable	10 098	32 978
Suppliers	7 212	10 323
Administrative public sector	10 668	11 773
Deferred income	517	528
	245 511	220 676

As at 30 June 2020, the caption Staff charges payable includes the amount of Euro 19,789 thousand (31 December 2019: Euro 19,730 thousand), related to holiday pay and subsidy. Additionally, as at 30 June 2020, this caption also includes the amount of Euro 2,523 thousand (31 December 2019: Euro 2,059 thousand) related to end-of-career awards.

The caption Lease liabilities corresponds to the amount of lease liabilities recognized in the scope of IFRS 16, as described in accounting policy 1 i), and relates to operating leases of real estate and motor vehicles.

The residual maturity of the lease liabilities is as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Up to 1 year	906	1 263
1 to 5 years	17 573	20 877
More than 5 years	721	903
	19 200	23 043
Costs to differ in net interest income	(442)	(1 770)
	18 758	21 273

42 Share capital

As at 30 June 2020 and 31 December 2019, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

In the 1st half of 2020, MGAM sold 7,500 (financial year 2019: 3,000) shares of Banco Montepio's share capital, which is now held as follows:

	Jun 2020		Dec 2019	
	Number of shares	Percentage	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 830 580	99.9930%	2 419 838 080	99.9933%
Other Shareholders	169 420	0.0070%	161 920	0.0067%
	2 420 000 000	100.0%	2 420 000 000	100.0%

43 Other equity instruments

The issue of Euro 15,000 thousand, occurred in the first quarter of 2010, of Subordinated Perpetual Securities with conditional interest ("Finibanco Valor Invest 2010" – ISIN: PTFNI1OM0011) made by Montepio Investimento, S.A. (previously designated Finibanco, S.A.), and that, in the scope of the acquisition of Montepio Holding, S.G.P.S., S.A. (previously designated Finibanco Holding, S.G.P.S., S.A.) and its subsidiaries, was integrated in Banco Montepio's equity.

At the bondholders' meeting held on 29 January 2020 and ratified at the General Meeting of 30 June 2020, it was deliberated to amend the bond's technical sheet to adapt its conditions to the prudential treatment adopted.

Within the scope of the proposed changes, this instrument was reclassified to the caption Other subordinated liabilities.

44 Legal reserve

In accordance with article 97 of the Legal Framework of Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" – "RGICSF"), approved by the Decree-Law no. 298/92, of 31 December and amended by the Decree-Law no. 201/2002, Banco Montepio shall reinforce the legal reserve annually with, at least, 10% of the annual net profits, up to the limit equal to the amount of the share capital or to the sum of the free reserves and retained earnings, if higher. This reserve cannot, normally, be distributed.

The movement in the legal reserve is analysed in note 45.

45 Fair value reserves, Other reserves and Retained earnings

This caption is presented as follows:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income		
Debt instruments	(2 050)	20 722
Equity instruments	(22 469)	(9 610)
Loans and advances to customers	288	557
Own credit risk	58	157
	(24 173)	11 826
Taxes		
Financial assets at fair value through other comprehensive income	(3 975)	(10 847)
Loans and advances to customers	(88)	(170)
	(4 063)	(11 017)
Fair value reserve net of taxes	(28 236)	809
Other reserves and retained earnings		
Legal reserve	191 969	191 969
Consolidation exchange reserves	(104 891)	(94 052)
Other reserves and retained earnings	(1 079 520)	(1 106 295)
	(992 442)	(1 008 378)

Fair value reserves related to financial assets at fair value through other comprehensive income represent the potential gains and losses in the portfolio of financial assets at fair value through other comprehensive income.

The caption Loans and advances to customers records the amount of the fair value reserve related to the loans and advances to customers' portfolio reclassified from Other 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 first half of 2020, are analysed as follows:

(Euro thousand)

	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	15 115	(136)	(2 828)	(15 431)	773	(2 507)
Bonds issued by foreign public entities	5 742	(655)	75	(4 687)	602	1 077
Bonds issued by other entities:						
Domestic	(1 785)	1 255	188	253	(433)	(522)
Foreign	1 650	(366)	-	(1 526)	144	(98)
	20 722	98	(2 565)	(21 391)	1 086	(2 050)
Variable income securities						
Shares						
Domestic	7 735	-	-	-	-	7 735
Foreign	(17 345)	(12 859)	-	-	-	(30 204)
	(9 610)	(12 859)	-	-	-	(22 469)
	11 112	(12 761)	(2 565)	(21 391)	1 086	(24 519)

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

(Euro thousand)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 30 June
Fixed income securities						
Bonds issued by Portuguese public entities	863	1 242	14 344	-	(1 334)	15 115
Bonds issued by foreign public entities	(5 009)	3 169	5 664	5 094	(3 176)	5 742
Bonds issued by other entities:						
Domestic	(1 329)	322	(440)	(317)	(21)	(1 785)
Foreign	(584)	1 344	979	36	(125)	1 650
	(6 059)	6 077	20 547	4 813	(4 656)	20 722
Variable income securities						
Shares						
Domestic	2 099	4 461	1 175	-	-	7 735
Foreign	(15 303)	(2 034)	(8)	-	-	(17 345)
	(13 204)	2 427	1 167	-	-	(9 610)
	(19 263)	8 504	21 714	4 813	(4 656)	11 112

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Amortized cost of financial assets at fair value through other comprehensive income	1 228 147	1 853 906
Recognised accumulated impairment	(4 241)	(5 327)
Amortized cost of financial assets at fair value through other comprehensive income net of impairment	1 223 906	1 848 579
Market value of financial assets at fair value through other comprehensive income	1 199 387	1 859 691
Potential realised gains/ (Losses) recognised in the fair value reserve	(24 519)	11 112

46 Distribution of dividends

In the 1st half of 2020 and financial year 2019, Banco Montepio did not distributed dividends.

47 Non-controlling interests

This caption is presented as follows:

(Euro thousand)

	Balance Sheet		Income statement	
	Jun 2020	Dec 2019	Jun 2020	Dec 2019
Finibanco Angola, S.A.	10 718	11 550	1 233	1 158

The movements in this caption are analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Opening balance	11 550	15 551
Foreign exchange differences	(2 065)	(6 730)
Other reserves	-	1 008
Dividends	-	(776)
	9 485	9 053
Net income attributable to non-controlling interests	1 233	2 497
	10 718	11 550

			Percentage held by non-controlling interests	
Name	Head office	Segment	Jun 2020	Dec 2019
Finibanco Angola, S.A.	Luanda	Banking	19.78%	19,78%

The summary of the financial information for the above-mentioned Institution, prepared in accordance with IFRS, is disclosed in note 60.

As laid down in IFRS 5, Finibanco Angola is classified as a discontinued operation.

48 Guarantees and other commitments

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Guarantees granted	498 779	513 824
Commitments to third parties	1 496 603	1 315 399
Deposit and custody of securities	6 861 853	7 327 873
	8 857 235	9 157 096

The amounts of Guarantees provided, and Commitments assumed to third parties are analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Guarantees granted		
Guarantees	460 906	464 734
Letters of credit	37 873	49 090
	498 779	513 824
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	698 132	579 670
Potential liability with the Investor's Indemnity System	7 741	7 813
Term liability to the Guarantee Deposits Fund	22 768	22 768
Subscription Agreement	1 439	1 431
Revocable commitments		
Revocable credit facilities	766 523	703 717
	1 496 603	1 315 399

Guarantees and standby letters granted are financial operations that do not necessarily result in mobilization of funds by the Group.

The captions Guarantees provided and Commitments assumed to third parties - Irrevocable commitments – irrevocable credit facilities include the amount of Euro 26,189 thousand (31 December 2019: Euro 37,965 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 60.

Documentary credits correspond to irrevocable commitments, by the Group, on behalf of its customers, to pay/order to pay a certain amount to the supplier for a certain good or service, within a defined period, against the presentation of the documentation confirming the shipment of goods or the rendering of services. The irrevocable condition arises from the fact that the commitment is not cancellable or alterable without the express agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to the Group's customers (for example unused credit facilities). These agreements are generally contracted for fixed periods of time or with other expiring requirements and, usually, require the payment of a commission. Substantially, all credit concession commitments require that customers maintain certain conditions defined at the time the commitments were contracted.

Notwithstanding the particular characteristics of these commitments, the analysis of these operations follows the same basic principles of any commercial operation, namely the solvency of the underlying customer and business, with the Group requiring that these operations be adequately covered by collaterals when necessary. Considering that it is expected that the majority of these expire without having been used, the indicated amounts do not necessarily represent future cash-flow needs.

As at 30 June 2020 and 31 December 2019, the balance of the caption Term liability to the Deposits Guarantee Fund is related to the irrevocable commitment assumed by the Group, as required by law, to deliver the unrealized amounts of the annual contributions, to that Fund, if requested to do so.

As at 30 June 2020, in the scope of the Deposits Guarantee Fund, the Group pledged treasury bonds (OT 4.95% 25.10.2023), recorded as Financial assets at fair value through other comprehensive income, with a nominal value of Euro 23,000 thousand (31 December 2019: Euro 21,500 thousand), as described in note 25.

As at 30 June 2020 and 31 December 2019, the caption Potential liability - Investors' Compensation System refers to the irrevocable obligation that the Group assumed, as required by law, to deliver to that System, if actioned by same, the amounts necessary to pay its share of the indemnities due to investors.

The financial instruments accounted for as Guarantees and other commitments are subject to the same approval and control procedures applied to the loans and advances to customers' portfolio, namely regarding the assessment of the adequacy of the impairment constituted, as referred in the accounting policy described in note 1 c). The maximum credit exposure is represented by the nominal amount that could be lost related to contingent liabilities and other commitments assumed by the Group in the event of default by the respective counterparties, without considering potential loan or collateral recoveries.

49 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as is the case with many products sold to customers, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to their financial characteristics and the discount rates used include both the market interest rate curve and the current conditions of the pricing policy of the Group.

Therefore, the fair value obtained is influenced by the parameters used in the valuation model that, necessarily, have some degree of judgement and reflect, exclusively, the value attributed to the different financial instruments. However, it does not consider prospective factors, like the future business evolution. Consequently, the values presented cannot be understood as an estimate of the economic value of the Group.

Financial instruments recorded in the balance sheet at fair value

Financial instruments accounted for in the balance sheet at fair value were classified by levels in accordance with IFRS 13, as follows:

Debt and equity instruments

- Level 1: In addition to financial instruments admitted to trading on a regulated market, bonds and investment units in harmonized funds, valued based on active market prices/quotations, disclosed through trading platforms, are included in this category.

  The aforementioned financial instruments are traded on an active market whenever the financial instruments in question are quoted through multi-contributed sources for bonds and the primary exchange for shares.

- Level 2: Financial instruments that are not traded on an active market or valued using valuation techniques supported by observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect (derivatives), and valuation assumptions similar to those that an unrelated party would use in estimating the fair value of the same financial instrument, are considered Level 2. The classification of fair value in Level 2 is made according to the following rules:

  a) Financial instruments shall be classified in level 2 if they are:

     i. valued based on models using observable market data (such as interest rate curves or exchange rates). Market interest rates are calculated based on information disseminated by financial content providers, for example Bloomberg, namely those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. The same interest rate curves are also used to project non-deterministic cash flows, such as indexers; or

     ii. valued using indicative third-party purchase prices, based on observable market data.

  b) For financial instruments that do not have a 30-day history available in the system, the fair value level shall be assigned based on the available history.

- Level 3: Financial instruments are classified in level 3 whenever they do not meet the criteria to be classified in level 1 or level 2, or fair value is determined based on unobservable data in active markets, using techniques and assumptions that market participants would use to assess the same instruments, namely:

  a) financial instruments not admitted to trading on a regulated market that are valued using valuation models and for which there is no generally accepted consensus on the criteria to be used, namely:

     i. valuation prepared in accordance with the Net Asset Value of non-harmonized funds, updated and disclosed by the respective management companies;

ii. valuation prepared in accordance with indicative prices disclosed by the entities that participated in the issuance of certain financial instruments, without an active market; or

iii. valuation prepared in accordance with the realization of impairment tests, using the performance indicators of the underlying operations (e.g. degree of protection by subordination of the tranches held, delinquency rates of underlying assets, evolution of ratings, etc.).

b) financial instruments valued through indicative purchase prices based on theoretical valuation models disclosed by specialized third parties.

Derivative financial instruments

Operations involving financial derivatives, in the form contracts in respect of exchange rate, interest rate, share or share indices, inflation or a combination of these are traded over the counter (OTC) and in organized markets (especially stock markets). For OTC derivative operations (swaps and options), their valuation is based on generally accepted methods, always favouring market values.

- Level 1: This classification includes futures, options and other derivative financial instruments traded on a regulated market.

- Level 2: This level includes derivative financial instruments traded on unregulated (OTC) markets that do not have an optional component.

  The valuation of these derivatives is made by discounting the cash flows from operations, using as a discounting base the market interest rate curves deemed appropriate for the currency in force at the time of the calculation. Interest rates are obtained from Bloomberg or Reuters

  Market interest rates are calculated based on information disseminated by financial content providers - Bloomberg or Reuters - specifically those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. Interest rate curves are also used to project non-deterministic cash flows such as indexers.

- Level 3: This level includes options and derivatives traded on an unregulated (OTC) market, incorporating optional elements.

Options are valued based on statistical models that consider the market values of the underlying assets and their volatilities (assuming that they are not directly observable in the market). The theoretical models used in the valuation of derivatives classified in level 3 are presented as follows:

i. For simple options, the Black-Scholes, Black, Ho and other models are used, considering the applicable volatility surfaces and their derivatives (models commonly used by the market in valuing this type of operations). Unobservable market inputs used in the valuation (implied volatilities of the subjacent) are taken from Bloomberg.

ii. For exotic options or for complex derivatives with embedded optional elements for which no valuation models are available, Banco Montepio hires specialized entities that value such assets using specific models that they develop according to generally accepted criteria and methodologies.

The valuations thus obtained are, in the case of interbank operations, compared with those used by the counterparties and, whenever it is understood that there are insufficient quality market references or that the available models do not fully apply to the characteristics of the financial instrument, specific quotations provided by an external entity, typically the counterparty of the business, are used.

The valuation of non-optional components, not adjusted for credit risk, (cash flows from the operations), is made based on their respective discounting, using a methodology similar to that used for derivatives without an optional component; even so, the derivative in question is still considered in level 3.

Financial instruments recorded in the balance sheet at amortized cost

For financial instruments recorded in the balance sheet at amortized cost, Banco Montepio calculates their fair value using valuation techniques that seek to be based on the market conditions applicable to similar operations at the reference date of the financial statements, namely the value of the respective cash flows discounted based on the interest rates considered most appropriate, that is:

- *Other loans and advances to credit institutions, Deposits from central banks, Deposits from other credit institutions and Assets with repurchase agreements*

  The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates.

  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of their fair value, considering the nature of the operations and the associated period. The rate of return of funding from the European Central Bank is negative in 0.23% for live operations as at 30 June 2020 (31 December 2019: 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 2020, the average discount rate was a negative 0.29% (31 December 2019: 0.21%).

  For Loans and advances to other credit institutions a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term operations was applied. Considering the short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

- *Other financial assets at amortized cost*

  These financial instruments are accounted for at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for associated factors, predominantly the credit and liquidity risks, determined in accordance with the respective market conditions and periods.

- *Loans and advances to customers without a defined maturity date and Deposits from customers payable 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 2.47% for mortgage loans (31 December 2019: 2.81%), 5.42% for private individual loans (31 December 2019: 5.86%) and 2.78% for the remaining loans (31 December 2019: 4.24%), 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 2020 was 0.11% (31 December 2019: 0.18%).

- *Debt securities issued and Other subordinated debt*

For these financial instruments, the fair value was calculated for the components which fair value is not yet reflected in the balance sheet. For the fixed interest rate instruments in respect of which the Group applies hedge accounting, the fair value related to the interest rate risk is already accounted for.

In the fair value calculation, the other risk components were also considered, besides the interest rate risk already accounted for. Fair value is based on market quotations, whenever these are available. If these are not available, fair value is estimated using internal models, based on cash-flow discounting techniques, using the market interest rate curve adjusted by the associated factors, predominantly the credit risk and the trading margin, the latter only in the case of issues sold to non-institutional customers of the Group.

As original reference, the interest rate swaps market curves for each specific currency are used. The credit risk (credit spread) is represented by an excess over the interest rate swaps' curve, calculated specifically for each term and class of instruments based on the market prices of equivalent instruments.

In case of covered bond issues, the fair value is determined based on quotations disseminated by the financial content provider Bloomberg.

As regards subordinated issues, the discount rate calculated was 5.66% (31 December 2019: 6.17%). The average discount rate calculated for senior issues placed on the retail market was a negative 0.30% (31 December 2019: 0.17%).

The discount rate for the subordinated issue reflects the spreads observed on the market for comparable issues increased by a liquidity premium, considering the lower depth of the market for the subordinated debt issued by Banco Montepio.

- *Cash, Deposits at central banks and Loans and advances to credit institutions payable on demand*

  Considering the extremely short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

It should be noted that the fair value presented may not correspond to the realization value of these financial instruments in a sale or liquidation scenario, since it has not been calculated for this purpose.

The main valuation methods, assumptions and inputs used to calculate the fair value estimate for levels 2 and 3, depending on the type of financial instrument, are presented as follows:

	Type of instruments		Valuation methods	Main assumptions
Financial assets and liabilities held for trading	Derivatives [1]	*Swaps*	Discounted Cash flow method [2]	Interest rate curves
		Exchange rate options	*Black-Scholes* Model	Implied volatilities
		Interest rate options	Normal model	Probability of default for CVA and DVA calculation
	Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premium Comparable assets [3] Market observable prices
Financial assets at fair value though profit or loss	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premium Comparable assets [3] Market observable prices
Financial assets at fair value through other comprehensive income	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premium Comparable assets [3]
Financial Assets at amortized cost	Debt securities Loans and advances outstanding		Discounted Cash Flow Method [2]	Interest rate curves Comparable assets [3] *Spreads*
Derivatives - Hedge accounting	*Swaps* [1]		Discounted Cash Flow Method [2]	Interest rate curves Implied volatilities Probability of default for CVA and DVA calculation
Financial liabilities at amortized cost	Term deposits Debt securities issued		Discounted Cash Flow Method [2]	Interest rate curves *Spreads*

(1) In derivative valuations, an adjustment to the valuation is made to take into account counterparty credit risk when the exposure is the Bank's or the credit risk of the Bank's when the exposure is the counterparty's (generally referred to by the abbreviations CVA - Credit Valuation Adjustment and DVA - Debit Valuation Adjustment).

(2) Cash-flow discounting method (net present value): this model uses the cash flows of each instrument, established in the different contracts, and discounts them to calculate their present value.

(3) Comparable assets (prices of similar assets): comparable financial instrument prices or market benchmarks are used to calculate yield from the purchase price to its current valuation, making subsequent adjustments to take into account possible differences between the revalued instrument and the reference instrument. It can also be assumed that the price of one instrument equals that of another.

Valuation adjustments for Credit Risk

Counterparty Credit Risk Valuation Adjustments (“CVA”) and the Bank’s Credit Risk Valuation Adjustments (“DVA”) are incorporated in the valuation of OTC derivatives as a result of the risk associated with the credit exposure of the counterparty and its own, respectively.

The CVA value is calculated considering the expected exposure for each counterparty in each future term, with the CVA by counterparty being calculated by summing the various CVA values of the various future terms. The adjustments are then determined by estimating the counterparty’s exposure at default (EAD), the respective probability of default (PD) and the loss given default (LGD) for all derivative financial instruments traded under the same contract negotiated with the Group with a netting clause (of the same netting set). Similarly, the DVA corresponds to the product of the negative expected exposure at default by the probability of default and by Banco Montepio Group's LGD.

The PD and LGD values are calibrated using market data, for the effect using the counterparty’s rating and sector or historical information on the probability of default.

Changes in CVA/FVA and DVA/FVA adjustments are accounted for as gains or losses on assets and liabilities held for trading in the profit or loss. The detail of the movements of these adjustments is shown in the table.

CVA Movements

(Euro thousand)

	Jun 2020	Dec 2019
Adjustment	**547**	**446**
Of which: Derivative expiry	1	(4)

As at 30 June 2020 and 31 December 2019, neither the Bank nor the Group determined any adjustment related to the DVA given that the OTC derivatives subject to the Bank’s credit risk (negative fair value) are fundamentally contracted with counterparties with which the Bank and the Group have collateral exchange agreements (CSAs), as per note 21.

Fair value of assets received in recovery of credit

The fair value and impairment constituted for real estate assets received in recovery of credit are a function of the valuation amount and the book value of the properties. The valuation amount is equal to the lower of the following values:

- Value 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 always ensure an adequate diversification and rotation in the performance of the valuations.

Independent external appraisers follow the principles defined by:

- Notice no. 5/2006 of the Bank of Portugal (Valuation of Mortgaged Properties as a Guarantee of Loans with Mortgage requirements);
- Regulation no. 575/2013 of the European Parliament and of the Council (Prudential Requirements).

Fair value determination is made by independent appraisers duly certified for this purpose, duly registered with the CMVM, and using at least two of the following methods.

Comparative market method

This method provides an estimate of the amount by which it is understood that a particular property may be traded, after an appropriate period of trading, between an interested seller and buyer, in which both parties act in an informed, prudent and unconditional or non-coerced manner.

The value of the property is determined after analysis of comparable transaction and property offer values, obtained through knowledge of the local market and the exhaustive collection of real estate market data that provides knowledge of the supply and demand situation for similar properties, and which constitute a decisive factor in determining the Market Value of the property under valuation.

Income method

In this method, the market value of a property corresponds to the present value of all the rights to future benefits arising from its ownership.

This method assumes that property management and operation is based on the principles of legality, rationality and competence. The purpose of the analysis is to determine its respective ability to generate revenue flows, as well as the frequency of their occurrence, as well as to infer all the inherent expenses.

Cost method

In this method, the estimated value of a property corresponds to the cost of constructing a property that fulfils the same functions and with the same material and technology characteristics, at current market prices. The value assessed includes the value of the land, construction costs and the investment promotion profit margin, as well as a deduction corresponding to the depreciation, or loss of property value, resulting from physical, functional, economic or environmental obsolescence or a combination of these.

For all valuations not based on all 3 valuation methods, the expert appraiser should consider the local market characteristics and the specific characteristics of the property under valuation. The valuation adopted shall be the lower of the values determined because it is the most prudent in terms of guarantee.

Investment properties

Fair value determination is made by independent appraisers duly certified for this purpose, duly registered with the CMVM, and using at least two of the following methods:

- Comparative market method;
- Income method;
- Cost method;

as described in note 1 n).

As at 30 June 2020, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currency				
	Euro	**United States Dollar**	**Pound Sterling**	**Swiss Franc**	**Japanese Yen**
1 day	-0.500000	0.150000	0.145000	-0.745000	-0.210000
7 days	-0.518000	0.145536	0.145000	-0.595000	-0.290000
1 mês	-0.510000	0.150000	0.195000	-0.800000	-0.290000
2 Months	-0.466000	0.185000	0.195000	-0.695000	-0.260000
3 Months	-0.422000	0.225000	0.245000	-0.705000	-0.240000
6 Months	-0.308000	0.295000	0.295000	-0.475000	-0.200000
9 Months	-0.265341	0.385000	0.400000	-0.470000	-0.220000
1 year	-0.225000	0.475000	0.500000	-0.355000	-0.150000
2 years	-0.389000	0.495204	0.499377	-0.632500	-0.150037
3 years	-0.390500	0.515134	0.499377	-0.618000	-0.150037
5 years	-0.355500	0.555213	0.499377	-0.544000	-0.150037
7 years	-0.296000	0.595292	0.499377	-0.453000	-0.150037
10 years	-0.181500	0.655466	0.499377	-0.307000	-0.150037
15 years	-0.006000	0.758295	0.499377	-0.147500	-0.150037
20 years	0.065000	0.862900	0.499377	-0.147500	-0.150037
30 years	0.024000	0.895100	0.499377	-0.147500	-0.150037

As at 31 December 2019, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currency				
	Euro	**United States Dollar**	**Pound Sterling**	**Swiss Franc**	**Japanese Yen**
1 day	-0.510000	1.530000	0.745000	-0.745000	-0.200000
7 days	-0.499000	1.586327	0.745000	-0.770000	-0.084600
1 month	-0.438000	1.790000	0.745000	-0.755000	-0.370000
2 Months	-0.411417	1.850000	0.810000	-0.725000	-0.310000
3 Months	-0.383000	1.920000	0.850000	-0.695000	-0.350000
6 Months	-0.324000	1.930000	0.920000	-0.650000	-0.310000
9 Months	-0.285892	1.910000	0.945000	-0.580000	-0.130000
1 year	-0.249000	1.940000	0.995000	-0.590000	-0.270000
2 years	-0.293500	1.937916	0.992537	-0.607000	-0.270156
3 years	-0.238000	1.935827	0.992537	-0.558000	-0.270156
5 years	-0.119500	1.931643	0.992537	-0.436000	-0.270156
7 years	0.016000	1.927458	0.992537	-0.302000	-0.270156
10 years	0.211000	1.921190	0.992537	-0.112000	-0.270156
15 years	0.467000	1.958212	0.992537	0.094000	-0.270156
20 years	0.599000	2.027000	0.992537	0.094000	-0.270156
30 years	0.631000	2.056000	0.992537	0.094000	-0.270156

Exchange rates and volatility

We present below the exchange rates (European Central Bank) as at the balance sheet date and the implied volatilities (at the Money) for the main currency pairs used in the valuation of derivatives:

			Volatility (%)				
Currency pair	**jun 2020**	**dec 2019**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1198	1.1234	7.225	7.415	7.605	7.455	7.452
EUR/GBP	0.91243	0.8508	7.7	8.038	8.563	8.663	8.712
EUR/CHF	1.0651	1.0854	5.41	5.582	5.89	5.92	5.935
EUR/JPY	120.66	121.94	7.95	8.275	8.76	8.875	8.94
EUR/BRL	6.1118	4.5157	27.65	23.5	21.125	19.925	19.225
EUR/AOA	646.933	540.037	-	-	-	-	-

Regarding exchange rates, the Group uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of the Group, as at 30 June 2020 and 31 December 2019, is presented as follows:

(Euro thousand)

	Jun 2020				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial Assets					
Cash and deposits at central banks	-	-	914 755	914 755	914 755
Loans and deposits to credit institutions payable on demand	-	-	48 562	48 562	48 562
Other loans and advances to credit institutions	-	-	286 486	286 486	286 486
Loans and advances to customers	1 207	-	11 553 097	11 554 304	11 362 485
Financial assets held for trading	43 955	-	-	43 955	43 955
Financial assets at fair value through profit or loss	371 469	-	-	371 469	371 469
Financial assets at fair value through other comprehensive income	-	1 199 387	-	1 199 387	1 199 387
Hedging derivatives	15 259	-	-	15 259	15 259
Other financial assets at amortized cost	-	-	1 703 767	1 703 767	1 748 490
	431 890	1 199 387	14 506 667	16 137 944	15 990 848
Deposits from central bank	-	-	1 636 639	1 636 639	1 636 639
Deposits from other credit institutions	-	-	535 388	535 388	540 873
Deposits from customers	-	-	12 421 589	12 421 589	12 433 597
Debt securities issued	3 009	-	1 324 331	1 327 340	1 323 475
Financial liabilities held for trading	13 185	-	-	13 185	13 185
Hedging derivatives	799	-	-	799	799
Other subordinated debt	-	-	211 164	211 164	231 752
	16 993	-	16 129 111	16 146 104	16 180 320

(Euro thousand)

	Dec 2019				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial Assets					
Cash and deposits at central banks	-	-	1 003 649	1 003 649	1 003 649
Loans and deposits to credit institutions payable on demand	-	-	29 445	29 445	29 445
Other loans and advances to credit institutions	-	-	275 598	275 598	275 598
Loans and advances to customers	1 207	-	11 463 335	11 464 542	11 319 181
Financial assets held for trading	35 905	-	-	35 905	35 905
Financial assets at fair value through profit or loss	384 675	-	-	384 675	384 675
Financial assets at fair value through other comprehensive income	-	1 859 691	-	1 859 691	1 859 691
Hedging derivatives	11 148	-	-	11 148	11 148
Other financial assets at amortized cost	-	-	899 145	899 145	927 464
	432 935	1 859 691	13 671 172	15 963 798	15 846 756
Financial liabilities					
Deposits from central bank	-	-	1 291 033	1 291 033	1 291 033
Deposits from other credit institutions	-	-	522 161	522 161	528 445
Deposits from customers	-	-	12 524 697	12 524 697	12 526 985
Debt securities issued	6 587	-	1 383 393	1 389 980	1 383 789
Financial liabilities held for trading	13 368	-	-	13 368	13 368
Hedging derivatives	547	-	-	547	547
Other subordinated debt	-	-	157 847	157 847	172 668
	20 502	-	15 879 131	15 899 633	15 916 835

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 30 June 2020:

(Euro thousand)

	Jun 2020				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial Assets					
Cash and deposits at central banks	914 755	-	-	-	914 755
Loans and deposits to credit institutions payable on demand	48 562	-	-	-	48 562
Other loans and advances to credit institutions	-	-	286 486	-	286 486
Loans and advances to customers	-	1 207	11 361 278	-	11 362 485
Financial assets held for trading	33 574	3 767	6 614	-	43 955
Financial assets at fair value through profit or loss	6 824	-	364 645	-	371 469
Financial assets at fair value through other comprehensive income	1 084 405	13 219	100 631	1 132	1 199 387
Hedging derivatives	-	15 259	-	-	15 259
Other financial assets at amortized cost	1 748 490	-	-	-	1 748 490
	3 836 610	33 452	12 119 654	1 132	15 990 848
Financial liabilities					
Deposits from central bank	1 636 639	-	-	-	1 636 639
Deposits from other credit institutions	-	-	540 873	-	540 873
Deposits from customers	-	-	12 433 597	-	12 433 597
Debt securities issued	-	3 009	1 320 466	-	1 323 475
Financial liabilities held for trading	-	13 185	-	-	13 185
Hedging derivatives	-	799	-	-	799
Other subordinated debt	-	-	231 752	-	231 752
	1 636 639	16 993	14 526 688	-	16 180 320

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2019:

(Euro thousand)

	Dec 2019				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial Assets					
Cash and deposits at central banks	1 003 649	-	-	-	1 003 649
Loans and deposits to credit institutions payable on demand	29 445	-	-	-	29 445
Other loans and advances to credit institutions	-	-	275 598	-	275 598
Loans and advances to customers	-	1 207	11 317 974	-	11 319 181
Financial assets held for trading	13 009	7 785	15 111	-	35 905
Financial assets at fair value through profit or loss	7 551	-	377 124	-	384 675
Financial assets at fair value through other comprehensive income	1 747 451	15 623	95 581	1 036	1 859 691
Hedging derivatives	-	11 148	-	-	11 148
Other financial assets at amortized cost	927 464	-	-	-	927 464
	3 728 569	35 763	12 081 388	1 036	15 846 756
Financial liabilities					
Deposits from central bank	1 291 033	-	-	-	1 291 033
Deposits from other credit institutions	-	-	528 445	-	528 445
Deposits from customers	-	-	12 526 985	-	12 526 985
Debt securities issued	-	6 587	1 377 202	-	1 383 789
Financial liabilities held for trading		13 368			13 368
Hedging derivatives	-	547	-	-	547
Other subordinated debt	-	-	172 668	-	172 668
	1 291 033	20 502	14 605 300	-	15 916 835

50 Post-employment and long-term benefits

Banco Montepio, Montepio Crédito and Montepio Valor assumed the responsibility to pay their 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, 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.

Nevertheless, it should be referred that the Banco Montepio Group considers it adequate to calculate said liabilities with reference to 30 June 2020.

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.

To 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, pursuant to the ACT, the pension plan guarantees the Social-Medical Assistance Services ("SAMS") costs and the death subsidy.

The Group has no other mechanisms to ensure the coverage of liabilities assumed with old-age, disability and survival pensions, health benefits and death subsidy of its employees.

In December 2016, the Group signed a new Collective Labour Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the General Social Security System, and the attribution of an end-of-career award which replaced the extinguished seniority bonus.

As a result of the amendment to the ACT, the contributions to SAMS were now made based on a fixed cost per employee and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the present value of the liabilities are as follows:

	Assumptions	
	Jun 2020	**Dec 2019**
Financial assumptions		
Salary growth rate	0.75%	1.00%
Pension growth rate	0.50%	0.50%
Rate of return of the Fund	1.70%	1.50%
Discount rate	1.70%	1.50%
Revaluation rate		
Salary growth rate - Social Security	1.50%	1.50%
Pension growth rate	1.00%	1.00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial valuation method	UCP	UCP

The assumptions used in calculating the present value of the liabilities are in accordance with the requirements defined by IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices, for high-quality corporate bonds, and (ii) duration of the liabilities. As at 30 June 2020, the average duration of the pension liabilities of the Group's employees is 19.3 years (31 December 2019: 19.7 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	Jun 2020	**Dec 2019**
Active	3 382	3 386
Retirees and survivors	1 317	1 313
	4 699	4 699

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

(Euro thousand)

	Jun 2020	Dec 2019
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(304 787)	(318 871)
Active	(446 915)	(461 544)
	(751 702)	(780 415)
Liabilities with healthcare benefits		
Pensioners	(22 108)	(22 884)
Active	(42 212)	(43 873)
	(64 320)	(66 757)
Liabilities with death benefits		
Pensioners	(1 863)	(1 913)
Active	(1 781)	(1 825)
	(3 644)	(3 738)
Total liabilities	(819 666)	(850 910)
Coverages		
Pension Fund value	809 022	837 103
Net assets/(liabilities) in the balance sheet	(10 644)	(13 807)
Accumulated actuarial remeasurements recognized in other comprehensive income	295 433	300 878

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

(Euro thousand)

	Jun 2020				Dec 2019			
	Pension benefits	Healthcare benefits	Death benefits	Total	Pension benefits	Healthcare benefits	Death benefits	Total
Liabilities at the beginning of the financial year	780 415	66 757	3 738	850 910	683 366	56 124	3 006	742 496
Recognized in net income/(loss) (note 11)								
Current service cost	2 499	926	40	3 465	4 786	1 477	59	6 322
Interest cost	5 854	500	28	6 382	15 376	1 263	68	16 707
Early retirement	50	-	-	50	344	-	-	344
Recognized in Equity (note 45)								
Actuarial gains /(losses)								
Changes in assumptions	(27 564)	(2 749)	(181)	(30 494)	81 235	-	-	81 235
Not related to Changes in assumptions	649	(1 030)	19	(362)	15 186	7 893	605	23 684
Other								
Pensions paid by the Fund	(10 135)	-	-	(10 135)	(19 507)	-	-	(19 507)
Pensions paid by Banco Montepio	(1 341)	-	-	(1 341)	(2 764)	-	-	(2 764)
Participant contributions	1 187	-	-	1 187	2 393	-	-	2 393
Other	88	(84)	-	4	-	-	-	-
Liabilities at the end of the financial period	751 702	64 320	3 644	819 666	780 415	66 757	3 738	850 910

The evolution of the Pension Fund's net asset value in the period ended 30 June 2020 and in financial year 2019 can be analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Value of the Fund at beginning of financial year	837 103	725 797
Recognized in net income/(loss)		
Share of net interest	6 278	16 331
Recognized in equity (note 45)		
Financial deviations	(25 411)	27 089
Other		
Contributions from Banco Montepio	-	85 000
Participant contributions	1 187	2 393
Pensions paid by the Fund	(10 135)	(19 507)
Fund's value at the end of the period	809 022	837 103

No additional contributions to the defined benefit plans are foreseen for the following financial year since it is expected that the Pension Fund's return will be sufficient to cover for the changes in the liabilities.

As at 30 June 2020 and 31 December 2019, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	Jun 2020				Dec 2019			
	Assets of the fund	%	Quoted	Unquoted	Assets of the fund	%	Quoted	Unquoted
Variable-income securities								
Equities	43 432	5%	43 432	-	46 229	6%	46 229	-
Equity Investment Funds	111 056	14%	-	111 056	106 585	13%	-	106 585
Bonds	575 035	71%	509 937	65 098	530 645	63%	475 324	55 321
Real estate	5 574	1%	-	5 574	5 494	1%	-	5 494
Real estate investment Funds	34 238	4%	204	34 034	34 722	4%	685	34 037
Venture capital Funds	5 339	1%	-	5 339	5 638	1%	-	5 638
Loans and advances to banks and other	34 348	4%	-	34 348	107 790	13%	-	107 790
Total	809 022	100%	553 573	255 449	837 103	100%	522 238	314 865

The assets of the Pension Fund related to securities, real estate and loans and advances to banks that are entities of the Group, are analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Loans and advances in banks and other	34 348	107 790
Real estate	5 574	5 494
Bonds	2 114	2 110
	42 036	115 394

The evolution of the remeasurements in the balance sheet are analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Actuarial gains/(losses) at the beginning of the financial year	300 878	223 048
Actuarial gains/(losses) in the financial period		
Changes in discount rate	(30 494)	111 474
Payroll update	-	(30 239)
Deviation on the Pension Fund return	25 411	(27 089)
Other	(362)	23 684
Actuarial gains/(losses) recognized in other comprehensive income	295 433	300 878

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

(Euro thousand)

	Jun 2020	Jun 2019
Current service cost	3 465	3 181
Net interest income/(expense) on the liabilities coverage balance	104	188
Costs with early retirement, mutually agreed termination and other	50	81
Costs for the financial period	3 619	3 450

The evolution of net assets/(liabilities) in the balance sheet, in the period ended 30 June 2020 and financial year 2019, is analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
At the beginning of the financial year	(13 807)	(16 699)
Contributions by Banco Montepio	-	85 000
Current service cost	(3 465)	(6 322)
Net interest income/(expense) on the liabilities coverage balance	(104)	(376)
Actuarial gains/(losses)	30 856	(104 919)
Financial gains/(losses)	(25 411)	27 089
Pensions paid by Banco Montepio	1 341	2 764
Early retirement, mutually agreed terminations and others	(50)	(344)
Others	(4)	-
At the end of the financial period	(10 644)	(13 807)

The actuarial assumptions have a significant impact on the liabilities for pensions and other benefits. Thus, the Group performed a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the effect on the value of pension liabilities, which impact is analysed as follows:

(Euro thousand)

	Jun 2020		Dec 2019	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(34 692)	37 023	(36 015)	38 434
Salary growth rate (0.25% change)	25 736	(23 772)	26 717	(24 678)
Pension growth rate (0.25% change)	32 331	(30 918)	33 564	(32 097)
SAMS contribution (0.25% change)	3 657	(3 657)	3 796	(3 796)
Future mortality (1 year change)	(24 994)	24 956	(25 947)	25 907

As at 30 June 2020, the cost associated with the end-of-career awards amounted to Euro 2,523 thousand (31 December 2019: Euro 2,059 thousand), in accordance with the accounting policy described in note 1 s) and as per note 41.

51 Assets under management

In accordance with the legislation in force, the fund management companies, and the depositary bank are jointly liable before the participants of the funds for the non-fulfilment of the obligations assumed under law and the regulations of the funds managed.

As at 30 June 2020 and 31 December 2019, the amount of the funds for which the Group acts as depository bank is analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Securities Investment Funds	146 622	171 457
Real estate Investment Funds	553 563	550 669
Pension Funds	243 155	249 258
Bank and insurance	963	996
	944 303	972 380

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

52 Related parties

As defined in IAS 24, the companies detailed in note 59, the Pension Fund, the members of the Corporate, Management and Supervisory Bodies and the key management personnel are considered related parties of the Group. In addition to the members of the Corporate, Management and Supervisory Bodies and the key management personnel, their family and entities controlled by them or in which management they have significant influence are also considered related parties.

According to Portuguese law, namely under article no. 85 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 2020, the list of related parties considered by the Group is presented as follows:

Majority shareholder
Montepio Geral Associação Mutualista

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

Board of Directors of Other Related parties
Aldina Antónia da Costa Romaneiro
Amândio Manuel Carrilho Coelho
António Manuel de Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
Carlos Vicente Morais Beato
Edite da Encarnação Paiva Baptista Cheira
Fernanda Maria da Costa Simões Brázia
Fernando Ferreira Santo
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco José Gonçalves Simões
Idália Maria Marques Salvador Serrão
Isabel Margarida Carvalho Simões Cidrais Guimarães
Isabel Maria Loureiro Alves Brito
Joana Cristina Veiga Carvalho Barbosa
João Andrade Lopes
João António Morais da Costa Pinto
João Carlos Carvalho das Neves
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
Joaquim Mariano Gargana Cabaço
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José António Truta Pinto Rabaça
José Luís Esparteiro da Silva Leitão
José Mendes Alfaia
Laura Catarina Simões Cardoso Duarte Teodósio
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Gabriel Moreira Maia de Almeida
Luís Paulo da Silva Mendes
Manuel Carlos Costa da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Dalila Correia Araújo Teixeira
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues

Board of Directors of Other Related parties (cont.)
Maria Margarida Carrusca Pontes do Rosário Ribeiro de Andrade
Maria Rosa Almas Rodrigues
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
Rui Miguel Alves Eugénio de Sousa de Nápoles
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe
Vítor Manuel Lopes Marques Saraiva

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 Boavista Coelho
António José Miranda Lopes Coutinho
António Miguel Coelho Oliveira
Armando Jorge Pereira Oliveira Lopes
Armando José Lemos Cardoso
Bruno Manuel Ferro Espadanal Torres Magalhães
Carlos Alberto Figueiral Azevedo
Daniel Maximino Caçador
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Filipa Castro Costa
Filipe José Silva Rocha
Gabriel Fernando Sá Torres
Helder Ferreira Reis
Hélio Miguel Gomes Marques
Inês Maria Pinho Mourinho Oliveira Sousa Dargan
Jaquelina Maria Almeida Rodrigues Miguens
João Tiago Maia Barros Silva Teixeira
Joaquim António Canhoto Gonçalves Silva
Jorge Humberto Cruz Barros Jesus Luís
José Luís Dias Jesus
José Miguel Carneiro Mello
Luis Filipe Pereira Cruz Nunes
Luís Miguel Oliveira Melo Correia
Manuel Fernando Caixado Castanho
Maria Carmo Martins Ventura Calvão
Maria Eduarda Madureira Osório Botelho Fernandes
Maria Fernanda Infante Melo Costa Correia
Miguel Alexandre Teixeira Coelho
Mónica Susana Martins Ferreira Sousa Araújo
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Paulo Miguel Ferreira Trindade
Pedro Jorge Ponte Araújo
Pedro Miguel Soares Vieira
Pedro Nuno Coelho Pires
Ricardo Artur Silva Ribeiro
Rui Jorge Correia Pereira Santos
Rui Luís Magalhães Moura
Rui Sérgio Carvalho Santos Calheiros Gama
Sandra Maria Santos Gameiro Henriques Jesus Brito Pereira
Sanguini Shirish
Susana Cristina Costa Pinheiro
Tânia Carina Cardoso Madeira
Tiago Luís Marques Coelho Martins
Tiago Miguel Fidalgo Oliveira Coito
Vasco Francisco Coelho Almeida
Vítor António Santos Ventura
Vitor Fernando Santos Cunha

(1) Mr. Carlos Tavares was in office as Chairman of the Board of Directors and Chairman of the Executive Committee, cumulatively, on the terms authorized by the Bank of Portugal, until 11 February 2019, date as from which he took up office as Chairman of the Board of Directors.

(2) Mr. Carlos Ferreira Alves, elected at the Universal General Assembly of 30 October 2018, was authorized by the Bank of Portugal on 27 December 2018, having taken up office on 15 January 2019.

(3) Mr. José da Cunha Nunes Pereira, elected at the Universal General Assembly of 5 December 2019, was authorized by the Bank of Portugal on 16 March 2020, having taken up office on 1 April 2020.

(4) Mr. Pedro Manuel Moreira Leitão, elected at the Universal General Assembly of 5 December 2019, was authorized by the Bank of Portugal on 21 December 2019, having taken up office as Chairman of the Executive Committee on 9 January 2020.

(5) Ms. Dulce Mota, elected via a Unanimous Written Resolution on 23 November 2018 and authorized by the Bank of Portugal on 8 January 2019, having taken up office on 8 January 2019. In the quality of Executive Vice-chairman, she exercised the office of Chairman of the Executive Committee, as substitute, during the period between 11 February 2019 and 08 January 2020.

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 - S.G.O.I.C., 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.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.

Related parties resulting from the shareholding held in Finibanco Angola, S.A.:

Audiconta – Contabilistas e Peritos Contabilistas,Lda.
Banco de Negócios Internacional, S.A. (BNI)
Bifashion
Chamavo e Companhia
Cominder Comércio e Industria
Consar Gestão de Empreendimentos e Serviços
Fundação Mucusso
Gelcon Holding Company
Geminas
Gesimet Industria Siderugica de Angola, S.A.
Grupo Gema
Himoinsa Angola
Medabil Angola
Novacal
Porto Seco da Mulemba
Shafaris
Vauco Automóveis e Equipamentos

As at 30 June 2020, 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 other commitments assumed, are presented as follows:

(Euro thousand)

	Jun 2020							
Companies	Loans and advances to customers	Impairment of Loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other Assets	Guarantees and commitments provided	Provisions for guarantees and commitments provided	Total
Board of Directors	639	-	-	-	-	-	-	639
Board of Directors of Other Related Parties	2 450	1	-	-	-	8	-	2 457
Other Key Management Personnel	4 248	3	-	-	-	-	-	4 245
CESource, ACE	-	-	-	-	49	-	-	49
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2	2	-	-	13	-	-	13
Germont – Empreendimentos Imobiliários, S.A.	6 594	306	-	-	-	5 431	-	11 719
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	500	-	500
Lusitania Vida, Companhia de Seguros, S.A.	1	1	-	-	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	1 648	40	-	46	1	1 653
Moçambique Companhia de Seguros, S.A.R.L.	-	-	415	-	-	-	-	415
Montepio Geral Associação Mutualista	2	6	-	-	1 861	382	-	2 239
Montepio Gestão de Activos - S.G.O.I.C, S.A.	-	-	1	-	5	-	-	6
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	2 256	-	-	2 256
Montepio Imóveis – Sociedade Imobiliária, S.A.	7 623	165	-	-	-	-	-	7 458
NovaCâmbios - Instituição de Pagamento, S.A.	555	49	-	-	-	1 554	3	2 057
Residências Montepio, Serviços de Saúde, S.A.	1 015	26	-	-	28	500	-	1 517
	23 129	559	2 064	40	4 212	8 421	4	37 223

As at 31 December 2019, 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 other commitments assumed, are presented as follows:

(Euro thousand)

	Dec 2019							
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Provisions for guarantees and commitments provided	Total
Board of Directors	664	-	-	-	-	-	-	664
Board of Directors of Other Related Parties	2 499	1	-	-	-	8	-	2 506
Other Key Management Personnel	3 600	3	-	-	-	-	-	3 597
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	1	-	-	-	13	-	-	14
CESource, ACE	-	-	-	-	49	-	-	49
Germont – Empreendimentos Imobiliários, S.A.	69	18	-	-	-	11 931	18	11 964
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	500	1	499
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	923	58	93	46	-	1 004
Moçambique Companhia de Seguros, S.A.R.L.	-	-	415	-	-	-	-	415
Montepio Geral Associação Mutualista	5	-	-	-	5 465	382	-	5 852
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	2	-	-	-	-	2
Montepio Imóveis – Sociedade Imobiliária, S.A.	7 544	56	-	-	-	-	-	7 488
NovaCâmbios - Instituição de Pagamento, S.A.	968	17	-	-	-	1 354	10	2 295
Residências Montepio, Serviços de Saúde, S.A.	646	5	-	-	9	500	1	1 149
	15 997	100	1 340	58	5 629	14 721	30	37 499

As at 30 June 2020, the Group's liabilities in respect of related parties, pursuant to article 109, included in the captions Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thosand)

	Jun 2020		
Companies	**Deposits from customers**	**Debt securies issued and other subordinated debt**	**Total**
Board of Directors	1 669	-	1 669
Board of Directors of Other Related Parties	3 592	-	3 592
Other Key Management Personnel	2 468	-	2 468
Bolsimo - Gestão de Activos, S.A.	6 634	-	6 634
Clínica CUF Belém, S.A.	29	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	9	-	9
Empresa Gestora de Imóveis da Rua do Prior S.A	178	-	178
Fundação Montepio Geral	913	-	913
Fundo de Pensões - Montepio Geral	44 981	2 100	47 081
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1 361	-	1 361
Germont – Empreendimentos Imobiliários, S.A.	1 350	-	1 350
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	175	-	175
In Posterum, A.C.E.	93	-	93
Lusitania Vida, Companhia de Seguros, S.A.	11 294	-	11 294
Lusitania, Companhia de Seguros, S.A.	3 341	-	3 341
Montepio Geral Associação Mutualista	128 822	190 316	319 138
Montepio Gestão de Activos - S.G.O.I.C., S.A.	1 724	-	1 724
Montepio Gestão de Activos Imobiliários, ACE	2 745	-	2 745
Montepio Imóveis – Sociedade Imobiliária, S.A.	125	-	125
Montepio Residências para Estudantes, S.A:	565	-	565
Montepio Seguros, S.G.P.S., S.A.	1 228	-	1 228
N Seguros, S.A.	599	-	599
NovaCâmbios - Instituição de Pagamento, S.A.	514	-	514
Residências Montepio, Serviços de Saúde, S.A.	95	-	95
SAGIES - Segurança e Higiene no Trabalho, S.A.	59	-	59
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 864	-	2 864
Sociedade Portuguesa de Administrações, S.A.	154	-	154
	217 581	192 416	409 997

As at 31 December 2019, the Group's liabilities in respect of related parties, pursuant to article 109, included in the captions Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thousand)

	Dec 2019		
Companies	**Deposits from customers**	**Debt securies issued and other subordinated debt**	**Total**
Board of Directors	1 881	-	1 881
Board of Directors of Other Related Parties	3 640	-	3 640
Other Key Management Personnel	2 088	-	2 088
Bolsimo - Gestão de Activos, S.A.	358	-	358
Clínica CUF Belém, S.A.	29	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	2	-	2
Empresa Gestora de Imóveis da Rua do Prior S.A	113	-	113
Fundação Montepio Geral	918	-	918
Fundo de Pensões - Montepio Geral	87 682	2 100	89 782
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	327	-	327
Germont – Empreendimentos Imobiliários, S.A.	1 125	-	1 125
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	71	-	71
In Posterum, A.C.E.	100	-	100
Lusitania Vida, Companhia de Seguros, S.A.	19 297	-	19 297
Lusitania, Companhia de Seguros, S.A.	2 998	-	2 998
Montepio Geral Associação Mutualista	131 971	140 105	272 076
Montepio Gestão de Activos - S. G. F. O. I.C. , S.A.	1 830	-	1 830
Montepio Gestão de Activos Imobiliários, ACE	2 388	-	2 388
Montepio Imóveis – Sociedade Imobiliária, S.A.	22	-	22
Montepio Residências para Estudantes, S.A:	526	-	526
Montepio Seguros, S.G.P.S., S.A.	1 021	-	1 021
N Seguros, S.A.	327	-	327
NovaCâmbios - Instituição de Pagamento, S.A.	1 150	-	1 150
Residências Montepio, Serviços de Saúde, S.A.	560	-	560
SAGIES - Segurança e Higiene no Trabalho, S.A.	32	-	32
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 948	-	2 948
Sociedade Portuguesa de Administrações, S.A.	189	-	189
	263 593	142 205	405 798

As at 30 June 2020, the Group's income and expenses with related parties, pursuant to article 109, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Staff costs, Other operating income/(expense) and General and administrative expenses, are analysed as follows:

(Euro thousand)

	Jun 2020					
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Staff costs	Other operating income	General and administrative expenses
Board of Director	-	3	2	-	1	-
Board of Director of Other related parties	12	8	5	-	1	-
Other Key Management Personnel	36	8	5	-	1	-
Bolsimo -Gestão de Activos, S.A.	-	-	1	-	-	-
CESource, ACE	-	-	-	(288)	-	-
Fundação Montepio Geral	-	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	24	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	6	1 277	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	299	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	24	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	11	2 665	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	10	3 568	-	13	-
Montepio Geral Associação Mutualista	8	7 368	644	(9 442)	3	1 102
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	1	5	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	(2 863)	-	1 615
Montepio Imóveis – Sociedade Imobiliária, S.A.	322	5	-	-	-	-
Montepio Residências para Estudantes, S.A.	-	2	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	42	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	51	2	87	-	6	-
Residências Montepio, Serviços de Saúde, S.A.	32	-	27	(56)	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	12	1	-	-	-
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	-	1	-	-	-
	784	7 460	8 332	(12 649)	25	2 717

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:

(Euro thousand)

	Jun 2019					
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Custos com pessoal	Other operating income	General and administrative expenses
Board of Directors	-	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)	-	-
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	-	-	-	-	-
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

In the period ended 30 June 2020 and financial year 2019, there were no transactions with the Group's Pension Fund.

53 Securitization of assets

As at 30 June 2020 and 31 December 2019, there are seven securitization operations, five of which originated in Banco Montepio, one in Montepio Crédito – Instituição Financeira de Crédito, S.A. and one in Montepio Investimento, S.A., currently integrated in the Group following the success of the General and Voluntary Public Offering over the representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and the transmission of almost all assets and liabilities (business acquisition) to the Group.

We present next some additional details of these securitization operations.

As at 30 March 2007, Banco Montepio celebrated a mortgage loan securitization contract with Sagres – Sociedade de Titularização de Créditos, S.A. (Sagres), *Pelican Mortgages* no. 3. The total period of the operation is 47 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The sale was made at par, with the initial sale process costs representing 0.0165% of par.

As at 20 May 2008, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, *Pelican Mortgages* no. 4. The total period of the operation is 48 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,028,600 thousand. The sale was made at par, with the initial sale process costs representing 0.083% of par.

As at 9 December 2008, Montepio Investimento S.A. sold a mortgage loan portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus), in the amount of Euro 236,500 thousand (Aqua Mortgages no. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, Pelican Mortgages no. 5. The total period of the operation is 52 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The sale was made at par, with the initial sale process costs representing 0.0564% of par.

As at 5 March 2012, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, Pelican Mortgages no. 6. The total period of the operation is 51 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The sale was made at par, with the initial sale process costs representing 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Banco Montepio and Montepio Crédito, Instituição Financeira de Crédito, S.A. celebrated with Tagus, a contract for the sale of consumer loans originated by same in the scope of a loan securitization contract (Pelican Finance no. 1). The total period of the operation is 14 years, with an initial revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at par, with the initial sale process costs representing 0.1871% of the Asset Backed Notes.

As at 11 July 2017, Montepio Crédito celebrated with Tagus, a consumer loan securitization contract (Aqua Finance no. 4). The total period of the operation is 18 years, with a revolving period of 18 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 200,200 thousand. The sale was made at par, with the initial sale process costs representing 0.6991% of the Asset Backed Notes.

The entity that guarantees the debt service (servicer) of the traditional securitization operations is the Group, assuming the collection of the loans sold and channelling the amounts received to the respective Credit Securitization Companies (Sociedades de 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.

The Group does not hold any direct or indirect shareholding in the companies Tagus and Sagres.

The loans covered by the securitization operations referred above were not derecognized from the balance sheet as the Group retained most of the risks and rewards associated with the securitized loans. If the Group substantially transfers the risks and rewards associated with their holding, the securitization operations are derecognized.

As at 30 June 2020, the securitization operations realized by the Group are presented as follows:

(Euro thousand)

				Loand and advances		Securities issued		
Issue	**Settlement date**	**Currency**	**Asset transferred**	**Initial amount**	**Current amount**	**Initial nominal amount**	**Current nominal amount**	**Third party amount ***
Pelican Mortgages No. 3	march 2007	euro	Mortgage loans	762 375	157 558	762 375	162 171	43 468
Pelican Mortgages No. 4	may 2008	euro	Mortgage loans	1 028 600	472 448	1 028 600	504 020	-
Aqua Mortgage No. 1	december 2008	euro	Mortgage loans	236 500	80 879	236 500	85 480	-
Pelican Mortgages No. 5	march 2009	euro	Mortgage loans	1 027 500	473 922	1 027 500	501 367	-
Pelican Mortgages No. 6	february 2012	euro	Mortgage loans	1 107 000	598 352	1 107 000	681 687	-
Pelican Finance No. 1	may 2014	euro	Consumer loans	308 700	94 888	308 700	105 615	-
Aqua Finance No. 4	july 2017	euro	Consumer loans and other	200 200	96 095	200 200	102 148	56 960
				4 670 875	1 974 142	4 670 875	2 142 488	100 428

* Includes nominal value, accrued interest and other adjustments

As at 31 December 2019, the securitization operations realized by the Group are presented as follows:

(Euro thousand)

				Loans and advances		Securities Issued		
Issue	**Settlement date**	**Currency**	**Asset transferred**	**Initial amount**	**Current amount**	**Initial nominal amount**	**Current nominal amount**	**Third party amount ***
Pelican Mortgages No. 3	march 2007	euro	Mortgage loans	762 375	171 989	762 375	177 299	45 799
Pelican Mortgages No. 4	may 2008	euro	Mortgage loans	1 028 600	495 965	1 028 600	528 439	-
Aqua Mortgage No. 1	december 2008	euro	Mortgage loans	236 500	87 968	236 500	90 177	-
Pelican Mortgages No. 5	march 2009	euro	Mortgage loans	1 027 500	499 050	1 027 500	524 377	-
Pelican Mortgages No. 6	february 2012	euro	Mortgage loans	1 107 000	637 106	1 107 000	713 822	-
Pelican Finance No. 1	may 2014	euro	Consumer loans	308 700	118 586	308 700	136 103	-
Aqua Finance No. 4	july 2017	euro	Consumer loans and other	200 200	119 639	200 200	126 118	80 920
				4 670 875	2 130 303	4 670 875	2 296 335	126 719

* Includes nominal value, accrued interest and other adjustments

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 30 June 2020, is presented as follows:

(Euro thousand)

	Non-derecognized securitization operations							
	Pelican Mortgage n.º 3	*Pelican Mortgage n.º 4*	*Aqua Mortgage n.º 1*	*Pelican Mortgage n.º 5*	*Pelican Mortgage n.º 6*	*Pelican Finance n.º 1*	*Aqua Finance n.º 4*	**Total**
Domestic loans and advances								
Corporate								
Other loans	-	-	-	-	-	-	41 208	41 208
Retail								
Mortgage	156 416	470 984	79 615	472 282	589 609	-	-	1 768 906
Consumer loans and other	-	-	-	-	-	89 611	52 587	142 198
	156 416	470 984	79 615	472 282	589 609	89 611	93 795	1 952 312
Credit and overdue interest								
Less than 90 days	99	806	449	594	2 744	251	39	4 982
More than 90 days	1 043	658	815	1 046	5 999	5 026	2 261	16 848
	1 142	1 464	1 264	1 640	8 743	5 277	2 300	21 830
	157 558	472 448	80 879	473 922	598 352	94 888	96 095	1 974 142

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 31 December 2019, is presented as follows:

(Euro thousand)

	Non-derecognized securitizion operations							
	Pelican Mortgage n.º 3	*Pelican Mortgage n.º 4*	*Aqua Mortgage n.º 1*	*Pelican Mortgage n.º 5*	*Pelican Mortgage n.º 6*	*Pelican Finance n.º 1*	*Aqua Finance n.º 4*	**Total**
Domestic loans and advances								
Other loans	-	-	-	-	-	-	55 270	55 270
Retail								
Mortgage	170 787	494 581	86 853	497 884	629 540	-	-	1 879 645
Consumer loans and other	-	-	-	-	-	113 804	61 455	175 259
	170 787	494 581	86 853	497 884	629 540	113 804	116 725	2 110 174
Credit and overdue interest								
Less than 90 days	86	726	365	424	2 394	236	134	4 365
More than 90 days	1 116	658	750	742	5 172	4 546	2 780	15 764
	1 202	1 384	1 115	1 166	7 566	4 782	2 914	20 129
	171 989	495 965	87 968	499 050	637 106	118 586	119 639	2 130 303

As a form of financing, the securitization vehicles created (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Aqua Mortgages no. 1) issued bonds which nominal value is presented below, and which were fully subscribed by Banco Montepio in the case of Aqua Mortgages no. 1, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Pelican Finance no. 1) and partially, in the case of Pelican Mortgages no. 3 and Aqua Finance no. 4.

The bonds held by Banco Montepio or by entities integrated in the consolidation perimeter of the Banco Montepio Group ("Interests held by the Group") are eliminated in the consolidation process for which reason they are presented below for information purposes only.

As at 30 June 2020, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amout euros	Current nominal amount euros	Group's interest held (nominal amount) euros	Maturity	*Rating* (initial)				*Rating* (current)			
						Fitch	Moodys	S&P	DBRS	*Fitch*	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	149 225 536	107 427 617	2054	AAA	Aaa	AAA	n.a.	BBB	A2	A	n.a.
	Class B	14 250 000	3 852 792	3 852 792	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	3 244 456	3 244 456	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	1 723 618	1 723 618	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	PIF	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	374 947 188	374 947 188	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AA
	Class B	55 500 000	33 191 729	33 191 729	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	35 882 951	35 882 951	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	14 951 229	14 951 229	2056	BBB	n.a.	n.a.	B+	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	16 446 352	16 446 352	2056	BB	n.a.	n.a.	B	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	330 130 967	330 130 967	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	115 624 129	115 624 129	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	16 305 967	16 305 967	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	16 305 967	16 305 967	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	326 487 168	326 487 168	2063	A	n.a.	A-	AA	A+	n.a.	A	AAH
	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	61 827 998	61 827 998	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	20 152 375	20 152 375	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	56 416 010	56 416 010	2028	A	n.a.	n.a.	A	A+	n.a.	n.a.	AH
	Class B	91 100 000	34 498 951	34 498 951	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	65 917 710	-	2035	n.a.	A3	n.a.	AL	n.a.	A1	n.a.	A
	Class B	15 000 000	15 000 000	-	2035	n.a.	Ba2	n.a.	BBBL	n.a.	Baa3	n.a.	BBBH
	Class C	45 200 000	45 200 000	45 200 000	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

As at 31 December 2019, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bond	Initial nominal amount euros	Current nominal amount euros	Group's interest held (nominal amount) euros	Maturity	Rating (initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	*Fitch*	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	163 508 676	117 781 633	2054	AAA	Aaa	AAA	n.a.	BBB	A2	A	n.a.
	Class B	14 250 000	4 221 562	4 221 562	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	3 555 000	3 555 000	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	1 888 594	1 888 594	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	PIF	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	394 205 764	394 205 764	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AAH
	Class B	55 500 000	34 896 571	34 896 571	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	37 726 022	37 726 022	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	15 719 176	15 719 176	2056	BBB	n.a.	n.a.	B+	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	17 291 094	17 291 094	2056	BB	n.a.	n.a.	B	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	346 010 604	346 010 604	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	121 185 768	121 185 768	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	17 090 301	17 090 301	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	17 090 301	17 090 301	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	358 622 246	358 622 246	2063	A	n.a.	A-	AA	A+	n.a.	AA	AAA
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	65 596 503	65 596 503	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	21 080 228	21 080 228	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	75 334 714	75 334 714	2028	A	n.a.	n.a.	A	A+	n.a.	n.a.	AH
	Class B	91 100 000	46 067 926	46 067 926	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	14 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Finance n.º 4	Class A	140 000 000	65 917 710	-	2035	n.a.	A3	n.a.	AL	n.a.	A1	n.a.	A
	Class B	15 000 000	15 000 000	-	2035	n.a.	Ba2	n.a.	BBBL	n.a.	Baa3	n.a.	BBBH
	Class C	45 200 000	45 200 000	45 200 000	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

At each interest payment date, Tagus and Sagres have the possibility of partially redeeming the bonds, redemption which is realized sequentially and in function of the degree of subordination of the bonds.

54 Balance sheet and income statement indicators by operating and geographical segments

The segmental reporting is presented in accordance with IFRS 8. In compliance with the Group's management model, the disclosed segments correspond to the segments used for management purposes by the Board of Directors. The Group develops banking and financial services activities in Portugal and abroad, with a special focus on the domestic market through the following business segments: Retail, Social Economy, and Corporate and Investment Banking.

Products and services include the entire offer inherent in the universal banking activity, namely deposit taking, credit concession and the provision of financial and custodianship services to companies and individuals, as well as the trading of investment funds and life and non-life insurance. Additionally, the Group executes short, medium- and long-term investments in the financial and currency markets to take advantage of price variations or as a mean to obtain returns on its available financial resources.

As at 30 June 2020, the Group had a network of 335 branches in Portugal (31 December 2019: 331 branches), a credit institution in Cape Verde and a bank in Angola with 24 branches, on 30 June 2020 and in financial year 2019.

The information by operating segments on 30 June 2020 reflects the organizational and management model of the Banco Montepio Group, which follows the strategic guidance defined in the Transformation Plan that was approved by the Board of Directors at the end of 2018. This plan is subject to regular monitoring by the respective PMO that is reported to the corporate and management bodies. The control over the performance of the activities carried out by the Group follows the allocation between the operating segments, with the respective management information considering the accounting policies underlying the preparation of the financial statements, as well as the internal management criteria. It is the responsibility of the Strategy, Planning and Control Directorate to develop, produce and report management information related to the performance of the various operating segments and the respective control in relation to the objectives defined, reporting hierarchically to the Chief Financial Officer (CFO). The Executive Committee monitors the performance of the operating segments of the internal organizational model in a timely manner, as well as that of the respective budgetary control. The management information is reported to the Executive Committee and to the Board of Directors according to the model established, as well as to the competent organic units.

In evaluating the performance by business area, the Group considers the following operating segments:

1) Retail Banking, which includes the sub segments of Individuals, Self-employed Individuals, Small and Medium Enterprises allocated to this segment and Micro businesses;

2) Social Economy, which incorporates the customers allocated to the Social Economy and Public Sector business areas;

3) Specialized credit, which includes the consumer credit business primarily developed by the subsidiary Montepio Crédito;

4) Asset Management, which reflects the activity of Montepio Valor;

5) Corporate and Investment Banking, which includes the Large Companies, the Small and Medium Enterprises allocated to this segment and the Financial Institutions, as well as the activity presently developed in the Investment Banking area carried out by Banco de Empresas Montepio (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.

Geographically, even though the Group concentrates its activity in Portugal, the international activity of the Group is assured by: (i) Finibanco Angola, S.A. and (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.

Description of the operating segments

On a consolidated basis, each of the reportable segments includes income and costs related to the following activities, products, customers, and Group structures:

Retail Banking

This operating segment corresponds to all the activity developed by the Group in Portugal with individuals, self-employed individuals, small and medium enterprises allocated to this segment and micro businesses, commercially designated as the Individuals and Small Businesses segment, fundamentally originated by the branch network, electronic channels and promotor network. The financial information of this segment includes, among others, products and services, such as mortgage loans, individual or consumer credit, demand and term deposits and other savings applications, retirement solutions products, namely PPRs, debit and credit cards, account management and electronic payment services, and investment fund placement, securities' trading and custodianship services, as well as insurance brokerage and non-financial services.

Social Economy

This operating segment reinforces the Group's role while agent of reference of the Social Economy, in the market and with the different stakeholders, incorporating the activity related to the Social Economy and Public Sector business areas.

Specialized Credit

This operating segment highlights one of the cornerstones of the Transformation Plan, reflecting the focus on consumer credit. This segment reflects the activity developed by Montepio Crédito.

Asset Management

This operating segment incorporates the activity developed by the subsidiary Montepio Valor.

Corporate and Investment Banking

This operating segment includes the activity developed by the Group with Small, Medium and Large companies, through the commercial structure dedicated to this segment. It also includes the institutional customers' business, namely the financial sector. Of note among the products and services provided are treasury and investment financing, commercial discounting, provision of guarantees, leasing, factoring, renting, foreign operations, such as documentary credits, cheques and remittances, deposits, payment and reception services, cards, as well as custodianship services.

The Corporate Banking business includes the Corporate segment in Portugal which operates, in the scope of the Group's cross-selling strategy, as a distribution channel for products and services of other Group companies.

In addition, this operating segment includes the activity developed in the Investment Banking area by Banco de Empresas Montepio (Banco BEM).

International Activity

This segment reflects the contribution of Montepio Geral Cabo Verde and of Finibanco Angola.

Markets

This segment includes the operations related to the Own Securities' Portfolio, the Loans and Advances to Credit Institutions and Wholesale Funding.

Other segments

This segment includes all the support activity developed in respect of the main activities constituting the core business of the segments mentioned above, namely the operations related to the management of real estate held for trading and of non-performing loans, and the Group's global financial management activity. In this segment are also included the impacts of strategic decisions with a transversal impact across the Group, the investments in minority financial shareholdings, and the activity related to interest and exchange rate risk management.

Allocation criteria of the results to the segments

The consolidated financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information on which decisions are made in the Group, as required by IFRS 8 – Operating Segments.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of the financial statements, which are described in note 1, with the following principles having been adopted:

Measurement of segmental profit or loss

The Group uses the net profit/(loss) as a measure of the profits or losses to evaluate the performance of each operating segment.

Autonomous operating units

As mentioned above, each autonomous operating unit is evaluated separately, as these units are considered investment centres. Additionally, considering the characteristics of the primary business developed by same, their assets, liabilities, income and expenses are included in the corresponding Operating Segments.

Group structures dedicated to the segment

The Group's activity covers practically all the operating segments and is, therefore, broken down accordingly.

In preparing the financial information, the following criteria are used:

(i) The operations are allocated to each business segment in function of their origination by the commercial structures, even if, at a later date, and as an example, it is decided to securitize some of the assets originated in same;

(ii) The calculation of the net interest income is performed considering the business negotiated with customers and other counterparties recognized in each one of the segments, taking into account the respective associated interest rates;

(iii) The determination of the net interest income also considers the impact of the transfer of the assets and liabilities of each product/segment to a pool, which balances these and adjusts the respective interest, considering the market interest rates at each moment, namely, Euribor for the different periods;

(iv) The allocation of the direct costs of the respective structures dedicated to each segment;

(v) The allocation of the indirect costs (central support and IT services), in function of previously defined criteria;

(vi) The allocation of credit risk is performed in accordance with the impairment model used by the Group.

(vii) The allocation of the tax burden to the operating segments results, with the exception of the international activity, from the application of the marginal tax rate of 30.5% to the profit before tax, with the remainder of the tax amount recognized in the income statement being allocated to the other segments.

Operations between the legally autonomous units of the Group are realized at market prices. The price of intersegment services, namely the prices established for internal funding, is determined by the adjustment system through the above mentioned pool (with prices varying in accordance with the strategic relevance of the product and the equilibrium of the structures funding and lending functions). The remaining services are allocated to the segments in accordance with predefined criteria.

The interest rate, exchange rate, liquidity and other risks, except for credit risk, are included in the segment Other Segments.

Interest and similar income/expense

Since the Group's consolidated activity is, essentially, related to the banking business, the greater part of the income generated results from the difference between the interest earned on its assets and the interest borne with the funding it secures. This situation, and the fact that the activity of the segments represents the direct business developed by the business units for each product, means that the revenue of the intermediation activity is presented, as permitted by IFRS 8 (23), at the net interest value under the designation of Net Interest Income.

Investments consolidated under the equity method

Investments in associated companies consolidated under the equity method are included in the segment designated Operations of other Segments.

Non-current assets

Non-current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. The Group includes these assets in the segment in which they are mostly used.

Assets and liabilities for post-employment benefits

Considering that the factors that influence both the amount of the liabilities and of the assets of the Group's Pension Fund correspond, fundamentally, to variables external to the management of each segment, the Group considers that said impacts should not influence the performance of the Operating Segments which activities are carried out with customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: (i) Finibanco Angola, S.A. and (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.

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 2020, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated										
	Commercial Banking										
	Retail	Social Economy	Specialized credit	Asset management	Sub-total	Banca de Empresas e Investimento	Atividade Internacional	Markets	Non-Core segments	Other segments	Total
Interest and similar income	106 920	2 949	9 334	-	**119 203**	23 849	1	16 507	9 482	(22 893)	**146 149**
Interest and similar expense	17 974	511	90	4	**18 579**	3 508	706	19 955	4 645	(15 923)	**31 470**
NET INTEREST INCOME	**88 946**	**2 438**	**9 244**	**(4)**	**100 624**	**20 341**	**(705)**	**(3 448)**	**4 837**	**(6 970)**	**114 679**
Dividends from equity instruments	-	-	-	-	**-**	-	-	-	-	1 719	**1 719**
Net fee and commission income	47 821	607	1 863	1 524	**51 815**	4 590	-	1 185	(1 262)	(201)	**56 127**
Net gains/(losses) arising from financing operations	-	-	1	-	**1**	(49)	8	8 132	(3)	(916)	**7 173**
Other operating income/(expense)	(120)	(64)	(1 287)	(240)	**(1 711)**	(99)	2	-	8 911	(17 946)	**(10 843)**
OPERATING INCOME	**136 647**	**2 981**	**9 821**	**1 280**	**150 729**	**24 783**	**(695)**	**5 869**	**12 483**	**(24 314)**	**168 855**
Staff costs	57 710	1 370	3 091	832	**63 003**	2 993	96	713	3 432	8 582	**78 819**
General and administrative expenses	24 842	244	2 321	574	**27 981**	1 264	124	-	739	2 395	**32 503**
Depreciation and amortization	15 792	106	389	81	**16 368**	454	3	1	3	(653)	**16 176**
CUSTOS OPERACIONAIS	**98 344**	**1 720**	**5 801**	**1 487**	**107 352**	**4 711**	**223**	**714**	**4 174**	**10 324**	**127 498**
Total provisions and impairment	34 291	2 262	1 639	33	**38 225**	5 926	-	5 503	80 650	(8 086)	**122 218**
Share of profit/(loss) of associated companies under the equity method	-	-	-	-	**-**	-	-	-	-	(330)	**(330)**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**4 012**	**(1 001)**	**2 381**	**(240)**	**5 152**	**14 146**	**(918)**	**(348)**	**(72 341)**	**(26 882)**	**(81 191)**
Taxes	1 023	(255)	469	144	**1 381**	3 434	5	(88)	(17 969)	(11 662)	**(24 899)**
Non-controlling interests	-	-	-	-	**-**	-	1 233	-	-	-	**1 233**
Net income/(loss) from discontinued operations	-	-	-	-	**-**	-	6 234	-	-	-	**6 234**
NET INCOME/LOSS	**2 989**	**(746)**	**1 912**	**(384)**	**3 771**	**10 712**	**4 078**	**(260)**	**(54 372)**	**(15 220)**	**(51 291)**
Assets	8 317 587	121 024	506 474	6 252	**8 951 337**	2 149 808	340 025	4 568 381	2 190 678	(318 136)	**17 882 093**
Liabilities	10 965 257	595 272	450 618	1 788	**12 012 935**	465 289	278 157	3 710 532	-	56 431	**16 523 344**
Investments in associated companies	-	-	-	-	**-**	-	-	4 274	-	-	**4 274**

The caption International Activity – Results of 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 60.

The preparation of the segmental reporting follows the logic of the contribution to the consolidation, with the reportable segments excluding the respective intercompany balances, identified in note 52.

As at 30 June 2019, the reporting by operating segment, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated										
	Commercial Banking					Investment Banking	International Activity	Markets	Non-Core segments	Other segments	Total
	Retail	Social Economy	Specialized credit	Asset management	Subtotal						
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 operations	-	-	(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)**
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 amortization	13 421	364	239	17	**14 041**	1 047	3	80	364	844	**16 379**
OPERATING COSTS	**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**
Share of profit/(loss) of associated companies 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**
Net income/(loss) from discontinued operations	-	-	-	-	**-**	-	5 854	-	-	-	**5 854**
NET INCOME/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 associated companies	-	-	-	-	**-**	-	-	4 207	-	-	**4 207**

As at 30 June 2020, the net contribution of the main geographical areas is presented as follows:

(Euro thousand)

Income Statement	Activity: Domestic	Activity: International	Total
Interest and similar income	145 084	1 065	146 149
Interest and similar expense	30 764	706	31 470
Net interest income	114 320	359	114 679
Dividends from equity instruments	1 719	-	1 719
Net fee and commission income	56 127	-	56 127
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(11 931)	-	(11 931)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	18 836	-	18 836
Net gains/(losses) arising from foreign exchange differences	260	8	268
Net gains/(losses) arising from sale of other financial assets	9 146	-	9 146
Other operating income/(expense)	(19 990)	1	(19 989)
Operating income	168 487	368	168 855
Staff costs	78 723	96	78 819
General and administrative expenses	32 330	173	32 503
Depreciation and amortization	16 173	3	16 176
	127 226	272	127 498
Impairment of loans and advances	108 489	892	109 381
Impairment of other financial assets	5 580	-	5 580
Impairment of other assets	5 491	-	5 491
Other provisions	1 766	-	1 766
Operating profit/(loss)	(80 065)	(796)	(80 861)
Share of profit/(loss) of associated companies under the equity method	(330)	-	(330)
Profit/(loss) before taxes and non-controlling interests	(80 395)	(796)	(81 191)
Current taxes	(1 428)	(5)	(1 433)
Deferred taxes	(23 466)	-	(23 466)
Profits/(losses) from discontinued operations	-	6 234	6 234
Non-controlling interests	-	1 233	1 233
Consolidated net income/(loss) for the financial period attributable to the Shareholders	(55 501)	4 210	(51 291)

As at 30 June 2020, the net contribution of the main geographical areas is presented as follows:

(Euro thousand)

Balance sheet	Activity		
	Domestic	International	Total
Cash, deposits and advances and loans to credit institutions	1 121 309	128 494	1 249 803
Crédito a clientes	11 554 304	-	11 554 304
Investments in financial assets and associated companies	3 338 111	-	3 338 111
Investment properties	134 828	-	134 828
Non-current assets held for sale - discontinued operations	-	179 481	179 481
Other assets	1 425 300	99	1 425 399
Total Assets	17 574 019	308 074	17 882 093
Deposits from central banks and other credit institutions	2 172 027	-	2 172 027
Deposits from customers	12 300 914	120 675	12 421 589
Debt securities issued and Other subordinated debt	1 538 504	-	1 538 504
Non-current liabilities held for sale - discontinued operations	-	96 051	96 051
Other liabilities	294 942	231	295 173
Total Liabilities	16 306 387	216 957	16 523 344
Non-controlling interests	-	10 718	10 718
Total Equity attributable to the Shareholders	1 267 632	80 399	1 348 031
Total Shareholders' Equity	1 267 632	91 117	1 358 749
Total Liabilities and Sahreholders' Equity	17 574 019	308 074	17 882 093

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

(Euro thousand)

Income Statement	Activity - Domestic	Activity - International	Total
Interest and similar income	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 at fair value through profit or loss	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)
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 amortization	16 376	3	16 379
	125 142	297	125 439
Impairment of loans and advances	42 041	(41)	42 000
Impairment of other financial assets	3 074	-	3 074
Impairment of other assets	3 376	-	3 376
Other provisions	(1 316)	-	(1 316)
Operating profit/(loss)	9 640	15	9 655
Share of profit/(loss) of associated companies under the equity	(47)	-	(47)
Profit/(loss) before taxes and non-controlling interests	9 593	15	9 608
Current taxes	2 051	-	2 051
Deferred taxes	8 650	-	8 650
Profits/(losses) from discontinued operations	-	5 854	5 854
Non-controlling interests	-	1 158	1 158
Consolidated net income/(loss) for the financial period attributable to the Shareholders	(1 108)	4 711	3 603

As at 31 December 2019, the net contribution of the main geographical areas is presented as follows:

(Euro thousand)

Balance Sheet	Activity - Domestic	Activity - International	Total
Cash, deposits and advances and loans to credit institutions	1 161 851	146 841	1 308 692
Loans and advances to customers	11 464 542	-	11 464 542
Investments in financial assets and associated companies	3 195 003	-	3 195 003
Investment properties	144 868	-	144 868
Non-current assets held for sale - discontinued operations	-	216 538	216 538
Other assets	1 410 397	102	1 410 499
Total Assets	17 376 661	363 481	17 740 142
Deposits from central banks and other credit institutions	1 813 194	-	1 813 194
Deposits from customers	12 386 414	138 283	12 524 697
Debt securities issued and Other subordinated debt	1 547 827	-	1 547 827
Non-current liabilities held for sale - discontinued operations	-	134 429	134 429
Other liabilities	267 835	172	268 007
Total Liabilities	16 015 270	272 884	16 288 154
Non-controlling interests	-	11 550	11 550
Total Equity attributable to the Shareholders	1 347 391	93 047	1 440 438
Total Shareholders' Equity	1 347 391	104 597	1 451 988
Total Liabilities and Sahreholders' Equity	17 362 661	377 481	17 740 142

55 Risk management

Objectives of the Risk Management Policy

The Group is exposed to several risks the most relevant of which in the financial component being credit, concentration, market, interest rate, banking portfolio market, foreign currency, liquidity, real estate, and Pension Fund risks. Additionally, the Group is subject to other non-financial risks, namely operating, reputation, and strategy and business risks. Depending on the nature and relevance of the risk, plans, programs, or actions are designed, supported by information systems and procedures providing a high degree of reliability as regards risk management measures established in due course. For all risks identified as material, Banco Montepio has implemented a process for the identification and review of same, being subject to regular monitoring and mitigation actions in order to reduce potential losses for the Group.

The control and the efficient management of risk play a key role in the balanced and sustained development of Banco Montepio. In addition to contributing to the optimization of the profitability/risk binomial of the various lines of business, they also ensure the maintenance of an adequate risk profile in terms of solvency and liquidity.

The monitoring of these risks is centralized in the Risk Department, the unit responsible for the risk management function of the Group, which regularly informs the Board of Directors of the evolution of the risk profile of the institution and, if necessary, proposes risk exposure mitigation/reduction actions.

The Group's risk management policy is the responsibility of the Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plan, with this policy being reviewed regularly. It is also the responsibility of the Board of Directors to ensure the existence of an adequate risk control at Group level, namely through the respective supervisory boards. The Risk Committee is the non-executive body with the role of risk management supervision, which mission is to monitor the design and implementation of the risk strategy and risk appetite of the Group and to verify whether these are aligned with the sustainable strategy in the medium- and long-term, providing advice to the Board of Directors and Executive Commission in these areas.

The Board of Directors seeks to ensure that the Institution has sufficient capital to meet regulatory requirements and to cover potential losses resulting from the activity, with an optimized balance sheet structure that maintains a stable and safe funding capacity and liquidity profile, allowing it to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

The Group has clear and well-defined objectives in its strategic plan, namely as regards capital ratios, transformation of deposits into credit, liquidity, and financing ratios, in addition to a feasible and sustainable business model aligned with its risk appetite.

To this end, the definition of risk appetite is based on certain principles - namely solidity, sustainability and profitability – being prepared in function of the strategic plan and the intended market positioning, as well as the risks faced in its activity that are materially relevant. For these, objectives are set according to the desired level of return and the business strategy, tolerance levels, that is, risk variation intervals that can lead to discussions and decisions about corrective measures and limits that, if exceeded, lead to immediate corrective measures.

In defining risk appetite, the Board of Directors ensures its alignment with the other organizational components (business strategy and the global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and that can affect risk exposure and it’s monitoring.

The Group's risk management policy is designed to ensure an adequate relationship, at all times, between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, assuming particular importance in this scope the monitoring and control of the main types of financial and non-financial risks – credit, market, liquidity, real estate and operating – to which the Group's business is subject.

In order to ensure an effective management of the risks associated with the Group's activities, the Risk Department is responsible for promoting that all Group companies, including those located abroad, implement risk management systems that are coherent with each other and in accordance with the requirements set forth in the Internal Regulation of the Banco Montepio risk management function, in the Group's Global Risk Policy and in the remaining applicable internal policies and regulations, without prejudice to the respective legal and regulatory framework. The Risk Department is responsible for monitoring the risk management activity of Group companies, on a consolidated and individual basis, ensuring the consistency of the risk concepts used, the methodologies for risk identification, measurement and control, the supporting standards and respective risk profile monitoring processes, as well as the compliance with the applicable regulatory and prudential requirements, namely on a consolidated basis. These activities should be directly assured by the risk management functions of those entities, except in those cases where Banco Montepio's Board of Directors decides that the development of these responsibilities by Banco Montepio's Risk Department is more effective and efficient.

Credit risk

Credit risk is associated with the level of uncertainty of the expected returns, due to the inability of the borrower (and of the guarantor, if any), or the issuer of a security or counterparty of a contract to comply with the obligations arising for same.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, supported by several tools aiding the credit decision process. The quantification of credit risk is also supported by the model used to calculate impairment losses.

The fundamental principle of credit risk analysis is independence from the business decisions. In this analysis, instruments are used, and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modelling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in the credit decision process. Indeed, the decision process concerning the credit portfolio operations is based on a set of policies, relying on scoring models for the retail portfolios and rating models for the non-retail segment.

In the credit risk scope, and as regards analytical methodologies, the risk control techniques and models are based on econometric modelling, based on the Institution's experience in the granting of various types of credit and, whenever possible, also in credit recovery.

Credit decisions are dependent on risk ratings and compliance with various rules governing the financial capacity and behaviour of the applicants.

There are scoring models for the admission of individuals to the retail portfolios, namely for mortgage loans, individual loans, and credit cards.

Self-employed Individuals ("Empresários em nome individual" – "ENI") and Micro businesses are considered retail, being therefore subject to the respective scoring models.

There are also behavioural scoring models for retail portfolios, which are used to monitor the credit portfolio as well as to evaluate new credit proposals, being coupled with software-based scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large companies, distinguished by activity sectors, such as the tertiary sector, or by ageing of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, with this scale being composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents/ record of arrears in the financial system, and class 19 to default, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to derogate the response of scoring systems, internal ratings, and internal price lists, but only by higher decision levels, in accordance with the established principles of delegation of responsibilities. Rejection situations are defined in order to minimize the risk of adverse selection, with risk classes for rejection having been defined.

Intervention limits are also defined for the different decisions, by operation amount and global customer exposure, type of operation/collateral and assigned risk class. In this context, higher hierarchical positions must approve operations with higher exposures. The levels and limits are approved by the Board of Directors, and the highest decision level corresponds to the Board of Directors. At the intermediate levels the collegial intervention of at least two persons is compulsory, one belonging to the commercial network and the other to the Specialized Credit Analysis Department, a body independent of the commercial structure. The Risk Department is the unit responsible for the development of the credit risk models (scoring and rating), and for the monitoring of Banco Montepio's risk control, on a global basis.

Within the scope of credit risk monitoring, internal reports are prepared with the main risk indicators of the credit portfolios and metrics on the use of the rating/scoring models. In terms of preventive monitoring, an alert system is in place for indicators of credit risk deterioration (Early Warning Signs).

With respect to credit impairment, IFRS 9 establishes the need to recognize Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected credit loss at one year, or the expected credit loss until the maturity of the financial instrument (ECL lifetime).

Financial assets are classified into stages, based on the evolution of their credit risk:

- *Stage* 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since their initial recognition and which are not in default;
- *Stage* 2: Financial assets with a significant increase in credit risk since their initial recognition, based on the criteria set out in internal regulations as to the recognition of a significant increase in credit risk or other financial assets (namely, Amounts due for collection, Other debtors, Other receivables or Sundry debtor accounts). It should be noted that credit restructured due to financial difficulties is considered a driver of significant increase in credit risk and, therefore, the restructured credit portfolio is included in *stage* 2;
- *Stage* 3: Financial assets in default, based on default indicators which are defined in internal regulations in respect of default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purpose of the requirements in force.

The measurement of the expected losses (ECL) for the segment through collective analysis 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 which consider forward-looking and historic PD for the remaining years; and
- ✓ PD=100% for all *stage* 3 contracts.

In the group of individually significant customers, customer exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering, namely, the economic-financial viability of same, the 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, with the impairment value corresponding 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 original interest rates of each operation.

For the financial assets of individually significant counterparties/customers classified in stages 1 and 2, the expected loss (ECL) is attributed according to the collective analysis methodology, given that individually no impairment level is observed.

The information presented next is related to the Group's exposure to credit risk, where the most relevant caption in terms of exposure, as well as in terms of the associated risk, is loans and advances to customers. It should be noted that the portfolio of financial assets at fair value through other comprehensive income is essentially composed of public debt securities of the European Union.

The information contained in the tables presented excludes the balance sheet component of entities subject to the application of IFRS 5, which correspond to the subsidiary in Angola and which is recorded under the caption Non-current assets held for sale - discontinued operations.

The criteria for the determination of impairment of individually significant loans

All customers or economic groups that meet the following conditions are subject to individual analysis:

1. Economic Groups with a global exposure amount ≥ €0.5 millions in which at least one of the participants is the holder of operations classified as stage 3, with customers with an exposure amount ≥ €0.1 million being selected;

2. Customers holding stage 2 operations with an exposure amount ≥ €1.0 million and customers with an exposure amount ≥ €1.0 million that are part of the same Economic Group;
3. Customers holding stage 1 operations with an exposure amount ≥ €2.5 million;
4. Customers corresponding to Shareholding Management Companies (SGPS) and/or Customers holding loans under Project Finance with an exposure amount ≥ €1.0 million;
5. Other customers when duly justified.

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 individual analysis is the responsibility of the Specialized Credit Analysis Department and in the evaluation of impairment losses the following factors are essentially considered:

- Total exposure of each customer and/or economic group, internal rating of the customer and/or economic group, the staging associated with each operation 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 of the customers and/or guarantors;
- Expectation regarding the credit 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 due by the customer.

For the determination of the expected cash flows different recovery strategies are used, which may include the going concern method and the gone concern method:

- In case of the continuity of operations (going concern) a critical analysis is done of the companies' business plans or other elements available for analysis, which should include information on past events, current conditions and projected future economic conditions (forward-looking scenarios), with these being representative of the current and future economic-financial situation of the customer. For the calculation of the impairment of these customers, the annually projected cash flows, after adjustment of the initially estimated assumptions and the application of haircuts, if necessary, and considering deviations of the real figures from those initially projected, are discounted at the original effective interest rate of the operations;
- In the case of the cessation of the activity (gone concern) the settlement through collaterals, if these exist, is assumed, with an exhaustive analysis being made of same, namely regarding the value of mortgage/pledge, valuation amount, valuation date and need for the application of haircuts, according to the ageing of the valuation or other factors, the deadline for the foreclosure/execution, and the deadline for the sale, as well as the associated maintenance and selling costs. For the

calculation of the impairment of these customers, the annually projected cash flows, after adjustments, are discounted at the original effective interest rate;

- For each recovery strategy, the respective excepted credit loss is calculated, considering different forward-looking scenarios, weighted by the respective probability of occurrence;

- For specific cases, it is possible to use strategies that combine with either the going concern or the gone concern methods.

The Group's credit risk exposure can be analysed as follows:

(Euro thousand)

	Jun 2020	**Dec 2019**
Deposits at credit institutions payable on demand	48 562	29 445
Loans and advances to credit institutions	286 486	275 598
Loans and advances to customers	11 554 304	11 464 542
Financial assets held for trading	38 608	34 689
Financial assets at fair value through profit or loss	10 115	11 455
Financial assets at fair value through other comprehensive income	1 075 965	1 723 507
Hedging derivatives	15 259	11 148
Other financial assets at amortized cost	1 703 767	899 145
Investments in associated companies	4 274	4 439
Other assets	661 926	666 941
Guarantees and standby letters provided	498 779	513 824
Irrevocable credit lines	698 132	579 670
	16 596 177	16 214 403

The analysis of the main credit risk exposures by sector of activity, for the 1st half of 2020, can be analysed as follows:

(Euro thousand)

Activity	Deposits at other credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Investments in associated companies	Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Jun 2020															
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Book value	Impairment	Book value	Gross value	Impairment	Book value	Off-balance sheet value		Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	90 726	5 521	-	-	-	-	-	-	-	-	765	5 331	364
Extractive Industries	-	-	-	13 251	695	-	-	-	-	-	-	-	-	1 460	2 251	27
Manufacturing industries	-	-	-	1 014 205	96 213	494	1 463	5 197	54	-	-	-	-	20 513	119 912	1 349
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	61 437	7 546	1 391	-	1 028	1	-	-	-	-	1 088	12 717	35
Water supply	-	-	-	72 273	2 069	-	-	-	-	-	-	-	-	2 205	4 700	11
Construction	-	-	-	714 692	226 928	299	384	-	-	-	-	-	-	97 005	108 039	3 169
Wholesale and retail trade	-	-	-	885 406	103 136	-	3 236	10 005	33	-	-	-	-	51 558	148 143	6 208
Transport and storage	-	-	-	374 510	39 559	-	9	-	-	-	-	-	-	6 751	16 587	642
Accomodation and catering activities	-	-	-	497 227	20 370	-	-	-	-	-	-	-	3 564	9 586	18 399	1 682
Information and Cmmunication	-	-	-	43 781	3 118	-	-	-	-	15 259	-	-	-	1 394	22 568	130
Financial and insurance activities	48 562	286 605	119	675 665	86 826	10 879	150	5 548	530	-		-	-	234 538	44 509	225
Real estate activities	-	-	-	761 234	113 754	-	82	-	-	-	-	-	-	23 510	105 276	1 890
Consulting, scientific, technical and similar	-	-	-	284 929	22 905	-	2 766	4 067	24	-	-	-	-	21 049	33 238	254
Administrative and supporting service activities	-	-	-	98 726	9 293	-	85	-	-	-	-	-	710	5 776	18 482	228
Public administration and defence, compulsory social security	-	-	-	43 686	305	25 545	1 801	1 052 144	3 594	-	1 707 508	3 741	-	111	324	15
Education	-	-	-	60 644	3 632	-	-	-	-	-	-	-	-	264	5 064	31
Healthcare services and social support	-	-	-	208 807	8 899	-	-	-	-	-	-	-	-	3 739	14 631	259
Artistic activities, shows and recreational	-	-	-	59 253	9 476	-	-	-	-	-	-	-	-	10 163	7 151	143
Other services	-	-	-	50 337	3 251	-	139	-	-	-	-	-	-	3 735	10 744	58
Retail																
Mortgage Loans	-	-	-	5 702 290	63 893	-	-	2 217	5	-	-	-	-	-	-	-
Others	-	-	-	703 855	35 241	-	-	-	-	-	-	-	-	3 569	66	1 005
	48 562	**286 605**	**119**	**12 416 934**	**862 630**	**38 608**	**10 115**	**1 080 206**	**4 241**	**15 259**	**1 707 508**	**3 741**	**4 274**	**498 779**	**698 132**	**17 725**

The analysis of the mains credit risk exposures by sector of activity, for financial year 2019, can be analysed as follows:

(Euro thousand)

Activity	Deposits at other credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Investments in associated companies	Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Dec 2019															
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Book value	Off-baance sheetvalue		Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	84 616	4 626	-	-	-	-	-	-	-	-	976	4 516	176
Extractive Industries	-	-	-	13 607	576	-	-	-	-	-	-	-	-	1 463	1 479	101
Manufacturing industries	-	-	-	927 159	84 712	-	1 621	75 812	59	-	-	-	-	21 330	94 509	820
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	48 330	6 699	-	-	57 075	72	-	-	-	-	1 089	13 107	27
Water supply	-	-	-	76 318	1 561	-	-	-	-	-	-	-	-	1 959	2 434	54
Construction	-	-	-	705 088	228 462	-	398	2 090	2	-	-	-	-	100 966	97 074	6 545
Wholesale and retail trade	-	-	-	852 114	94 011	-	3 342	10 679	20	-	-	-	-	64 141	115 292	4 206
Transport and storage	-	-	-	365 146	33 724	-	15	-	-	-	-	-	-	6 886	16 376	557
Accomodation and catering activities	-	-	-	440 333	12 884	-	1	1 207	2	-	-	-	3 741	9 558	15 458	239
Information and Cmmunication	-	-	-	45 041	3 026	-	-	11 403	9	-	-	-	-	1 742	24 053	59
Financial and insurance activities	29 445	275 708	110	567 728	63 135	22 896	149	105 756	120	11 148	-	-	-	229 955	43 083	89
Real estate activities	-	-	-	748 698	103 093	-	71	-	-	-	-	-	-	23 562	85 783	1 340
Consulting, scientific, technical and similar	-	-	-	296 148	15 964	-	2 892	4 023	8	-	-	-	-	23 470	26 572	356
Administrative and supporting service activities	-	-	-	100 436	8 374	-	100	-	-	-	-	-	698	6 805	11 399	305
Public administration and defence, compulsory social security	-	-	-	45 819	507	11 793	2 665	1 438 777	4 976	-	900 895	1 750	-	216	445	2
Education	-	-	-	58 622	3 282	-	-	-	-	-	-	-	-	307	3 841	18
Healthcare services and social support	-	-	-	200 456	5 722	-	-	-	-	-	-	-	-	3 666	8 707	208
Artistic activities, shows and recreational	-	-	-	55 130	8 627	-	-	-	-	-	-	-	-	8 397	6 423	68
Other services	-	-	-	62 338	2 462	-	201	19 586	53	-	-	-	-	3 889	9 047	76
Retail																
Mortgage Loans	-	-	-	5 822 866	59 055	-	-	2 426	6	-	-	-	-	-	-	-
Others	-	-	-	723 472	34 421	-	-	-	-	-	-	-	-	3 447	72	151
	29 445	**275 708**	**110**	**12 239 465**	**774 923**	**34 689**	**11 455**	**1 728 834**	**5 327**	**11 148**	**900 895**	**1 750**	**4 439**	**513 824**	**579 670**	**15 397**

The Group's total credit exposure, which includes the caption Loans and advances to customers (including the entities subject to the adoption of IFRS 5), and the guarantees and standby letters provided in the aggregate amount of Euro 498,779 thousand (31 December 2019: Euro 513,824 thousand) and the irrevocable credit facilities amounting to Euro 698,132 thousand (31 December 2019: Euro 579,670 thousand), broken down between loans with impairment and loans without impairment, is presented as follows:

(Euro thousand)

	Jun 2020			Dec 2019		
Impacts by stage	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Collective analysis	**9 042 475**	**258 500**	**8 783 975**	**8 757 369**	**237 182**	**8 520 187**
Stage 1	7 237 139	21 474	7 215 665	7 014 931	10 933	7 003 998
Stage 2	1 441 509	63 781	1 377 728	1 374 540	45 350	1 329 190
Stage 3	363 827	173 245	190 582	367 898	180 899	186 999
Individual analysis	**4 571 370**	**621 855**	***3 949 515***	**4 575 590**	**553 138**	**4 022 452**
	13 613 845	**880 355**	**12 733 490**	**13 332 959**	**790 320**	**12 542 639**

As at 30 June 2020 and 31 December 2019, the detail of the application of stages to other financial assets is presented as follows:

(Euro thousand)

	Jun 2020			Dec 2019		
Impactos por Estágio	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Amortized cost (AC)	**1 707 508**	**3 741**	**1 703 767**	**900 895**	**1 750**	**899 145**
Stage 1	1 707 508	3 741	1 703 767	900 895	1 750	899 145
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Fair value (FVOIC)	**1 080 207**	**4 241**	**1 075 966**	**1 728 834**	**5 327**	**1 723 507**
Stage 1	1 076 665	3 843	1 072 822	1 725 949	5 264	1 720 685
Stage 2	3 542	398	3 144	2 885	63	2 822
Stage 3	-	-	-	-	-	-
Loans to credit institution	**286 605**	**119**	**286 486**	**275 708**	**110**	**275 598**
Stage 1	282 605	79	282 526	271 708	71	271 637
Stage 2	4 000	40	3 960	4 000	39	3 961
Stage 3	-	-	-	-	-	-
	3 074 320	**8 101**	**3 066 219**	**2 905 437**	**7 187**	**2 898 250**

As at 30 June 2020 and 31 December 2019, the detail of the loans and advances subject to collective analysis, structured by segment and by stage, is as follows:

(Euro thousand)

	Jun 2020			Dec 2019		
Segment	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Retail	**6 385 197**	**94 218**	**6 290 979**	**6 512 681**	**91 073**	**6 421 608**
Mortgage	5 694 051	63 110	5 630 941	5 802 678	58 687	5 743 991
Stage 1	4 719 579	1 647	4 717 932	4 873 258	507	4 872 751
Stage 2	850 370	17 458	832 912	803 671	12 864	790 807
Stage 3	124 102	44 005	80 097	125 749	45 316	80 433
Consumer loans	641 320	28 548	612 772	651 456	29 113	622 343
Stage 1	499 418	1 616	497 802	507 367	1 487	505 880
Stage 2	99 407	6 624	92 783	96 582	4 868	91 714
Stage 3	42 495	20 308	22 187	47 507	22 758	24 749
Cards	49 826	2 560	47 266	58 547	3 273	55 274
Stage 1	27 558	315	27 243	32 811	251	32 560
Stage 2	18 664	533	18 131	22 223	1 188	21 035
Stage 3	3 604	1 712	1 892	3 513	1 834	1 679
Corporate	**2 657 278**	**164 282**	**2 492 996**	**2 244 689**	**146 109**	**2 098 580**
Non-Construction	2 389 475	146 696	2 242 779	2 039 775	128 252	1 911 523
Stage 1	1 799 946	16 660	1 783 286	1 467 307	7 924	1 459 383
Stage 2	429 681	35 830	393 851	412 501	24 474	388 027
Stage 3	159 848	94 206	65 642	159 967	95 854	64 113
Construction	267 803	17 586	250 217	204 914	17 857	187 057
Stage 1	190 637	1 237	189 400	134 188	764	133 424
Stage 2	43 388	3 335	40 053	39 565	1 955	37 610
Stage 3	33 778	13 014	20 764	31 161	15 138	16 023
	9 042 475	**258 500**	**8 783 975**	**8 757 370**	**237 182**	**8 520 188**

As at 30 June 2020 and 31 December 2019, impairment is detailed as follows:

(Euro thousand)

	Jun 2020						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loan amount	Impairment	Loan amount	Impairment	Loan amount	Impairment	Loan net of impairment
Corporate loans	4 550 422	616 939	2 657 278	164 282	7 207 700	781 221	6 426 479
Retail - mortgage	8 238	782	5 694 052	63 111	5 702 290	63 893	5 638 397
Retail - other loans	12 710	4 134	691 145	31 107	703 855	35 241	668 614
	4 571 370	621 855	9 042 475	258 500	13 613 845	880 355	12 733 490

(Euro thousand)

	Dec 2019						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loan amount	Impairment	Loan amount	Impairment	Loan amount	Impairment	Loan net of impairment
Corporate loans	4 541 932	550 733	2 244 689	146 109	6 786 621	696 842	6 089 779
Retail - mortgage	20 188	369	5 802 678	58 687	5 822 866	59 056	5 763 810
Retail - other loans	13 469	2 036	710 003	32 386	723 472	34 422	689 050
	4 575 589	553 138	8 757 370	237 182	13 332 959	790 320	12 542 639

As at 30 June 2020 and 31 December 2019, the fair value analysis of collaterals associated with the Group's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collateral	Jun 2020	Dec 2019
Individual analysis		
Securities and other financial assets	86 794	122 499
Real Estate - Mortgage loans	12 931	36 443
Real Estate - Construction and CRE	2 334 932	2 527 130
Other real estate	1 718 724	1 712 523
Other guarantees	616 490	762 213
Collective analysis - Stage 1		
Securities and other financial assets	199 131	190 368
Real Estate - Mortgage loans	10 463 391	10 661 619
Real Estate - Construction and CRE	355 688	262 048
Other real estate	780 207	747 498
Other guarantees	379 971	364 790
Collective analysis - Stage 2		
Securities and other financial assets	42 086	37 797
Real Estate - Mortgage loans	1 650 203	1 531 454
Real Estate - Construction and CRE	128 742	135 459
Other real estate	341 805	287 407
Other guarantees	24 642	13 638
Collective analysis - Stage 3		
Securities and other financial assets	4 013	3 326
Real Estate - Mortgage loans	176 400	171 902
Real Estate - Construction and CRE	69 431	62 372
Other real estate	68 102	76 618
Other guarantees	*12 261*	*10 331*
	19 465 944	**19 717 435**

The Group uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revaluated based on the market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility. Most of the real collaterals are revalued at least once a year.

The Group’s total loans and advances portfolio, by segment and respective impairment, as at 30 June 2020 and 31 December 2019, is presented as follows:

(Euro thousand)

	Jun 2020		**Dec 2019**	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate	5 062 241	398 069	4 728 520	324 416
Construction and CRE	2 145 460	383 151	2 058 101	372 426
Retail - mortgage	5 702 290	63 893	5 822 866	59 056
Retail - other loans	703 854	35 242	723 472	34 422
	13 613 845	880 355	13 332 959	790 320

The live loans and advances portfolio, by segment and by production year, as at 30 June 2020, is presented as follows:

(Euro thousand)

	Corporate			**Construction and CRE**			**Retail - Mortage loans**			**Retail - Other**		
Production year	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and before	1 290	59 251	4 570	868	141 099	66 935	45 253	1 381 610	16 145	24 611	7 682	426
2005	572	15 731	1 487	242	44 292	27 719	11 037	540 203	7 191	8 005	4 051	266
2006	725	26 721	2 356	295	75 616	41 910	13 461	669 701	12 078	18 307	14 265	1 869
2007	844	29 668	1 879	387	64 263	22 957	13 723	679 008	11 718	44 009	17 919	1 923
2008	1 966	39 219	5 202	639	32 711	5 676	7 152	356 295	5 459	66 393	19 040	936
2009	2 489	65 045	3 976	798	68 011	25 413	3 904	218 960	2 647	51 452	17 397	1 965
2010	2 375	96 472	12 793	543	46 819	15 556	3 948	247 821	2 377	37 128	10 028	1 138
2011	2 762	97 936	6 529	653	29 160	10 727	1 498	91 083	742	30 741	9 764	2 073
2012	3 064	99 304	13 095	499	33 225	10 716	926	57 643	525	22 194	7 551	1 260
2013	5 740	278 622	49 104	837	81 173	18 049	1 192	73 399	462	22 374	16 017	2 259
2014	7 829	440 886	42 521	2 260	155 742	27 635	1 407	90 558	410	26 838	33 783	4 165
2015	8 774	380 936	79 526	1 530	78 355	13 956	1 675	112 140	369	25 901	43 311	3 788
2016	11 200	628 407	47 938	2 268	211 886	33 521	2 349	177 937	834	41 029	68 452	3 964
2017	12 874	465 804	37 762	2 156	310 062	22 305	3 197	257 957	960	34 152	85 407	3 164
2018	13 481	508 231	35 813	2 992	198 233	24 014	3 360	278 924	849	46 147	119 004	2 696
2019	13 782	760 406	35 470	2 647	334 183	11 178	3 935	329 970	936	40 419	150 773	2 632
2020	12 821	1 069 600	18 049	2 092	240 631	4 884	1 701	139 081	191	17 088	79 411	717
	102 588	5 062 239	398 070	21 706	2 145 461	383 151	119 718	5 702 290	63 893	556 788	703 855	35 241

The live loans and advances portfolio, by segment and by production year, as at 31 December 2019, is presented as follows:

(Euro thousand)

	Corporate			Construction and CRE			Retail - Mortage			Retail - Other		
Production year	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and before	1 386	78 851	2 348	880	146 164	65 670	47 081	1 462 840	15 610	25 682	9 225	826
2005	620	17 081	1 947	244	44 414	27 597	11 416	566 718	7 294	8 198	4 582	257
2006	736	32 967	2 773	306	77 723	41 571	13 825	700 174	11 551	18 667	15 258	1 783
2007	904	33 053	1 757	408	69 229	23 973	14 125	710 212	11 017	45 231	20 168	1 665
2008	2 594	48 991	5 360	668	32 557	5 535	7 320	370 105	5 020	68 479	23 082	1 335
2009	2 529	73 408	3 291	814	70 817	24 854	3 997	228 028	2 305	53 046	20 269	2 230
2010	2 501	106 972	12 458	583	49 218	15 505	4 098	259 683	2 255	38 209	11 971	1 463
2011	3 102	104 937	6 622	697	30 663	10 267	1 531	95 286	556	31 849	12 263	3 155
2012	3 918	107 681	13 000	554	40 882	12 315	957	60 519	732	23 301	9 348	1 544
2013	6 511	299 362	45 665	937	84 197	16 973	1 240	78 021	366	23 513	19 817	2 923
2014	9 306	458 078	33 748	2 751	161 788	25 788	1 458	96 059	320	28 474	40 484	4 656
2015	10 943	429 201	61 753	1 733	87 833	12 433	1 755	119 931	225	27 979	52 491	3 280
2016	12 659	667 931	43 221	2 545	227 137	31 104	2 441	189 204	474	43 738	81 231	3 271
2017	14 685	520 008	30 531	2 405	343 363	26 319	3 316	270 372	479	36 290	99 081	2 611
2018	15 011	560 707	30 791	3 057	211 759	23 314	3 458	286 857	394	48 306	136 018	2 057
2019	19 823	1 189 291	29 152	3 421	380 356	9 209	3 985	328 858	459	42 307	168 183	1 366
	107 228	4 728 519	324 417	22 003	2 058 100	372 427	122 003	5 822 867	59 057	563 269	723 471	34 422

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 30 June 2020 and 31 December 2019, is analysed as follows:

(Euro thousand)

	Jun 2020									
	Corporate		Construction and CRE		Retail - mortgage		Retail - other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 969 571	267 973	1 580 852	348 966	8 238	782	12 710	4 134	4 571 371	621 855
Collective	2 092 670	130 096	564 608	34 185	5 694 052	63 111	691 144	31 108	9 042 474	258 500
	5 062 241	398 069	2 145 460	383 151	5 702 290	63 893	703 854	35 242	13 613 845	880 355

(Euro thousand)

	Dec 2019									
	Corporate		Construction and CRE		Retail - mortgage		Retail . Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 932 860	209 417	1 609 072	341 316	20 188	370	13 470	2 035	4 575 590	553 138
Collective	1 795 660	114 999	449 028	31 110	5 802 678	58 687	710 003	32 386	8 757 369	237 182
	4 728 520	324 416	2 058 100	372 426	5 822 866	59 057	723 473	34 421	13 332 959	790 320

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for the companies, as at 30 June 2020 and 31 December 2019, is analysed as follows:

(Euro thousand)

	Jun 2020											
	Construction		Industry		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Indiviual	647 087	212 510	619 284	54 582	310 636	56 568	737 638	108 222	2 235 778	185 057	4 550 423	616 939
Collective	267 802	17 586	551 294	43 702	737 206	46 773	151 126	7 422	949 849	48 799	2 657 277	164 282
	914 889	230 096	1 170 578	98 284	1 047 842	103 341	888 764	115 644	3 185 627	233 856	7 207 700	781 221

(Euro thousand)

	Dec 2019											
	Construction		Industry		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Avaliação												
Individual	695 159	217 149	592 494	45 510	328 424	51 190	740 806	99 895	2 185 049	136 989	4 541 932	550 733
Coletiva	204 914	17 857	465 854	40 698	664 370	43 871	115 996	4 538	793 555	39 145	2 244 689	146 109
	900 073	235 006	1 058 348	86 208	992 794	95 061	856 802	104 433	2 978 604	176 134	6 786 621	696 842

The gross exposure of performing and non-performing loans and advances, as at 30 June 2020 and 31 December 2019, is analysed as follows:

(Euro thousand)

	Jun 2020												
	Gross perfoming and non-performing exposures							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which perfoming with arrears of >30 days and <= 90 days	of which restructured and perfoming	of which non-performing				on performing exposure		on non-performing exposure		on performing exposures	of which restructured
					of witch non-performing	of which impaired	of which restructured		of which restructured		of which restructured		
Loans represented by securities (a)	3 539 562	-	-	34 800	34 800	34 800	-	11 471	-	4 824	-	613	-
Other balance sheet credit exposures (b)	12 785 483	45 553	103 119	1 442 334	1 437 731	1 440 910	811 045	120 081	6 846	734 354	427 365	465 069	335 183
Off-balance sheet exposures (c)	1 987 641	1 343	10 936	108 405	108 403	108 405	679	10 029	147	7 695	-	-	-

(a) Includes Debt instruments of the Financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.
(b) Includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, Guarantees and Documentary credit provided.

(Euro thousand)

	Dec 2019												
	Gross perfoming and non-performing exposures							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which perfoming with arrears of >30 days and <= 90 days	of which restructured and perfoming	of which non-performing				on performing exposure		on non-performing exposure		on performing exposures	of which restructured
					of witch non-performing	of which impaired	of which restructured		of which restructured		of which restructured		
Loans represented by securities (a)	3 127 526	-	-	34 800	34 800	34 800	-	10 481	-	4 824	-	613	-
Other balance sheet credit exposures (b)	12 867 394	53 140	97 600	1 453 555	1 453 555	1 452 114	770 183	98 679	3 670	668 126	361 528	522 910	342 653
Off-balance sheet exposures (c)	1 824 538	1 396	1 185	119 690	119 690	119 690	915	3 076	6	12 321	76	-	-

(a) Includes Debt instruments 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 2020, is presented as follows:

(Euro thousand)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Imóveis		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0.5 M€	2 770	339 645	1 548	63 395	94 664	11 986 356	300	8 992
>= 0.5 M€ and <1M€	192	136 546	32	19 345	392	244 434	1	500
>= 1 M€ and <5M€	222	498 602	28	58 181	41	60 018	-	-
>= 5 M€ and <10M€	33	237 242	6	42 430	-	12 116	-	-
>= 10 M€ and <20M€	24	324 365	-	-	2	-	-	-
>= 20 M€ and <50M€	10	345 282	1	46 000	-	-	-	-
>= 50M€	6	1 007 112	-	-	-	-	-	-
	3 257	2 888 794	1 615	229 351	95 099	12 302 924	301	9 492

The fair value of the collateral underlying the loans and advances portfolio of the Construction and Commercial Real Estate (“CRE”) and Mortgage segments, as at 31 December 2019, is presented as follows:

(Euro thousand)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0.5 M€	2 848	347 755	1 576	65 920	96 252	12 082 014	302	9 246
>= 0.5 M€ and <1M€	197	138 938	34	20 627	383	239 340	1	500
>= 1 M€ and <5M€	202	438 191	23	46 046	45	67 948	-	-
>= 5 M€ and <10M€	33	237 283	6	42 930	-	12 116	-	-
>= 10 M€ and <20M€	26	347 346	-	-	2	-	-	-
>= 20 M€ and <50M€	12	391 331	1	46 000	-	-	-	-
>= 50M€	6	1 086 164	-	-	-	-	-	-
	3 324	2 987 008	1 640	221 523	96 682	12 401 418	303	9 746

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE and Mortgage segments, as at 30 June 2020 and 31 December 2019, is presented as follows:

(Euro thousand)

Segment/ Ratio	Jun 2020 Number of properties	Jun 2020 Total exposure	Jun 2020 Impairment	Dec 2019 Number of properties	Dec 2019 Total exposure	Dec 2019 Impairment
Corporate						
Without associated property (*)	-	4 005 225	299 223	-	3 683 855	242 515
< 60%	1 830	362 508	37 988	1 905	355 682	36 587
>= 60% and < 80%	789	439 144	31 209	809	454 664	25 404
>= 80% and< 100%	1 787	248 485	27 934	1 848	227 040	18 407
>= 100%	18	6 878	1 715	18	7 279	1 504
Construcion and CRE						
Without associated property (*)	-	986 530	152 261	-	917 344	152 870
< 60%	1 389	562 031	117 757	1 445	545 720	116 723
>= 60% and < 80%	723	353 456	53 791	762	336 625	48 031
>= 80% and < 100%	986	199 505	27 319	961	215 196	25 054
>= 100%	159	43 936	32 023	156	43 216	29 748
Mortgage						
Without associated property (*)	-	459 251	12 965	-	468 469	11 998
< 60%	62 341	2 495 656	13 668	62 696	2 507 217	11 750
>= 60% and < 80%	24 612	2 009 255	13 779	25 020	2 039 924	11 419
>= 80% and < 100%	7 657	696 590	14 016	8 436	760 932	13 688
>= 100%	489	41 539	9 465	530	46 323	10 201

(*) Includes operations with other associated collateral. namely financial collateral.

The fair value and the net value of real estate received in recovery/execution of loans, by asset type, recorded in the caption Other assets (note 34), as at 30 June 2020 and 31 December 2019, are presented as follows:

(Euro thousand)

Assets	Jun 2020 Number of properties	Jun 2020 Fair value of assets	Jun 2020 Book value
Land	**1 842**	**352 743**	**314 138**
Urban	1 559	299 827	264 554
Rural	283	52 916	49 584
Buildings under construction	**519**	**74 578**	**67 824**
Commercial	59	4 795	4 609
Residential	350	68 955	62 431
Other	110	828	784
Constructed buildings	**1 761**	**232 345**	**203 388**
Commercial	743	116 433	102 216
Residential	620	110 445	96 485
Other	398	5 467	4 687
	4 122	659 666	585 350

(Euro thousand)

Assets	Dec 2019 Number of properties	Fair value of assets	Book value
Land	**1 898**	**348 524**	**322 848**
Urban	1 614	294 457	272 348
Rural	284	54 067	50 500
Buildings under construction	**467**	**74 435**	**68 458**
Commercial	59	4 819	4 594
Residential	313	68 871	63 165
Other	95	745	699
Constructed buildings	**1 811**	**246 760**	**217 651**
Commercial	675	121 728	107 147
Residential	714	119 237	105 487
Other	422	5 795	5 017
	4 176	669 719	608 957

The time elapsed since the receipt in recovery/execution of real estate, recorded in the caption Other assets (note 34), as at 30 June 2020 and 31 December 2019, is presented as follows:

(Euro thousand)

	Jun 2020				
Elapsed time since recovery/execution	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**6 377**	**18 266**	**121 131**	**168 364**	**314 138**
Urban	6 370	14 770	105 675	137 739	264 554
Rural	7	3 496	15 456	30 625	49 584
Buildings under construction	**5 403**	**14 706**	**15 920**	**31 795**	**67 824**
Commercial	450	20	2 260	1 879	4 609
Residential	4 770	14 624	13 628	29 409	62 431
Other	183	62	32	507	784
Constructed buildings	**11 601**	**19 341**	**58 940**	**113 506**	**203 388**
Commercial	4 101	10 932	36 908	50 275	102 216
Residential	7 400	8 054	19 518	61 513	96 485
Other	100	355	2 514	1 718	4 687
	23 381	52 313	195 991	313 665	585 350

(Euro thousand)

Elapsed time since recovery/execution	Dec 2019				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**8 182**	**78 326**	**68 156**	**168 184**	**322 848**
Urban	6 541	70 666	53 846	141 295	272 348
Rural	1 641	7 660	14 310	26 889	50 500
Buildings under construction	**2 195**	**19 562**	**18 804**	**27 897**	**68 458**
Commercial	356	427	1 542	2 269	4 594
Residential	1 770	19 045	17 230	25 120	63 165
Other	69	90	32	508	699
Constructed buildings	**20 814**	**25 916**	**71 501**	**99 420**	**217 651**
Commercial	3 989	13 603	42 233	47 322	107 147
Residential	16 384	11 960	26 583	50 560	105 487
Other	441	353	2 685	1 538	5 017
	31 191	123 804	158 461	295 501	608 957

Concentration risk

The concentration risk results from the existence of common or correlated risk factors between different entities or portfolios. The deterioration of any of these factors may have a simultaneous negative impact on the credit quality of each of the counterparties or on the results of each class of assets and liabilities. In a concentration scenario, the loss effects on a small number of exposures may be disproportionate, confirming the importance of managing this risk in the maintenance of adequate solvability levels. In the Group, concentration risk monitoring focuses mainly on credit concentration, investment portfolio, financing, interest rate and operating risks.

Credit concentration risk is the most important risk for the Group and, as such, there are several procedures related to its identification, measurement, and management. In order to control the concentration risk of the exposure to a customer/group of customers that are related, maximum exposure limits were set for the aggregate positions of the credit and investment portfolios, for the various Group entities.

In order to reduce concentration risk, the Group seeks to diversify its activity areas and income sources, as well as its exposures and funding sources.

The concentration risk management is carried out in a centralized manner, with regular monitoring of the concentration indices by the Risk Department. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the level of individual concentration and the degree of diversification of the quality of the corporate portfolio are regularly monitored by the Risk Department. Maximum exposure limits are established per customer/group of customers related to each other, activity sectors, as well as limits for the concentration of the largest depositors.

Market risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and/or prices of the different financial instruments that compose it, considering both the existing correlations between them and the respective volatilities.

The Group regularly calculates its "VaR" both for its own trading portfolio as well as for that of the financial assets at fair value through other comprehensive income, with same being determined based on a 10-day horizon and a 99% confidence level, using the historical simulation method. The types of risk considered in this methodology are the interest rate, exchange rate, price, spread and commodities' risks.

The Group's investment portfolio is mainly concentrated on bonds, and as at 30 June 2020 this represented 85.1% (31 December 2019: 83.8%) of the total portfolio, with the dominant position being held by bonds of sovereign issuers, essentially Portugal, Spain and Italy.

Regarding credit derivatives, Banco Montepio held no position in these instruments as at 30 June 2020 and 31 December 2019.

Regarding the credit quality of debt securities, circa 88.3% of the portfolio is investment grade (31 December 2019: 84.2%). Of note are the Portuguese and Italian sovereign bonds with a rating of BBB- and that represent 73.7% (31 December 2019: 66.8%) of the portfolio. Concerning the composition of the portfolio, one verifies an increase in the exposure to sovereign debt, of note being the Portuguese, Spanish, Italian and Greek debt (for the latter essentially treasury bills).

The distribution of the bond portfolio, recognized in the captions Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortized cost (which excludes positions held by subsidiaries subject to the application of IFRS 5), is presented as follows:

(Euro thousand)

Rating	Jun 2020		Dec 2019		Change	
	Amount	%	Amount	%	Amount	%
AAA	4 286	0.1	8 036	0.3	(3 750)	(46.7)
AA+	1 351	-	934	0.0	417	44.6
AA	-	-	7 824	0.3	(7 824)	(100.0)
AA-	-	-	21 085	0.8	(21 085)	(100.0)
A+	1 176	-	17 830	0.7	(16 654)	(93.4)
A	1 014	-	31 969	1.2	(30 955)	(96.8)
A-	1 451	0.1	35 142	1.3	(33 691)	(95.9)
BBB+	393 974	13.7	279 726	10.3	114 248	40.8
BBB	17 326	0.6	90 168	3.3	(72 842)	(80.8)
BBB-	2 124 874	73.7	1 797 118	66.0	327 756	18.2
BB +	-	-	20 571	0.8	(20 571)	(100.0)
BB	183	-	21 228	0.8	(21 045)	(99.1)
B+	239 419	8.3	257 294	9.4	(17 875)	(6.9)
NR	22 905	0.8	45 520	1.7	(22 615)	(49.7)
Subtotal	2 807 959	97.3	2 634 445	96.8	173 514	6.6
Discontinuing subsidiaries	76 151	2.7	88 371	3.2	(12 220)	(13.8)
Total	2 884 110	100.0	2 722 816	100.0	161 294	5.9

As at 30 June 2020, the amount of Euro 2,884,100 thousand (31 December 2019: Euro 2,722,816 thousand) includes the amount of Euro 76,151 thousand (31 December 2019: Euro 88,371 thousand), which corresponds to the securities' portfolio of Finibanco Angola, which belongs to a subsidiary subject to the application of IFRS 5 and that, consequently, is recorded in discontinued operations.

The position in bonds recognized in the portfolio of Financial assets at fair value through other comprehensive income stood at Euro 1,075,965 thousand (31 December 2019: Euro 1,723,507 thousand), the position in Other financial assets at amortized cost stood at Euro 1,703,767 thousand (31 December 2019: Euro 899,145 thousand), and the position in Financial assets held for trading stood at Euro 28,227 thousand (31 December 2019: Euro 11,793 thousand).

Regarding the trading portfolio, as at 30 June 2020 and in financial year 2019, the main VaR indicators are as follows:

	Jun 2020	Average	Minimum	Maximum	Dec 2019
Market VaR	1 354	1 040	99	2 236	244
Interest rate risk	186	242	15	416	167
Exchange risk	209	215	103	192	142
Price risk	800	636	98	1 183	94
Spread Risk	642	573	237	1 023	80
Diversification effect	(483)	(626)	(354)	(578)	(239)

Bank portfolio's interest rate risk

The assessment of interest rate risk originated by banking portfolio operations is performed by a sensitivity analysis to the risk, on a consolidated basis for the entities integrating the Group (including the subsidiary recognized in discontinued operations).

Interest rate risk is measured according to the impact on net interest income, economic value and own funds caused by changes in market interest rates. The main risk factors arise from lags in maturities for the resetting of rates and/or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indices with the same repricing period (basis risk) and the options associated with instruments that enable different decisions being taken by the players/participants depending on the level of rates contracted and those practiced at the moment (option risk).

Based on the financial characteristics of each contract, a projection of the expected cash flows is made, according to the rate reset dates and eventual behavioural assumptions.

The aggregation, for each currency analysed, of the expected cash flows in each of the time intervals allows one to determine the interest rate gaps by repricing period.

The following tables present the interest rate gaps, on a consolidated basis, as at 30 June 2020 and 31 December 2019:

(Euro thousand)

	Up to 3 months	3 to 6 months	6 mounths to 1 year	1 to 5 years	More than 5 years
30 June 2020					
Assets					
Debt securities	550 488	325 684	292 685	967 086	901 705
Loans and advances	6 979 221	3 095 689	908 270	721 230	279 475
Others	57 616	-	-	-	37 249
Off-balance sheet	1 200	6 672	-	763 307	-
Total	7 588 525	3 428 045	1 200 955	2 451 623	1 218 429
Liabilities					
Debt securities issued	6 425	57 305	3 073	1 415 844	20 305
Term deposits	2 626 988	1 295 163	2 431 990	1 129 906	-
Others	159 308	392	504 678	1 380 570	36 413
Off-balance sheet	750 009	9	17	137	1 371
Total	3 542 730	1 352 869	2 939 758	3 926 457	58 089
GAP (Assets - Liabilities)	4 045 795	2 075 176	(1 738 803)	(1 474 834)	1 160 340
31 December 2019					
Assets	386 404	175 868	360 588	1 137 944	775 881
Debt securities	7 085 768	2 837 778	984 203	797 045	66 209
Loans and advances	-	-	-	-	-
Others	36 446	-	-	-	28 788
Off-balance sheet	4 758	-	6 672	763 307	-
Total	7 513 376	3 013 646	1 351 463	2 698 297	870 879
Liabilities	9 914	1 455	57 407	1 368 142	23 365
Debt securities issued	3 000 960	1 490 544	1 980 208	1 515 407	-
Term deposits	-	-	-	-	-
Others	159 034	443 112	393 890	706 239	29 803
Off-balance sheet	753 376	-	17	137	1 388
Total	3 923 285	1 935 111	2 431 522	3 589 926	54 556
GAP (Assets - Liabilities)	3 590 091	1 078 535	(1 080 059)	(891 629)	816 322

(Euro thousand)

	Jun 2020				Dec 2019			
	June	**Annual average**	**Maximum**	**Minimum**	**December**	**Annual average**	**Maximum**	**Minimum**
Interest Rate Gap	4 067 673	3 790 466	4 067 673	3 513 259	3 513 259	3 314 547	3 513 259	3 032 618

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 2020, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a decrease in the economic value expected from the banking portfolio of circa Euro 36,966 thousand (31 December 2019: decrease of Euro 31,581 thousand).

The following table presents the average interest rates, in relation to the Group's major asset and liability categories for the first half of 2020 and financial year 2019, as well as the respective average balances and the income and expense for the period and financial year:

(Euro thousand)

	Jun 2020			Dec 2019		
	Average balance	**Average interest rate (%)**	**Interest**	**Average balance**	**Average interest rate (%)**	**Interest**
Interest- generating assets						
Deposits at central banks and other credit institutions	793 764	0.75	3 003	1 110 692	0.51	5 710
Loans and advances to other credit institutions	283 239	0.66	948	261 579	0.91	2 421
Loans and advances to customers	12 327 879	2.07	128 914	12 569 752	2.19	279 642
Securities portfolio	2 690 386	0.33	4 444	2 395 938	0.57	13 782
Other assets at fair value	10 522	1.28	68	22 168	0.63	141
Other (includes derivatives)			8 772	-	-	18 492
	16 105 790	**1.79**	**146 149**	**16 360 129**	**1.93**	**320 188**
Interest-generating liabilities						
Deposits from ECB	1 443 076	0.04	289	1 384 894	0.24	3 323
Deposits from other credit institutions	545 700	0.30	826	1 082 456	0.72	7 862
Deposits from customers	12 393 807	0.18	11 026	12 565 619	0.27	34 751
Senior debt	1 357 398	0.63	4 347	1 051 217	0.97	10 306
Subordinated debt	165 040	8.98	7 494	131 622	8.84	11 803
Other (includes derivatives)			7 488	-	-	15 332
	15 905 021	**0.39**	**31 470**	**16 215 808**	**0.51**	**83 377**
Net interest income		**1.41**	**114 679**		**1.43**	**236 811**

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 2020 and 31 December 2019, is analysed as follows:

(Euro thousand)

	jun 2020							
	Euro	U.S. Dollar	Angolan Kwanza	Swiss Franc	Pound Sterling	Brazilian Real	Other foreign currencies	Total amount
Assets by currency								
Cash and deposits at central banks	898 992	9 516	-	2 565	1 740	-	1 942	914 755
Loans and advances to credit institutions repayable on (	37 820	-	4 679	1 052	536	-	4 475	48 562
Other loans and advances to credit institutions	265 089	(4 269)	-	-	3 558	-	22 108	286 486
Loans and advances to customers	11 467 940	86 349	-	-	15	-	-	11 554 304
Financial assets held for trading	38 467	5 408	-	77	3	-	-	43 955
Other financial assets at fair value value through profit or loss	371 469	-	-	-	-	-	-	371 469
Financial assets at fair value through other comprehensive income	1 169 636	-	-	-	-	29 751	-	1 199 387
Hedging derivatives	15 259	-	-	-	-	-	-	15 259
Other financial assets at amortized cost	1 703 767	-	-	-	-	-	-	1 703 767
Investments in associates	4 274	-	-	-	-	-	-	4 274
Non current assets held for sale	167	-	-	-	-	-	-	167
Non-current assets held for sale - - Discontinued Operations	32 024	79 652	67 790	15	-	-	-	179 481
Investment properties	134 828	-	-	-	-	-	-	134 828
Other tangible assets	242 761	-	-	-	-	-	-	242 761
Intangible assets	34 349	-	-	-	-	-	-	34 349
Current tax assets	11 627	-	-	-	-	-	-	11 627
Deferred Tax Assets	466 273	-	-	-	-	-	-	466 273
Other assets	631 212	37 960	-	-	61	-	1 156	670 389
Total Assets	**17 525 954**	**214 616**	**72 469**	**3 709**	**5 913**	**29 751**	**29 681**	**17 882 093**
Liabilities by currency								
Deposits from central banks	1 636 639	-	-	-	-	-	-	1 636 639
Deposits from other credit institutions	453 874	55 663	-	35	3 660	-	22 156	535 388
Deposits from customers	12 235 049	129 928	-	3 245	11 882	-	41 485	12 421 589
Debt securities issued	1 327 340	-	-	-	-	-	-	1 327 340
Financial liabilities held for trading	13 185	-	-	-	-	-	-	13 185
Hedging derivatives	799	-	-	-	-	-	-	799
Non current liabilities held for sale - Discontinued operations	36 707	29 464	29 879	-	-	-	1	96 051
Provisions	33 399	-	-	-	-	-	-	33 399
Current tax liabilities	2 279	-	-	-	-	-	-	2 279
Other subordinated debt	211 164	-	-	-	-	-	-	211 164
Other liabilities	241 840	493	-	234	625	-	2 319	245 511
Total liabilities	**16 192 275**	**215 548**	**29 879**	**3 514**	**16 167**	**-**	**65 961**	**16 523 344**
Exchange forward transactions	-	(47 302)	-	(141)	8 268	(27 815)	38 474	
Exchange Gap	-	3 167	42 590	54	(1 986)	1 936	2 186	-
Stress Test	-	**(633)**	**(8 518)**	**(11)**	**397**	**(387)**	**(437)**	-

(Euro thousand)

	Dec 2019							
	Euro	U. S. Dollar	Angolan Kwanza	Swiss Franc	Pound sterling	Brazilian Real	Other currencies	Total amount
Assets by currency								
Cash and deposits at central banks	989 939	8 130	-	2 939	1 081	-	1 560	1 003 649
Loans and advances to credit institutions repayable on	(15 863)	37 589	5 619	852	442	-	806	29 445
Other loans and advances to credit institutions	233 858	14 686	-	-	3 688	-	23 366	275 598
Loans and advances to customers	11 378 341	86 193	-	-	8	-	-	11 464 542
Financial assets held for trading	26 966	8 939	-	-	-	-	-	35 905
Other financial assets at fair value value through profit or loss	384 675	-	-	-	-	-	-	384 675
Financial assets at fair value through other comprehensive income	1 817 022	-	-	-	-	42 669	-	1 859 691
Hedging derivatives	11 148	-	-	-	-	-	-	11 148
Other financial assets at amortized cost	899 145	-	-	-	-	-	-	899 145
Investments in associates	4 439	-	-	-	-	-	-	4 439
Non-current assets held for sale - - Discontinued Operations	39 628	92 572	84 324	15	1	-	(2)	216 538
Investment properties	144 868	-	-	-	-	-	-	144 868
Other tangible assets	248 469	-	-	-	-	-	-	248 469
Intangible assets	33 839	-	-	-	-	-	-	33 839
Current tax assets	15 284	-	-	-	-	-	-	15 284
Deferred Tax Assets	434 665	-	-	-	-	-	-	434 665
Other assets	646 765	31 185	-	-	73	-	219	678 242
Total Assets	**17 293 188**	**279 294**	**89 943**	**3 806**	**5 293**	**42 669**	**25 949**	**17 740 142**
Liabilities by currency								
Deposits from central banks	1 291 033	-	-	-	-	-	-	1 291 033
Deposits from other credit institutions	423 391	71 385	-	16	3 971	-	23 398	522 161
Deposits from customers	12 353 222	114 938	-	2 514	12 288	-	41 735	12 524 697
Debt securities issued	1 389 980	-	-	-	-	-	-	1 389 980
Financial liabilities held for trading	13 368	-	-	-	-	-	-	13 368
Hedging derivatives	547	-	-	-	-	-	-	547
Non current liabilities held for sale - Discontinued operations	46 973	36 149	51 305	-	-	-	2	134 429
Provisions	31 633	-	-	-	-	-	-	31 633
Current tax liabilities	1 783	-	-	-	-	-	-	1 783
Other subordinated debt	157 847	-	-	-	-	-	-	157 847
Other liabilities	219 298	487	-	738	4	-	149	220 676
Total liabilities	**15 929 075**	**222 959**	**51 305**	**3 268**	**16 263**	**-**	**65 284**	**16 288 154**
Exgange forward transactions	-	(50 635)	-	(2 441)	11 095	-	39 863	
Exchange gap	-	5 700	38 638	(1 903)	125	42 669	528	-
Stress Test	-	**(1 140)**	**(7 728)**	**381**	**(25)**	**(8 534)**	**275**	-

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.

Banco Montepio realized a Non-Deliverable Forward (NDF) with a nominal value of 170 million Brazilian Reais, in the scope of its foreign currency management.

Liquidity risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring in significant losses arising from a deterioration in financing conditions (financing risk) and/or the sale of its assets at values lower than market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined, as well as other internal metrics for which internal limits are defined. This control is reinforced with the monthly execution of stress tests, 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 monthly.

As at 30 June 2020, the LCR amount was 224.4% (31 December 2019: 179.9%).

As at 30 June 2020, the Group's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Up 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 636 639	-	-	-	-	1 636 639
Deposits from other credit institutions	535 388	-	177 399	44 821	33 808	279 360
Deposits from customers	12 421 589	-	6 443 667	965 126	2 169 493	2 843 303
Debt securities issued	1 327 340	-	101	4 970	3 008	1 319 261
Financial liabilities held for trading	13 185	-	187			12 998
Financial liabilities held for sale - - Discontinuing operations	96 051	96 051	-	-	-	-
Other subordinated debt	211 164	-	-	-	4 841	206 323
Other liabilities	245 511	245 511	-	-	-	-
Total funding	**16 486 867**	**341 562**	**6 621 354**	**1 014 917**	**2 211 150**	**6 297 884**

As at 31 December 2019, the Group's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Up 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 291 033	-	443 600	-	-	847 433
Deposits from other credit institutions	522 161	-	47 173	65 615	4 788	404 585
Deposits from customers	12 524 697	-	5 252 630	2 279 121	1 662 280	3 330 666
Debt securities issued	1 389 980	-	9 393	4 129	1 525	1 374 933
Financial liabilities held for trading	13 368	-	17	34	6	13 311
Financial liabilities held for sale - - Discontinuing operations	134 429	134 429	-	-	-	-
Other subordinated debt	157 847	-	-	-	7 847	150 000
Other liabilities	220 676	220 676	-	-	-	-
Total funding	**16 254 191**	**355 105**	**5 752 813**	**2 348 899**	**1 676 446**	**6 120 928**

In the scope of Bank of Portugal Instruction no. 28/2014, of 15 January 2015, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and considering the recommendation made by the European Systemic Risk Committee, we present the following information, as at 30 June 2020 and 31 December 2019, on the assets and related collaterals:

(Euro thousand)

Assets	Jun 2020			
	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets from the reporting institutions	3 220 896		14 661 197	
Equity instruments	-	-	490 123	490 118
Debt securities	586 245	506 762	2 965 248	2 289 414
Other assets	-		1 909 430	

(Euro thousand)

Assets	Dec 2019			
	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets from the reporting institutions	1 730 525	-	16 023 618	-
Equity instruments	-	-	510 621	510 616
Debt securities	617 449	535 399	2 506 565	2 072 801
Other assets	-	-	2 018 918	-

(Euro thousand)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2020	Dec 2019
	Carrying amount of selected financial liabilities	
Associated liabilities, contingent liabilities and securities borrowed	1 838 141	1 764 452
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	3 192 873	1 703 967

The encumbered assets are mostly related to the Group's funding operations, namely of the ECB, of repo operations, of the issuance of covered bonds and of securitization programs. The type of assets used as collateral for securitization programs and for the issuance of covered bonds, whether those placed outside the Group, or those used to reinforce the collateral pool with the ECB, are constituted by customers' loans contracts. Repo transactions in the money market are collateralized, essentially, by covered bonds and securitization programs, of which Banco Montepio is the originator, and by securitized credit operations.

The amounts presented in the previous tables correspond to the position as at 30 June 2020 and 31 December 2019 and reflect the high level of collateralization of the wholesale funding of the Group. The buffer of eligible assets for funding from the ECB, after haircuts, uncommitted and available for use in new operations amounts, as at 30 June 2020, to Euro 2,397,858 thousand (31 December 2019: Euro 2,324,202 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB), as at 30 June 2020, amounts to Euro 4,034,534 thousand (31 December 2019: Euro 3,622,315 thousand) with a usage of Euro 1,659,441 thousand (31 December 2019: Euro 1,308,333 thousand):

		(Euro thousand)
	Jun 2020	**Dec 2019**
Total eligible collateral	**4 657 483**	**4 150 167**
Total collateral in the pool	4 034 534	3 622 315
Collateral outside the pool	622 949	527 852
Used collateral	**2 259 625**	**1 825 965**
Collateral used for ECB	1 659 441	1 308 333
Collateral committed to other financing operations	600 184	517 632
Collateral available for ECB	**2 375 093**	**2 313 982**
Total available collateral	**2 397 858**	**2 324 202**

Note: collateral amount considers the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on Banco Montepio's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from the exposure in real estate assets, whether from the foreclosure of properties or judicial auction in the scope of credit recovery processes or from investment units in real estate funds held in the securities' portfolio. These exposures are monitored through scenario analyses that attempt to estimate the potential impacts of changes in the real estate markets in the portfolios of these real estate assets and make available the information elements necessary for the definition of the real estate risk management policy.

As at 30 June 2020 and 31 December 2019, the exposure to real estate and investment units in real estate funds presented the following values:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Real estate received in recovery of credit	585 517	608 959
Investment properties	134 828	144 868
Investment units in Real Estate Funds	251 944	256 298
	972 289	1 010 125
Stress test	(97 229)	(101 013)

Stress test results correspond to the estimated impact on equity (before taxes) of a negative 10% variation in the values of real estate and investment units in real estate funds.

Operating Risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

The Group has the approval of the Bank of Portugal to use the standard method to quantify its own capital requirements for operating risk, supported on the existence of an operating risk management system based on the identification, assessment, monitoring, measurement, mitigation and reporting of this type of risk.

The Risk Department exercises the corporate function of operating risk management of the Group which is supported by the existence of participants in different organic units that ensure the proper implementation of the operating risk management.

The operating risk profile assessment for new products, processes and systems and its consequent monitoring, on a regular basis, has allowed the early identification and mitigation of operating risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the assessment of the exposure to operating risk and the preparation of periodic reports on the Institution’s operating risk profile. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. A report is prepared annually, which includes the analysis of all operating risk management instruments.

As regards mitigation measures, action plans are suggested for the most significant risks, identified based on the operating risk management tools previously mentioned.

In addition, Banco Montepio has implemented a business continuity management process, supported by a set of assessment, design, implementation and monitoring activities, integrated in a cycle of continuous improvement.

In the context of the COVID-19 pandemic, the Business Continuity Plan was activated, with the measures foreseen for the crisis situation having been taken, with the objective of ensuring that the critical processes are carried out without disruption, or that the impact on these is not significant, which, to date, has been successfully achieved.

As provided for in the Business Continuity Plan, the Crisis Management Office was also activated, which is responsible for crisis management, for the management and execution of the Operational Continuity Plans and for the coordination of the business recovery teams and the return to normality.

Pension Fund Risk

The Pension Fund risk results from the potential devaluation of the Fund's asset portfolio or the decrease in the respective expected returns, as well as the increase in the Fund's liabilities as a result of the evolution of the different actuarial assumptions. In such scenarios, Banco Montepio will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular analysis and monitoring of Banco Montepio’s Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the market value of the Pension Fund’s portfolio and the associated risk indicators.

Considering the provisions of the investment policy of the Montepio Geral Pension Fund relating to the exposure to various risks and to the different legal provisions, the Bank ensures a daily monitoring of the control of the legal limits by means of a detailed analysis of "legal limits and investments exceeded", with a set of procedures being performed if the limits are exceeded.

The Risk Department monitors the effect of possible measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has strengthened control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows for the monitoring of the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on the VaR calculation, with a confidence level of 99.5% for a one-year time horizon. Since VaR does not totally guarantee that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose of calculating the impact of several extreme scenarios on the value of the portfolio.

The assessment of the liquidity level of the share-based and bond-based components of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days for their liquidation, considering the assets in the portfolio. This test consists of verifying the liquidity of the share-based segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond-based segment, the cash receipts (positive cash flows) resulting from bond coupon (interest) payments and amortizations or possible call option exercises are calculated for one month. All these tests allow for the assessment of the degree of liquidity in the short term and to monitor or act in the event of a possible shortage of liquidity, in a timely manner.

Other Risks

With regard to other risks – reputation, compliance, strategy and business risks - these are also monitored by the Board of Directors, with the risks being controlled and corrective measures being taken based on the results obtained compared with the objectives/limits established, of note being, namely, the monitoring and control of deviations from the approved strategic plan and budget.

Hedging Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees, and financial collateral are relevant, as well as the provision of personal credit protection, namely of guarantees.

In terms of the direct reduction of the exposure value, credit operations collateralized by financial collateral are considered, namely, term deposits and securities. In financial collaterals, the market and foreign exchange risks of the assets involved are considered, and, when applicable, the value of the collateral is adjusted.

Regarding real mortgage guarantees, Banco Montepio has defined valuation and revaluation models to be applied to properties that may or already constitute real collateral for credit operations. The asset valuations are carried out by independent expert appraisers, and the management of the valuations and inspections is centralized in a unit that is independent of the commercial area. In accordance with (EU) Regulation no. 575/2013 (CRR), the requirements for the verification and revaluation of the assets' value, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation amount by an expert appraiser are assured.

For credit guarantees, the principle of the substitution of the customer's risk by that of the protection provider is applied, provided that the risk of the latter is not inferior to that of the prior.

The Group does not usually use on-balance sheet and off-balance sheet offsetting processes, nor does it hold credit derivatives on positions in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures with financial products with a symmetric risk to decrease the total risk of the exposures or the partial or total sale of exposures to reduce exposure or cancel it completely.

Regarding the banking portfolio, interest rate and foreign exchange risk mitigation techniques correspond to the negotiation of hedging operations with derivatives and the closure of exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of the Group are determined in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (CRR), adopted by the European Parliament and by the Council, Notice no. 10/2017 of the Bank of Portugal and Regulation (EU) no. 2020/873 of the European Parliament and Council, which introduced some amendments to the CRR in response to the COVID-19 pandemic. 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. As regards the fair value reserves, within the scope of Regulation (EU) no. 2020/873, Banco Montepio adhered to the possibility of applying the prudential filters to the fair value reserves associated with sovereign debt. The value of reserves and retained earnings is adjusted for the reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to minority shareholders. The book value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, between the assets and liabilities of the Pension Fund, is deducted. The amount of the prudent valuation calculated in accordance with articles no. 34 and 105 of the CRR is also deducted, as are the deferred tax assets related to tax losses. Regarding financial shareholdings in financial sector entities and deferred tax assets arising from timing differences that depend on future profitability, the values in these captions are deducted when, individually, they exceed 10.0% of CET1, or, subsequently, 15.0% of CET1 when considered in aggregate (only on the part not deducted in the first barrier of 10.0% and considering only significant shareholdings). The values not deducted will be subject to the weighting of 250.0% to the total risk-weighted assets. Regarding shareholdings in financial institutions, the deduction is proportionally realized in the corresponding capital levels held. As part of the implementation of the requirements defined in Regulation (EU) no. 575/2013, a transition period was defined to allow for a gradual recognition of the major impacts of this new regulation. This transition plan reached total recognition in 2018 (i.e. 100%) for almost all the captions encompassed. Only for the deferred tax assets that do not depend on future profitability, in the balance sheet as at 1 January 2014, is the transitional cumulative recognition plan maintained on a 10% annual basis, with, in 2019, this having attained 50%. With the revision of Regulation (EU) no. 575/2013, of 27 June 2019, the applicable amount of insufficient coverage for non-productive exposures is now deducted if said exposures originated after 26 April 2019.

- *Level 1 Own Funds or Tier 1 (T1):* includes capital equivalent instruments, which conditions are in accordance with article 52 of Regulation (EU) no. 575/2013 of the European Union and that have been approved by the Bank of Portugal. Non-controlling interests relating to additional own funds' minimum requirements of the institutions in which the Group does not hold full ownership are also eligible. The eventual shareholdings of T1 capital of financial institutions subject to deduction are deducted from this capital.
- *Level 2 Own Funds or Tier 2 (T2):* includes capital equivalent instruments, which conditions are in accordance with article 63 of the CRR and that have been approved by the Bank of Portugal. Non-controlling interests relating to the own fund's minimum requirements of the institutions in which the Group does not hold full ownership are also eligible. The eventual shareholdings of T2 capital of financial institutions subject to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels of own funds previously referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating and market risk requirements, reference is made to the weighting of 250% of deferred tax assets arising from timing differences that depend on future profitability and financial shareholdings that are within the limit established for non-deduction from CET1. With respect to deferred tax assets arising from timing differences that do not depend on future profitability, these are subject to a 100% weighting for capital requirement purposes. The CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phase-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2020, Banco Montepio only recognized prudentially 30.0% of the initial impact related to the adoption of IFRS 9.

With the entry into force of Regulation (EU) no. 2020/873 of the European Parliament and Council, the dynamic component of the transitional plan applied to the IFRS 9 impacts (Regulation (EU) no. 2017/2395) was revised, with the introduction of an additional plan regarding the impacts of increased IFRS 9 impairment occurring after 01/01/2020 in stages 1 and 2. These increases are subject to a transitional plan to derecognize these impacts in 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024. Regarding the transitional plan applicable to impairment increases in stages 1 and 2 between 01/01/2018 and 31/12/2019, Banco Montepio has no impacts subject to this plan.

As referred in 2020, the effects of Basel III's new regulation related to deferred tax assets that do not depend on future profitability (even if not very significant), as well as the effects resulting from the adoption of IFRS 9 are still being gradually introduced. This process is designated Phase-in. The full assumption of the new regulation, without considering transitory plans, is designated Full Implementation. The phase-in process is currently underway, and it is on this basis that an entity verifies that it has own funds for an amount not below the own funds' minimum requirements, thus certifying the adequacy of its capital. This relation is reflected in the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (ratio corresponding to the respective capital level as a percentage of the amount corresponding to 12.5 times the own funds' requirements).

For these ratios, regulatory minimums are indicated by CRD IV/CRR of 4.5% for CET1, 6% for Tier 1 and 8% for Total Capital. However, on these regulatory minimums are applied reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions), the value of which is defined by the Bank of Portugal. For 2020, the Bank of Portugal defined a 0% Counter-Cyclical Reserve. Regarding the Conservation Reserve, its value is 2.5%. With respect to the Reserve for Other Systemic Institutions, the Bank of Portugal has set a reserve for Banco Montepio, on a consolidated basis, of 0.1875% in 2020 and 2021 and 0.25% in 2022.

Pursuant to these provisions, as at 30 June 2020, the regulatory ratios, considering all the reserves, for Common Equity Tier 1, Tier 1 and Total were 9.016%, 11.125% and 13.938%, respectively, including the own funds reserves referred to above. However, as a result of the COVID-19 virus pandemic, in line with the decision taken by the ECB for significant institutions, the Bank of Portugal allows the less significant credit institutions subject to its supervision to operate, on a temporary basis, with a level lower than the combined capital reserve (OCR), considering that capital reserves were designed to allow credit institutions to resist especially adverse situations. As a result, the minimum regulatory ratios as at 30 June 2020 for Common Equity Tier 1, Tier 1 and Total were 6.328%, 8.438% and 11.25%, respectively.

The summary of the calculation of the Group's capital requirements as at 30 June 2020 and 31 December 2019, under phase-in, is presented as follows:

	Jun 2020	Dec 2019
	(Euro thousand)	
Common Equity Tier 1 Capital		
Realized share capital	2 420 000	2 420 000
Net income/(loss), reserves and retained earnings	(1 071 968)	(985 885)
Non-controlling interests eligible for CET1	3 676	4 598
Other regulatory adjustments	(188 142)	(164 845)
	1 163 566	1 273 868
Tier 1 Capital		
Non-controlling interests eligible for Tier 1	228	252
	1 163 794	1 274 120
Tier 2 Capital		
Subordinated debt	206 323	156 323
	206 323	156 323
Total own funds	1 370 117	1 430 443
Own funds requirements		
Credit risk	703 307	717 673
Market risk	6 309	7 811
Operating risk	60 896	60 896
Other requirements	39 003	37 509
	809 515	823 889
Prudential Ratios		
Common Equity Tier 1 Ratio	11.5%	12.37%
Tier 1 Ratio	11.5%	12.37%
Total Capital Ratio	13.54%	13.80%

It should be noted that the ratios, as at 30 June 2020 and 31 December 2019, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 33.

On 16 March 2020, in the context of the pandemic induced by the COVID-19 outbreak, the Bank of Portugal took a series of measures to make the regulatory and supervisory requirements more flexible, with the result that the minimum total capital ratio decreased to 11.25%. Even though the total capital ratio calculated with reference to 30 June 2020 is above this threshold, the Board of Directors has initiated a series of initiatives aimed at strengthening capital ratios, and which, at the present date, are in progress.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phase-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. If Banco Montepio did not apply this transitional plan, as well as the recent transitional plan defined in Regulation (EU) no. 2020/873, to the impacts arising from the adoption of IRFS 9, the Banco Montepio Group's prudential ratios as at 30 June 2020 and 31 December 2019 would be:

(Euro thousand)

	Jun 2020	Dec 2019
Capital Common Equity Tier 1	1 033 602	1 153 442
Capital Tier 1	1 033 830	1 153 693
Total own funds	1 240 153	1 310 016
Own funds requirements	799 982	817 021
Prudential Ratios		
Common Equity Tier 1 Ratio	10.34%	11.29%
Tier 1 Ratio	10.34%	11.30%
Total Capital Ratio	12.40%	12.83%

If only the transitional plan applied to the initial impacts of the adoption of IFRS 9 was considered, and the transitional plan applicable to the increase in stage 1 and 2 impairment after 1 January 2020 was not considered, the prudential ratios of Banco Montepio, as at 30 June 2020, would be:

(Euro thousand)

	Jun 2020
Capital Common Equity Tier 1	1 132 496
Capital Tier 1	1 132 724
Total own funds	1 339 047
Own funds requirements	807 325
Prudential Ratios	
Common Equity Tier 1 Ratio	11.22%
Tier 1 Ratio	11.22%
Total Capital Ratio	13.27%

56 Recently issued accounting policies

1. Impact of the adoption of new standards, amendments to the standards and interpretations that became effective on 1 January 2020:

a) **IFRS 3** (amendment), 'Definition of a business'. This amendment is a revision of the definition of a business for the purpose of accounting for business combinations. The new definition requires an acquisition to include an input and a substantial process that together generate outputs. Outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits to shareholders. Concentration tests are now allowed to determine whether a transaction involves the acquisition of an asset or a business.

b) **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Interest rate benchmark reform'. These amendments are part of the first phase of the IASB's 'IBOR reform' project and allow exemptions related to the reform for benchmark interest rates. The exemptions refer to hedge accounting, in terms of: i) risk components; ii) 'highly likely' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for adopters of IAS 39); and v) recycling of the cash flow hedge reserve, with the objective being that the reform of the benchmark interest rates does not determine the cessation of hedge accounting. However, any ineffectiveness of the coverage determined must continue to be recognized in the income statement.

c) **IAS 1 and IAS 8** (amendment), 'Definition of material'. This amendment introduces a modification to the concept of "material" and clarifies that the mention of unclear information refers to situations which effects are similar to omitting or distorting such information, and the entity should assess materiality considering the financial statements as a whole. Clarifications are also made as to the meaning of "main users of financial statements", these being defined as 'current and future investors, financiers and creditors' that depend on the financial statements to obtain a significant part of the information they need.

d) **Conceptual framework**, 'Amendments in referencing to other IFRS'. As a result of the publication of the new Conceptual Framework, the IASB introduced changes in the text of several standards and interpretations, namely: 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 expense/income, in addition to some of the characteristics of financial information. These amendments are retrospectively applicable, unless impracticable.

These changes had no material impact on the financial statements of Banco Montepio.

2. Standards (new and amended) published, the application of which is mandatory for annual periods beginning on or after 1 June 2020, but which the European Union has not yet endorsed:

a) **IFRS 16** (amendment), 'Leases – Rent concessions related to COVID-19' (effective for annual periods beginning on or after 1 June 2020). This amendment is still subject to endorsement by the European Union. This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether the rent concessions granted by lessors under COVID-19 qualify as "modifications" when three criteria are cumulatively met: i) the change in the lease payments results in a revised remuneration for the lease that is substantially equal to, or less than, the remuneration immediately prior to the change; ii) any reduction in lease payments only affects payments due on or until 30 June 2021; and iii) there are no significant changes to other lease terms and conditions. Lessees opting for the application of this exemption, account for the change in rental payments as variable lease rentals in the period(s) in which the event or condition leading to the payment reduction occurs. This amendment is applied retrospectively with the impacts being reflected as an adjustment to retained earnings (or another equity component, as appropriate) at the beginning of the annual reporting period in which the lessee applies the amendment for the first time.

b) **IAS 1** (amendment), 'Presentation of financial statements - classification of liabilities' (effective for annual periods beginning on or after 1 June 2022). This amendment is still subject to endorsement by the European Union. This amendment seeks to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity must defer their payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but it should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as non-compliance of a "covenant". This amendment also includes a new definition of the "settlement" of a liability. This amendment is retrospectively applicable.

c) **IFRS 3** (amendment), 'References to the Conceptual Framework' (effective for annual periods beginning on or after 1 June 2022). This amendment is still subject to endorsement by the European Union. This amendment updates the references to the Conceptual Framework in the text of IFRS 3, with no changes having been made to the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be adopted regarding liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus included in a business combination. This amendment is prospectively applicable.

d) **IAS 16** (amendment), 'Proceeds before intended use' (effective for annual periods beginning on or after 1 June 2022). This amendment is still subject to endorsement by the European Union. Changes the accounting treatment given to the consideration obtained from the sale of products that result from the production in the testing phase of the tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. This amendment is of retrospective application, without restatement of comparatives.

e) **IAS 37** (amendment), 'Onerous contracts - costs of complying with a contract' (effective for annual periods beginning on or after 1 June 2022). This amendment is still subject to endorsement by the European Union. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to direct labour and materials and the allocation of other directly related expenses, such as the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment should be applied to contracts that, at the beginning of the first annual reporting period in which the amendment is applied, still include contractual obligations to be satisfied, with no need to restate the comparatives.

f) **Improvements to the 2018 - 2020 standards**, (to be applied to annual periods beginning on or after 1 January 2022). These amendments are still subject to endorsement by the European Union. This improvement cycle amends the following standards: IFRS 1, IFRS 9, IFRS 16 and IAS 41.

IFRS 1, ‘Subsidiary as a first-time adopter of IFRS’. This improvement clarifies that, when the subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements, the measurement of the cumulative translation differences of all foreign operations can be made at the amounts that would be recorded in the consolidated financial statements, based on the transition date of the parent company to IFRS.

IFRS 9, ‘Derecognition of liabilities - costs incurred to be included in the 10% variation test’. This improvement clarifies that under the derecognition tests carried out on renegotiated liabilities, the borrower must determine the net amount between fees paid and fees received considering only the fees paid or received between the borrower and the financier, including fees paid or received, by any one of the entities on behalf of the other.

IFRS 16, 'Rent concessions'. This improvement refers to the amendment to Illustrative Example 13 that accompanies IFRS 16, to eliminate inconsistency in the accounting treatment of rent concessions attributed by the lessor.

IAS 41, ‘Taxation and measurement of fair value’. This improvement eliminates the requirement to exclude tax cash flows when measuring the fair value of biological assets, ensuring consistency with the IFRS 13 - 'Fair value' principles.

g) **IFRS 17** (new), ‘Insurance contracts’ (effective for annual periods beginning on or after 1 January 2023). 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 characteristics. IFRS 17 is based on the current measurement of technical liabilities, which are reassessed at each reporting date. The current measurement can be made by applying the complete (“building block approach”) or simplified (“premium allocation approach”) model. The complete model is based on discounted cash flow scenarios weighted by the probability of occurrence and adjusted for risk, plus a contractual service margin, which represents the estimated future profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin unless it becomes negative. IFRS 17 is retrospectively applied with some exemptions on the transition date.

h) **IFRS 17** (amendment), ‘Insurance contracts’ (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. This amendment includes specific changes in eight areas of IFRS 17, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the Statement of Financial Position; vii) recognition and measurement of the Income Statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and streamline its implementation.

The Banco Montepio Group does not anticipate any significant impact on the application of this amendment to its consolidated financial statements.

57 Transfer of assets

The Group carried out several financial asset sale operations, namely loans and advances to customers, to funds specialized in the recovery of loans. These funds take responsibility for the management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of same.

The financial assets sold under these operations are derecognized from the balance sheet of the Group, since the operations result in the transfer to the funds of a substantial portion of the risks and rewards associated with the assets as well as the control of same. The funds specialized in the recovery of credit that acquired financial assets from the Group are closed funds, in respect of which the holders have no possibility of requesting the redemption of their investment units throughout the useful life of same. These investment units are held by several banks in the market that ceded the loans, in percentages that vary throughout the useful life of the funds, but it is ensured that each bank, separately, does not hold units representative of more than 50% of the capital of the funds.

The funds have a specific management structure (General Partner), fully independent from the seller banks, and that is selected on the date of the incorporation of the funds. The management structure of the fund has as main responsibilities to:

- define the objective of the fund; and
- manage the fund on an exclusive basis, determining the objectives and investment policy and the conduct of the management and business of the fund.

The management structure is remunerated through management commissions charged to the funds.

Generally, these funds, in which the Group holds minority positions, incorporate companies under Portuguese law in order to acquire the loans from the banks, which are financed through the issuance of senior and junior bonds. The value of the senior bonds, fully subscribed by the funds that hold the share capital of the companies, matches the fair value of the asset transferred, determined in accordance with a negotiation process based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company holding the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the transfer value of the loans to the Portuguese-law companies. These junior bonds, when subscribed by the Group, grant the right to a contingent positive value if the value of the assets transferred exceeds the nominal value of the senior bonds plus their related interest.

However, considering that these junior bonds reflect a valuation difference of the assets transferred, based on valuations performed by independent entities and a negotiation process between the parties, the junior bonds are fully provided against.

Therefore, following the asset sale operations carried out, the Group subscribed:

- Investment units of the funds, in which the cash flows that will allow their recovery arise mainly from a broad set of assets transferred by the various participant banks (where the Group has a clear minority interest). These securities are booked in the portfolio of financial assets at fair value through other comprehensive income and are accounted for at fair value based on the quotation value, as disclosed by the funds and audited at each year end;

- Junior bonds (with a higher subordination level), issued by the Portuguese-law companies controlled by the funds, which are fully provided against because they reflect the best estimate of the impairment of the financial assets transferred.

In this context, of not holding control but maintaining some exposure to certain risks and rewards, the Group, in accordance with IFRS 9 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the operation, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence over the funds or the companies holding the assets, the Group derecognized the assets transferred and recognized the assets received in return as follows:

(Euro thousand)

	Jun 2020			Dec 2019		
	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
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 2020 and 31 December 2019, the assets received under these operations are as follows:

(Euro thousand)

	Jun 2020	**Dec 2019**
	Senior securities	
Fundo Vega, FCR	26 176	27 824
Discovery Portugal Real Estate Fund	16 312	16 397
Fundo Aquarius, FCR	11 933	13 154
Fundo de Reestruturação Empresarial, FCR	26 384	26 455
	80 805	83 830

Although the subordinated securities are fully provided against, the Group also has an indirect exposure to the financial assets transferred, in the scope of the minority investment in the pool of all the assets transferred by other financial institutions, through the shares and investment units in the funds acquired in the scope of the operations (designated in the table as senior bonds).

58 Contingencies

Resolution Fund

The Resolution Fund is a legal person governed by public law with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the Legal Framework of Credit Institutions and Financial Companies ("RGICSF ") and by its regulations and its mission is to provide financial support for the resolution measures implemented by the Bank of Portugal, in its quality as national resolution authority, and to perform all other functions conferred by law in the implementation of such measures.

As with the majority of the financial institutions operating in Portugal, the Group is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by the Bank of Portugal based, among others, on the amount of its liabilities. As at 30 June 2020, the periodic contribution made by the Group amounted to Euro 4,441 thousand (30 June 2019: Euro 4,296 thousand), based on a contribution rate of 0.060%.

Resolution measure applied to Banco Espírito Santo, S.A. (BES)

As part of its responsibility while supervisory and resolution authority of the Portuguese financial sector, the Bank of Portugal, on 3 August 2014, decided to apply to Banco Espírito Santo, S.A. ("BES") a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its activity to a transition bank called Novo Banco, S.A. ("Novo Banco"), created especially for this purpose.

To realize the share capital of Novo Banco, the Resolution Fund, while sole shareholder, provided Euro 4,900 million, of which Euro 365 million corresponding to its own financial resources. A loan was granted by a bank syndicate to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution weighted according to several factors, including their size. The remaining amount (Euro 3,900 million) came from a repayable loan granted by the Portuguese State.

Following the implementation of the referred resolution measure, on 7 July 2016, the Resolution Fund stated that it would review and evaluate the steps to be taken following the publication of the report on the results of the independent valuation exercise, carried out to estimate the level of credit recovery for each class of lenders in the hypothetical scenario of a normal insolvency process of BES as at 3 August 2014. Under the applicable law, if it turns out that lenders which credits have not been transferred to Novo Banco assume a greater loss than they would hypothetically have had BES entered into a liquidation process immediately prior to the application of the resolution, these lenders are entitled to receive the difference from the Resolution Fund.

On 31 March 2017, the Bank of Portugal announced that it had selected Lone Star Fund for the purchase of Novo Banco, which was concluded on 17 October 2017, through the injection by the new shareholder of Euro 750 million, which will be followed by a new capital injection of Euro 250 million, to be completed within the period of three years. With this operation, Novo Banco's status as transition bank ceased, with Lone Star Fund now holding 75% of the share capital of Novo Banco and the Resolution Fund the remaining 25%, albeit without the corresponding voting rights.

On 26 February 2018, the European Commission released the non-confidential version of the State aid approval decision underlying the sale process of Novo Banco, which includes a contingent capitalization mechanism whereby the Resolution Fund may be called upon to carry out capital injections if certain conditions materialize related to the performance of a restricted set of assets of Novo Banco and the evolution of the bank's capital levels.

This mechanism is triggered annually, based on the annual accounts of Novo Banco certified by the respective auditor, with the possibility of intra-annual assessments being foreseen, but only in the event of non-compliance, by Novo Banco, with the prudential requirements. For the purpose of this mechanism, the differences in the valuation of assets (positive or negative) are considered in relation to their book value, net of impairments, recorded as at 30 June 2016 (circa Euro 7.9 thousand million according to the information provided by Novo Banco). Hence, economic losses or gains resulting from, for example, the sale of assets or the restructuring of loans, but also the impairment, or its reversal, recorded by Novo Banco, in accordance with the accounting standards, as well as the costs of financing associated with the maintenance of the assets in the balance sheet of Novo Banco, are considered.

Under the referred mechanism, 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 were used. 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.

On 6 May 2019, the Resolution Fund made the payment of Euro 1,149 million to Novo Banco with reference to the accounts of 2018, having used its own resources, resulting from contributions due, directly and indirectly, by the banking sector, and resorted to a loan from the State in the amount of Euro 850 million, which corresponds to the maximum annual financing limit agreed between the Resolution Fund and the State in October 2017.

In May 2020, the Resolution Fund made the payment of Euro 1,035 million to Novo Banco with reference to the accounts of 2019, which resulted from the execution of the agreements celebrated in 2017, in connection with the sale of 75% of the Resolution Fund's shareholding in Novo Banco, complying with all the procedures and limits defined therein, and resorted to a loan from the State in the amount of Euro 850 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.

<u>Resolution measure applied to Banif – Banco Internacional do Funchal, S.A. (Banif)</u>

The Board of Directors of the Bank of Portugal deliberated, on 19 December 2015, to declare that Banif – Banco Internacional do Funchal, S.A. (“Banif”) was “at risk or in a situation of insolvency” and to start the urgent resolution of the institution through the mode of the partial or total disposal of its activity, and which materialized, on 20 December 2015, with the disposal of the rights and obligations, representing assets, liabilities, off-balance sheet items and assets under management of Banif to Banco Santander Totta S.A. (“Santander Totta”) for Euro 150 million.

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. (“Oitante”), created specifically for this purpose, which has as sole shareholder the Resolution Fund. Oitante issued debt securities in the amount of Euro 746 million, with a guarantee being provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved public support estimated at Euro 2,255 million that aimed to cover future contingencies and that was financed in Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

On 21 July 2016, the Resolution Fund made a payment to the State, amounting to Euro 163,120 thousand, as an early partial repayment of the resolution measure applied to Banif, bringing the outstanding amount down from Euro 489 million to Euro 353 million.

As of this date, the conclusions of the independent assessment exercise to estimate the level of credit recovery for each class of lender in the hypothetical scenario of the normal insolvency process of Banif as at 20 December 2015 are not yet known. As noted above for BES, if lenders are found to assume a greater loss than they hypothetically would have had Banif entered into a liquidation process immediately prior to the application of the resolution measure, those creditors are entitled to receive the difference from the Resolution Fund.

Liabilities and funding of the Resolution Fund

Following the resolution measures applied to BES and Banif and the sale agreement of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities resulting from:

- the effects of the application of the principle that no creditor of an institution under resolution may assume a greater loss than it would have assumed had that institution entered into liquidation;
- the negative effects arising from the resolution process resulting in additional liabilities or contingencies for Novo Banco, which must be neutralized by the Resolution Fund;
- legal proceedings against the Resolution Fund;
- the guarantee provided to the bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- the contingent capitalization mechanism associated with the sale process of Novo Banco to Lone Star.

In order to preserve the financial stability through the promotion of conditions that provide predictability and stability to the contributory effort to the Resolution Fund, the Portuguese Government has agreed with the European Commission to change the conditions of the financing provided by the Portuguese State and the participating banks to the Resolution Fund. To this end, an amendment to the Resolution Fund's financing agreements have been formalized, introducing a number of changes to the repayment plans, remuneration rates, and other terms and conditions associated with these loans, to adjust them to the Resolution Fund's ability to fully meet its obligations on the basis of its regular revenues, i.e. without the need for any charges to be made to the participating banks for special contributions or any other type of extraordinary contribution.

According to the Resolution Fund's announcement of 31 March 2017, the revision of the conditions of the financing granted by the Portuguese State and the participating banks was aimed at ensuring the sustainability and financial equilibrium of the Resolution Fund, based on a stable, predictable and affordable burden for the banking sector. Based on this revision, the Resolution Fund considered that the full payment of its liabilities as well as their respective remuneration was ensured, without the need for special contributions or any other extraordinary contributions from the banking sector.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the Portuguese State and by a bank syndicate, in which the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Minister of Finance, these consolidated financial statements reflect the expectation of the Board of Directors that the Bank will not be called upon to make special contributions or any other extraordinary contributions to finance the Resolution Fund.

Any significant changes in this regard could have material implications on these financial statements.

Competition Authority

Last 9 September 2019, Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio) was notified of the final decision of the Competition Authority on the administrative process PRC-2012/9 ("Decision"), in which it concluded that more than ten banking institutions operating in Portugal, among them Banco Montepio, participated in a concerted practice of restrictive competition, of the exchange of sensitive commercial information, in breach of article 9 of Law no. 19/2012, of 8 May and article 101 of the Treaty on the Functioning of the European Union, having applied on Banco Montepio a fine of Euro 13 million.

The decision is subject to appeal to the Court of Competition, Regulation and Supervision by all parties concerned, including Banco Montepio. The lodging of an appeal determines the suspension of the obligation to pay the fine until the decision has become final or the provision of a guarantee, in an amount to be set by the Court, which decision is awaited. In like manner to many other institutions targeted that have publicly announced this intention, Banco Montepio challenged this Decision on 21 October 2019. In the light of all the relevant circumstances, it is considered that there is a serious and significant likelihood that the administrative fine will not become effective in light of the legal remedies that come to be lodged against the Decision.

We are not aware, to date, of any claim for damages related to the Decision or to the related facts. In the light of all the relevant circumstances, it is considered that the chances of success of any legal actions brought against Banco Montepio based on the Decision would be reduced.

Bank of Portugal

As at 30 June 2020, the Bank has been the subject of several administrative offense processes instituted by the Bank of Portugal, for alleged practices and infractions in regulatory matters that are applicable to the Bank, in a maximum global amount of possible fines that amounts to approximately Euro 30 million.

The evolution of these processes is regularly monitored by the Bank's Board of Directors, with technical-legal intervention under the responsibility of its Legal Department and, in certain cases, by law firms.

For some of these processes, the Bank of Portugal issued decisions in the scope of summary proceedings, whereby it proposed a single fine of substantially less than the amount of the potential maximum fine. Other processes are still in a preliminary phase, with the evidence requested by the defendants still not having been produced, which significantly limits the risk analysis; even so, it is considered that the Bank has serious and reasonable lines of defence, whether in terms of factual support, or in terms of the legal framework, with regard to most of the infractions attributed to it.

Thus, the Board of Directors admits as possible that the Bank's lines of defence may be successful, in whole or in part, in relation to many of the infractions that are attributed to it, even though the respective risk of conviction still exists, in relation to some of the imputed infractions, but not exceeding, however, the amount of provisions recognized by the Bank as at 30 June 2020.

59 Subsidiary and associated companies

As at 30 June 2020 and 31 December 2019, the companies consolidated under the full consolidation method in the Group 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 Verdean Escudo	Banking	100.00%	100.00%
Finibanco Angola, S.A.	Luanda	7 516 296 830	Kwanza	Banking	51.00%	80.22%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Oporto	30 000 000	euro	Specialized credit	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisbon	175 000 000	euro	Shareholding management	100.00%	100.00%
Montepio Investimento, S.A.	Lisbon	180 000 000	euro	Banking	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisbon	1 550 000	euro	Investment fund mangement	100.00%	100.00%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisbon	100 000	euro	Real Estate movement	100.00%	100.00%

As at 30 June 2020, the Group´s associated companies accounted for under the equity method, are as follows:

Company name	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	10 000 000	Accomodation, restaurants and similar/hotels with restaurants	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	2 449 707	Real Estate management	29.00%
CESource, ACE	Lisboa	-	IT management	18.00%

As at 31 December 2019, the Group´s associated companies accounted for under the equity method, are as follows:

(euros)

Company name	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	10 000 000	Accomodation, restaurants and similar/hotels with restaurants	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	2 449 707	Real Estate management	28.50%
CESource, ACE	Lisboa	-	IT management	18.00%

Finibanco Angola

In 2015, a contract was signed for the sale of 1,727,782 shares of Finibanco Angola S.A., representing 30.57% of the share capital, for USD 26,346,178.

The sale operation of 30.57% of Finibanco Angola was realized without any related payment being received. The ownership rights of the shares remained with the Group, including the right to vote and to receive dividends. Therefore, considering that there was no substantive transfer of the associated risks and rewards, the Group did not derecognize the shares object of the transaction, that is, it will not recognized the disposal of the financial shareholding until the respective settlement is made.

In 2017, the financial settlement corresponding to 11,476 shares, representing 0.20% of the share capital, was made in the amount of USD 174,984, with the Group coming to hold 80.37% of the subsidiary Finibanco Angola, S.A.

In May 2018, a financial settlement corresponding to 65,040 shares, representing 1.15% of the share capital, was made in the amount of USD 991,764, with the Group coming to hold 80.22% of the subsidiary Finibanco Angola, S.A.

Upon full settlement of the two transactions, the Group continued to control Finibanco Angola, S.A.

Finibanco Angola continues in the 1st half of 2020 and in financial year 2019 to be presented as a discontinued operation, in accordance with the provisions of IFRS 5. The Board of Directors of Banco Montepio expects the sale operation to take place in the short term, namely as a result of steps taken in the last financial year and which continue to be taken on this matter.

As at 30 June 2020 and 31 December 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
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisbon	100%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisbon	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisbon	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisbon	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisbon	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisbon	100%	Full
Pelican Mortgages No 3	2007	2007	Lisbon	100%	Full
Pelican Mortgages No 4	2008	2008	Lisbon	100%	Full
Aqua Mortgages No 1	2008	2008	Lisbon	100%	Full
Pelican Mortgages No 5	2009	2009	Lisbon	100%	Full
Pelican Mortgages No 6	2012	2012	Lisbon	100%	Full
Pelican Finance No 1	2014	2014	Lisbon	100%	Full
Aqua Finance No 4	2017	2017	Lisbon	100%	Full

60 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.

Considering the deliberations already taken by the Board of Directors, as well as the provisions of IFRS 5, the activities developed by these subsidiaries were considered as discontinued operations with reference to financial period 2016.

At the level of the income statement, the results of these subsidiaries were recognized in Profits/(Losses) from discontinued operations and, at the balance sheet level, in the captions Non-current assets held for sale - Discontinued operations and Non-current liabilities held for sale - Discontinued operations.

In addition, it should be noted that as mentioned in the accounting policies, as at 31 December 2018, the Group applied IAS 29 to Finibanco Angola on the grounds that the relevant conditions to consider the Angolan economy as a hyperinflationary economy were met.

Thus, before the functional currency was translated into the reporting currency in the financial statements of Finibanco Angola, SA, the amounts relating to assets, liabilities, equity, income and expenses were monetarily restated based on the general price index which reflects the changes in the purchasing power of the currency of the country in which the operations are generated, as follows:

(i) monetary items are not restated because they are already stated in the current monetary unit at the reporting date;

(ii) assets and liabilities linked by agreement to price changes are adjusted under the terms of the agreement in order to determine the amount outstanding at the date of the statement of financial position;

(iii) all other assets and liabilities are non-monetary and are restated (except for certain items that are recorded at current amounts at the reporting date, such as the net realizable value and the market value);

(iv) all other items of the income statement are restated by applying the change in the general price index as from the dates on which income and expense items were initially recorded in the financial statements.

The Balance Sheet of Finibanco Angola, S.A., as at 30 June 2020 and 31 December 2019, is presented as follows:

(Euro thousand)

	Jun 2020			Dec 2019		
	Finibanco Angola	**Intercompany balances**	**Total**	**Finibanco Angola**	**Intercompany balances**	**Total**
Cash and deposits at central banks and credit institutions	52 776	(31 951)	20 825	79 528	(41 073)	38 455
Other loans and advances to credit institutions	15 131	-	15 131	5 706	-	5 706
Loans and advances to customers	27 578	-	27 578	42 126	-	42 126
Securities portfolio and derivatives	76 212	-	76 212	88 247	-	88 247
Intangible assets	813	-	813	947	-	947
Other assets	38 922	-	38 922	41 161	(104)	41 057
Total assets	**211 432**	**(31 951)**	**179 481**	**257 715**	**(41 177)**	**216 538**
Deposits from central banks	780	-	780	630	-	630
Deposits from customers	127 627	(44 989)	82 638	160 778	(43 029)	117 749
Other subordinated debt	16 095	(16 095)	-	21 812	(21 776)	36
Provisions	6 370	-	6 370	6 914	-	6 914
Other liabilities	6 379	(116)	6 263	9 193	(93)	9 100
Total liabilities	**157 251**	**(61 200)**	**96 051**	**199 327**	**(64 898)**	**134 429**

The main income statement captions related to these discontinued operations are analysed as follows:

		(Euro thousand)
	Jun 2020	**Jun 2019**
Net interest income	5 913	8 230
Fee and commission income	842	2 699
Net gains/ (losses) arising from financing activities	6 693	3 595
Other operating income/ (expense)	(376)	(920)
Total operating income	**13 072**	**13 604**
Staff costs	2 915	3 295
General and administrative expenses	1 561	2 566
Depreciation and amortisation	716	480
Total operating expense	**5 192**	**6 341**
Loans, other assets and other provisions impairment	274	(18)
Operating profit	**7 606**	**7 281**
Profit before income tax	**7 606**	**7 281**
Taxes	1 372	1 427
Net profit/ (loss) for the period	**6 234**	**5 854**

Finibanco Angola, S.A.

The valuation of Finibanco Angola was made considering the foreseeable sale amount of Finibanco Angola, in accordance with the acquisition proposal submitted by a third party.

On this basis, the valuation of the 80.22% interest held by Montepio Holding in Finibanco Angola stood at USD 53,941 thousand, corresponding to Euro 48,170 thousand.

As at 30 June 2020, the amount registered in the balance sheet, related to consolidation and revaluation (goodwill) differences, corresponds to the difference between the acquisition cost and the total fair value of the assets and liabilities and contingent liabilities of Finibanco Angola, S.A. acquired on 31 March 2011 from MGAM, as described in note 1 a), in the amount of Euro 53,024 thousand. It should be noted that this amount is fully provided against.

61 NPL Disclosures

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non-Performing Loans) ratio greater than 5% must publish a set of information related to NPE (Non-Performing Exposures), restructured loans and assets received as payment in kind, according to a standardized format, as follows:

Credit quality of forborne exposures

(Euro thousand)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	Of Non-performing restructured exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Loans and advances								
Other financial corporations	-	35 928	35 928	35 928	-	(6 522)	-	-
Non-financial corporations	63 257	692 827	692 827	692 827	(5 758)	(389 570)	1 058	1 058
Households	39 861	82 289	82 289	82 289	(1 088)	(31 273)	31	31
	103 118	**811 044**	**811 044**	**811 044**	**(6 846)**	**(427 365)**	**1 089**	**1 089**

Credit quality of performing and non-performing exposures by past due days

(Euro thousand)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past due or are past due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which defaulted
Loans and advances	**11 343 148**	**11 297 597**	**45 553**	**1 442 334**	**426 777**	**109 443**	**102 857**	**160 541**	**302 356**	**253 097**	**87 264**	**1 437 731**
Central banks	783 914	783 914	-	-	-	-	-	-	-	-	-	-
General governments	114 794	114 794	-	-	-	-	-	-	-	-	-	-
Credit institutions	326 366	326 366	-	-	-	-	-	-	-	-	-	-
Other financial corporations	37 273	37 273	-	58 663	33 441	13	22 689	2 505	8	-	7	58 663
Non-financial corporations	3 603 284	3 586 020	17 265	1 169 713	308 452	90 347	61 286	136 768	263 901	231 892	77 067	1 166 355
of which SMEs	3 111 638	3 094 373	17 265	1 036 121	271 383	47 577	57 392	127 336	223 801	231 567	77 066	1 032 764
Households	6 477 517	6 449 230	28 288	213 958	84 884	19 083	18 882	21 268	38 447	21 205	10 190	212 713
Debt securities	**3 504 761**	**3 504 761**	**-**	**34 800**	**-**	**-**	**1 800**	**33 000**	**-**	**-**	**-**	**34 800**
Central banks	2 743 302	2 743 302	-	-	-	-	-	-	-	-	-	-
General governments	2 068	2 068	-	-	-	-	-	-	-	-	-	-
Other financial corporations	28 496	28 496	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	730 895	730 895	-	34 800	-	-	1 800	33 000	-	-	-	34 800
Off-balance-sheet exposures	**1 879 234**			**108 405**								**108 403**
General governments	25 867			-								-
Credit institutions	220 052			-								-
Other financial corporations	45 187			7								7
Non-financial corporations	1 178 217			103 622								103 620
Households	409 911			4 776								4 776
	16 727 143	**14 802 358**	**45 553**	**1 585 539**	**426 777**	**109 443**	**104 657**	**193 541**	**302 356**	**253 097**	**87 264**	**1 580 934**

Performing and non-performing exposures and related provisions

(Euro thousand)

	Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 3		Of which stage 2	Of which stage 3		Of which stage 3		
Loans and advances	11 343 148	9 463 805	1 870 652	1 442 334	1 442 334	(120 081)	(30 144)	(89 936)	(734 354)	(734 354)	8 163 189	465 070
Central banks	783 914	783 914	-	-	-	-	-	-	-	-	-	-
General governments	114 794	107 613	5 380	-	-	(320)	(165)	(155)	-	-	2 669	-
Credit institutions	326 366	322 366	4 000	-	-	(119)	(79)	(40)	-	-	-	-
Other financial corporations	37 273	34 216	3 057	58 663	58 663	(335)	(131)	(204)	(7 907)	(7 907)	19 627	50 728
Non-financial corporations	3 603 284	2 803 371	793 023	1 169 713	1 169 713	(83 400)	(25 414)	(57 985)	(644 671)	(644 671)	2 132 332	309 136
Of which SMEs	3 111 638	2 351 129	757 021	1 036 121	1 036 121	(77 754)	(21 746)	(56 007)	(564 790)	(564 790)	1 981 200	271 933
Households	6 477 517	5 412 325	1 065 192	213 958	213 958	(35 907)	(4 355)	(31 552)	(81 776)	(81 776)	6 008 561	105 206
Debt securities	3 504 761	3 497 722	7 039	34 800	34 800	(11 472)	(10 771)	(700)	(4 824)	(4 824)	-	-
General governments	2 743 302	2 743 302	-	-	-	(7 322)	(7 322)	-	-	-	-	-
Credit institutions	2 068	1 054	1 014	-	-	(1)	(1)	-	-	-	-	-
Other financial corporations	28 496	25 971	2 525	-	-	(605)	(207)	(398)	-	-	-	-
Non-financial corporations	730 895	727 395	3 500	34 800	34 800	(3 544)	(3 241)	(302)	(4 824)	(4 824)	-	-
Off-balance-sheet exposures	1 879 234	1 323 022	556 215	108 405	108 405	10 029	3 914	6 115	7 695	7 695	-	-
General governments	25 867	25 820	48	-	-	1	1	-	-	-	-	-
Credit institutions	220 052	64 078	155 974	-	-	63	-	63	-	-	-	-
Other financial corporations	45 187	36 367	8 820	7	7	142	47	96	-	-	-	-
Non-financial corporations	1 178 217	982 172	196 046	103 622	103 622	8 322	3 496	4 825	7 695	7 695	-	-
Households	409 911	214 585	195 327	4 776	4 776	1 501	370	1 131	-	-	-	-
	16 727 143	**14 284 549**	**2 433 906**	**1 585 539**	**1 585 539**	**(121 524)**	**(37 001)**	**(84 521)**	**(731 483)**	**(731 483)**	**8 163 189**	**465 070**

Guarantees obtained by ownership taking and executions processes

(Euro thousand)

	Guarantees obtained by ownership taking	
	Value at initial recognition	Accumulated negative chages
Other, except for Tangible Assets		
Housing Real Estate	232 758	(56 396)
Commercial Real Estate	1 587 549	(245 365)
Other, except Tangible Assets	38 043	(20 567)
	1 858 350	**(322 328)**

62 Exposures and impacts resulting from COVID-19 measures taken

Following the recommendations of the European Banking Authority, and in accordance with Instruction no. 19/2020 on the reporting and dissemination of information on exposures subject to measures applied in response to the COVID-19 crisis as per the EBA guidelines (EBA/GL/2020/07), we present below the following details regarding moratoria and loans granted under the new public guarantee plans:

Information about the loans and advances subject to legislative and non-legislative moratoriums

(Euro thousand)

	Gross carrying amount/nominal amount							Accumulated impairments, accumulated negative fair value changes resulting from credit risk and provisions							Gross carrying amount/nominal amount
		Performing exposures			Non-performing exposures				Performing exposures			Non-performing exposures			
			Of which: exposures subject to forbearance	Of which: Instruments with a significant increase in Credit risk since initial recognition but with no impairment (stage 2)		Of which: exposures subject to forbearance	Of which: Reduced probability of payment but not past due or are past due <= 90 days			Of which: exposures subject to forbearance	Of which: Instruments with a significant increase in Credit risk since initial recognition but with no impairment (stage 2)		Of which: exposures subject to forbearance	Of which: Reduced probability of payment but not past due or are past due <= 90 days	Contributions to non-performing exposures
Loans and advances subject to moratorium	3 116 328	2 890 722	682	10 531	225 606	18 966	7 200	(149 388)	(63 458)	(56)	294	(39 746)	(1 213)	(1 025)	32 897
Oh which: Retail	1 228 324	1 182 865	596	1 583	45 459	8 836	1 671	(28 970)	(15 895)	(51)	78	(13 075)	-	104	14 487
Oh which: Backed by Housing Real Estate	1 208 746	1 164 225	596	-	44 521	8 753	1 246	(29 216)	(16 026)	(51)	-	(13 190)	-	-	14 487
Of which: Non-financial corporations	1 884 896	1 704 754	86	8 948	180 142	10 130	5 529	(120 267)	(47 415)	(6)	215	(72 852)	(1 213)	(127)	18 404
Of Which: SMEs	1 576 523	1 467 326	86	2 490	109 197	8 503	5 529	(86 240)	(44 411)	(6)	58	(41 828)	(211)	(127)	18 404
of Which: Backed by Commercial Real Estate	1 055 848	108 090	-	-	947 757	1 627	-	(15 870)	(1 274)	-	-	(14 596)	-	-	18 404

Breakdown of loans and advances subject to legislative and non-legislative moratoriums by residual term of the moratoriums

(Euro thousand)

	Number of Debtors	Gross carrying amount/nominal amount							
			Of which: legislative moratoriums	Of which: expired	Residual term of the moratoriums				
					<= 3 months	>3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was requested	36 885	3 123 233							
Loans and advances for which moratorium was accepted	36 361	3 116 328	2 922 616	-	41 935	3 037 237	1 504	33 899	1 754
Of which: Retail		1 228 324	1 034 612	-	8 471	1 184 055	1 504	33 607	686
Of which: Backed by Housing Real Estate		1 208 746	1 034 599	-	8 471	1 164 478	1 504	33 607	686
Of which: Non-financial corporations		1 884 896	1 884 896	-	33 463	1 850 073	-	292	1 068
Of which: SMEs		1 576 523	1 576 523	-	32 965	1 543 046	-	292	221
Oh which: Backed by commercial Real Estate		1 055 848	1 055 848	-	3 059	1 052 788	-	-	-

Banco Montepio's activity in the 1st half of 2020 was marked by the impact of the COVID-19 pandemic with cross-sectional effects that were still felt at the end of the 1st quarter of 2020 in the financial markets, subsequently materializing also in the real economy, with historical declines in economic activity and with a greater impact in the second quarter of 2020 due to the lockdown period. In this context, Banco Montepio recorded Euro 109.4 million of loan impairment, of which Euro 39.5 million are estimated to result from the increased credit risk motivated by the COVID-19 pandemic. In addition, it is also important to highlight other impacts arising from COVID-19, namely:

- The granting of loan moratoria, with the Banco Montepio Group granting 36,361 moratoria between 27 March and 30 June 2020, in the total amount of Euro 3.1 thousand million, with an impact on liquidity through the lower amount of repayments of credit instalments;
- The significant reduction in transactionality and the legislative measures imposed on payments, with an impact on banking income through lower commissions;

- The allocation of costs and investments, of over Euro 2 million, to safeguard the safety of the Employees and Customers and for the adaptation of jobs to the teleworking regime, to which we moved more than 1,400 Employees, involving the reinforcement of the cleaning services, the acquisition of individual protection kits and the investment in IT software and hardware;

- The worsening of the negative foreign exchange reserves in the 1st half of 2020 in Euro 12 million, of which Euro 7 million in the 1st quarter and Euro 4.8 million in the second quarter of 2020, essentially due to the exposure to the Kwanza in the scope of Finibanco Angola's activity.

The short- and medium-term prospects point to unfavourable impacts associated with COVID-19, which magnitude is still uncertain, namely in terms of the commercial business, capital and liquidity, profitability, credit quality and the reduction of non-productive assets:

- With regard to the commercial business, more specifically at the level of the credit granted: the publication of DL 10-J/2020 - Legal moratorium, as well as the signature of the private moratoria of the APB and ASFAC, will have a direct impact on the level of liquidity, due to the lower repayment of credit instalments. The Group has comfortable levels of liquidity, embodied in an LCR ratio of around 224% at the end of the 1st half of 2020.

- With regard to the capital and liquidity components, in line with the decision taken by the ECB for significant institutions, the Bank of Portugal has authorized the less significant credit institutions subject to its supervision, which includes Banco Montepio, to operate temporarily, with a level lower than the own funds recommendation (Pillar 2 Guidance) and the combined own funds reserve, and with liquidity levels below the LCR ratio requirement. The ECB has committed to let banks operate below P2G and the conservation reserves at least until the end of 2022, without triggering any supervisory measures, referring that the calendar for the reestablishment shall be realized on a case-by-case basis according to the individual situation of each bank, and after the stress test exercise results are known. It is not required of the banks to reinstate the capital buffers until the peak of capital deterioration is attained.
- In terms of liquidity, the ECB's announcement of the adoption of a set of easing measures with positive impacts at the level of the liquidity buffers in the financial system should also be highlighted, with these being aimed at mitigating the negative effects of the pandemic on the financial situation of the Eurosystem's monetary policy counterparties, namely by reducing the haircuts applicable to marketable and non-marketable assets pledged as collateral, by increasing the concentration limit on unsecured debt instruments issued by credit institutions, by relaxing the rules on mobilization of individual credit rights, by relaxing the rules for the mobilization of credit rights' portfolios, as well as through the acceptance of guarantees from public entities and of public debt securities. These measures have an additional positive impact on the liquidity position of the Group.

- As for the banking product, unfavourable impacts have already been felt at the level of commissioning, namely in the income resulting from transactionality, considering the legal measures imposed and the abrupt reduction in economic activity during the state of emergency, which pace of recovery is difficult to predict. However, there has already been a recovery in the level of commissions after the end of the lockdown period to levels close to, but still below, those observed in the first months of the year.

- In terms of the cost of risk, due to the incorporation of new more serious macroeconomic scenarios, and the lower capacity of borrowers to meet their debt service, despite ongoing government and sectoral initiatives, as well as a downward pressure on real estate prices.

- At the level of the deleveraging of non-core assets, implying the need to revisit the non-productive credit reduction plan, as well as the plan to reduce exposure to real estate risk. The ECB authorized banks under its supervision to submit new plans at the end of March 2021, date on which the moratoria were due to end.

63 Subsequent events

The Bank analyses events occurring after the balance sheet date, i.e. the favourable and unfavourable events that occur between the balance sheet date and the date on which the financial statements are authorized for issue. Consequently, two types of events can be identified:

- Those that provide proof of conditions that existed at the balance sheet date (adjusting events);

- Those that are indicative of conditions that arose after the balance sheet date (non-adjusting events occurring after the balance sheet date).

Events occurring after the date of the financial statements that are not considered adjustable events, if significant, are disclosed in the notes to the consolidated financial statements.

On 8 September 2020, the rating agency Moody's published the revision of the rating attributed to the Angolan State's public debt from B3 to Caa1. The rating agencies Fitch and Standard & Poor's (S&P) had already carried out this rating revision in the 1st quarter of this year. Considering the parameters disclosed in Moody's study published in 2019, as required by Directive no. 13/DSB/DRO, of 27 December 2019 of the BNA, which served as the basis for the preparation of the financial statements for the Bank on 30 June 2020, it is estimated that this downgrade of the rating of Angolan State debt held by the Bank has a negative impact on the results of the subsidiary Finibanco Angola of approximately Kwanza 3 thousand million (Euro: approximately 5 million). To date, it has not yet been possible to ascertain the potential impacts at the level of the customer loan portfolio, namely through financial collaterals and counterparties with Angolan State risk.

Banco Montepio is in the process of implementing a restructuring plan that aims to accelerate the digital transition, adjust the service model, and increase the efficiency of Banco Montepio. In this context, the plan focuses mainly on operational adjustment, maximizing the complementary margin and simplifying the Group and the Offer.

TRANSLATION NOTE

These Consolidated Financial Statements and Notes to the Consolidated Financial Statements are a free translation from the original version in the Portuguese language. In the event of misrepresentations or discrepancies the original version shall prevail.

INTERIM CONDENSED FINANCIAL STATEMENTS AND NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

INTERIM CONDENSED FINANCIAL STATEMENTS AND NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

Banco Montepio

Interim Condensed Individual income statement
for the periods ended at 30 June 2020 and 2019

(Thousands of Euro)

	Notes	Jun 2020	Jun 2019
Interest and similar income	3	137 458	176 060
Interest and similar expense	3	40 820	64 335
Net interest income		96 638	111 725
Dividends from equity instruments	4	1 719	6 210
Net fee and commission income	5	54 626	57 668
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	6	(6 361)	(644)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	18 833	(2 954)
Net gains/ (losses) arising from exchange differences	8	1 177	922
Net gains/ (losses) arising from sale of other financial assets	9	10 204	16 556
Other operating income/ (expense)	10	(21 157)	(20 619)
Total operating income		155 679	168 864
Staff costs	11	73 190	73 008
General and administrative expenses	12	28 363	27 111
Depreciation and amortization	13	16 135	15 865
		117 688	115 984
Impairment of loans and advances	14	111 996	41 163
Impairment of other financial assets	15	5 503	3 074
Impairment of other assets	16	5 774	1 581
Other provisions	17	2 334	(1 529)
Profit before income tax		(87 616)	8 591
Income Tax			
Current	30	1 858	(1 116)
Deferred	30	19 797	(5 905)
Net profit/ (loss) for the period		(65 961)	1 570
Earnings per share			
Basic		(0.027)	0.001
Diluted		(0.027)	0.001

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 Comprehensive Income
for the periods ended as at 30 June 2020 and 2019

(Thousands of Euro)

	Notes	Jun 2020	Jun 2019
Items that may be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income			
Debt instruments	43	(22 730)	63 723
Loans and advances to customers	43	(269)	-
Own credit risk	43	(99)	779
Taxes related to fair value changes	31 e 43	6 948	(20 278)
		(16 150)	44 224
Items that won't be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income			
Equity instruments	43	(12 859)	4 589
Profit / (loss) with equity instruments	43	-	25
Acturial gains/ (losses) for the period	47	5 218	(58 879)
Taxes	30	(188)	(398)
		(7 829)	(54 663)
Other comprehensive income/ (loss) for the period		(23 979)	(10 439)
Net profit/ (loss) for the period		(65 961)	1 570
Total comprehensive income/ (loss) for the period		(89 940)	(8 869)

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

Banco Montepio

Interim Condensed Individual Balance Sheet as at 30 June 2020 and 31 December 2019

	Notes	Jun 2020	Dec 2019
Assets			
Cash and deposits at central banks	18	914 755	1 003 648
Loans and advances to credit institutions payable on demand	19	70 532	51 993
Other loans and advances to credit institutions	20	702 076	532 033
Loans and advances to customers	21	10 852 725	10 921 170
Financial assets held for trading	22	37 341	29 904
Financial assets at fair value through profit or loss	23	610 716	654 438
Financial assets at fair value through other comprehensive income	24	1 170 699	1 833 441
Hedging derivatives	25	15 259	11 148
Other financial assets at amortized cost	26	3 486 912	2 793 157
Investments in subsidiaries and associated companies	27	341 008	341 008
Other tangible assets	28	233 765	240 302
Intangible assets	29	32 125	31 822
Current tax assets	30	9 509	9 823
Deferred tax assets	30	488 852	462 295
Other assets	31	741 319	745 324
Total Assets		19 707 593	19 661 506
Liabilities			
Deposits from central banks	32	1 636 639	1 291 033
Deposits from other credit institutions	33	698 932	701 674
Deposits from customers	34	12 420 622	12 527 546
Debt securities issued	35	1 226 912	1 263 261
Financial liabilities associated to transfered assets	36	1 815 450	1 939 462
Financial liabilities held for trading	22	11 355	11 098
Hedging derivatives	25	799	547
Provisions	37	32 602	30 268
Current tax liabilities	-	1 544	1 056
Other subordinated debt	38	211 164	157 847
Other liabilities	39	234 704	224 419
Total Liabilities		18 290 723	18 148 211
Equity			
Share capital	40	2 420 000	2 420 000
Other equity instruments	41	-	6 323
Fair value reserves	43	(28 864)	145
Other reserves and retained earnings	42 and 43	(908 305)	(926 144)
Net profit/ (loss) for the period		(65 961)	12 971
Total Equity		1 416 870	1 513 295
Total Liabilities and Equity		19 707 593	19 661 506

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 2020 and 2019

(Thousands of Euro)

	Jun 2019	Jun 2019
Cash flows arising from operating activities		
Interest income received	108 685	154 008
Commission income received	63 735	69 363
Interest expense paid	(23 096)	(61 390)
Commission income paid	(8 773)	(11 506)
Payments to employees and suppliers	(106 817)	(69 632)
Recovery of loans and interests	765	2 968
Other payments and receivables	(66 043)	(102 969)
Income tax payment	6 250	1 159
	(25 294)	(17 999)
(Increases) / decreases in operating assets		
Loans and advances to credit institutions and customers	(213 129)	455 999
Deposits held for monetary control purposes	55 442	168 901
(Purchase) / Sale of financial assets held-for-trading	10 392	122 137
(Purchase) / Sale of financial assets at fair value through other comprehensive income	538 521	(1 344 330)
Interest received from financial assets at fair value through other comprehensive income	3 420	6 871
(Purchase) / Sale of Hedging derivatives	(1 382)	(1 726)
(Purchase) / Sale of other financial assets at amortised cost	(682 607)	484 772
Other assets	6 936	(139 072)
	(282 407)	(246 448)
(Increases) / decreases in operating liabilities		
Deposits from customers	(103 971)	148 165
Deposits from credit institutions	(2 582)	67 760
Deposits from central banks	335 000	-
	228 447	215 925
	(79 254)	(48 522)
Cash from investing activities		
Dividends received	1 719	6 210
(Purchase) / Sale of other financial assets	481	(90)
Purchase of fixed assets	10 351	(10 208)
	12 551	(4 088)
Cash from financing activities		
Other equity instruments	(162)	(163)
Issuance of cash bonds and subordinated debt	50 000	100 000
Repayment of cash bonds and subordinated debt	(3 900)	(93 850)
Leases	5 058	-
	50 996	5 987
Effect of changes in cash exchange rate and cash equivalents	795	1 113
Net change in cash and cash equivalents	(14 912)	(45 510)
Cash and cash equivalents at the beginning of the period:		
Cash (note 18)	194 529	194 596
Loans and advances to credit institutions repayable on demand (note 19)	51 993	75 572
	246 522	270 168
Cash and cash equivalents at the end of the period:		
Cash (note 18)	161 078	170 878
Loans and advances to credit institutions repayable on demand (note 19)	70 532	53 780
	231 610	224 658

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

Banco Montepio

Interim condensed individual statement of changes in equity
for the periods ended 30 June 2020 and 2019

(Thousand of Euro)

	Share capital (nota 40)	Other equity instruments (nota 41)	Legal reserve (nota 42)	Fair value reserves	Retained earnings (nota 43)	Total Shareholders' Equity
Balances on 1 January 2019	**2 420 000**	**6 323**	**191 766**	**(19 764)**	**(1 040 018)**	**1 558 307**
Other comprehensive income:						
Remeasurements in the period (note 47)	-	-	-	-	(58 879)	(58 879)
Taxes (note 30)	-	-	-	-	(398)	(398)
Changes in fair value (note 43)	-	-	-	69 091	-	69 091
Gains related to Equity instruments	-	-	-	-	-	-
Reserves realized - Shares	-	-	-	-	25	25
Taxes related on changes in fair value (note 30)	-	-	-	(20 082)	(196)	(20 278)
Net income for the period	-	-	-	-	1 570	1 570
Total comprehensive income / (loss) for the period	-	-	-	49 009	(57 878)	(8 869)
Financial costs related to the issue of perpetual subordinated debt (note 41)	-	-	-	-	(163)	(163)
Legal Reserve	-	-	202	-	(202)	-
Balances on 30 June 2019	**2 420 000**	**6 323**	**191 968**	**29 245**	**(1 098 261)**	**1 549 275**
Other comprehensive income:						
Remeasurements in the period (note 47)	-	-	-	-	(17 982)	(17 982)
Taxes (note 30)	-	-	-	-	(336)	(336)
Changes in fair value (note 43)	-	-	-	(39 112)	-	(39 112)
Gains related to Equity instruments	-	-	-	-	-	-
Reserves realized - Shares	-	-	-	-	(1)	(1)
Taxes related on changes in fair value (note 30)	-	-	-	10 012	196	10 208
Net income for the period	-	-	-	-	11 401	11 401
Total comprehensive income / (loss) for the period	-	-	-	(29 100)	(6 722)	(35 822)
Financial costs related to the issue of perpetual subordinated debt (note 41)	-	-	-	-	(158)	(158)
Legal Reserve	-	-	-	-	-	-
Balances on 31 December 2019	**2 420 000**	**6 323**	**191 968**	**145**	**(1 105 141)**	**1 513 295**
Other comprehensive income:						
Remeasurements in the period (note 47)	-	-	-	-	5 218	5 218
Taxes (note 30)	-	-	-	-	(188)	(188)
Changes in fair value (note 43)	-	-	-	(35 957)	-	(35 957)
Gains related to Equity instruments	-	-	-	-	-	-
Reserves realized - Shares	-	-	-	-	-	-
Taxes related on changes in fair value (note 30)	-	-	-	6 948	-	6 948
Net income for the period	-	-	-	-	(65 961)	(65 961)
Total comprehensive income / (loss) for the period	-	-	-	(29 009)	(60 931)	(89 940)
Financial costs related to the issue of perpetual subordinated debt (note 41)	-	-	-	-	(162)	(162)
Perpetual subordinated debt reclassification (nota 41)	-	(6 323)	-	-	-	(6 323)
Legal Reserve	-	-	1 297	-	(1 297)	-
Balances on 30 June 2020	**2 420 000**	**-**	**193 265**	**(28 864)**	**(1 167 531)**	**1 416 870**

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

Explanatory notes to the condensed interim separate financial statements as at 30 June 2020

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

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

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

1 Accounting policies

a) Bases of presentation

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council, of 19 July and Regulation no. 5/2015 of the Bank of Portugal, of 7 December, Banco Montepio's financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. Banco Montepio adopted in the preparation of the separate financial statements as at 30 June 2020 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2020.

The condensed interim separate financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 24 September 2020. The condensed interim separate financial statements now presented refer to 30 June 2020. These financial statements have been prepared, for the purposes of recognition and measurement, in accordance with IAS 34 Interim Financial Reporting ("IAS 34"), as endorsed by the European Union. Consequently, these financial statements do not include all the information required in the preparation of separate financial statements prepared in accordance with IFRS, as endorsed by the European Union, so they must be read in conjunction with the financial statements for the financial year ended 31 December 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 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).

b) Financial instruments – IFRS 9

b.1) *Classification of financial assets*

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

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

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

b.1.1) *Debt instruments*

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

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

- the Bank’s business model for financial asset management, and
- the characteristics of the contractual cash flows from the financial assets.

Based on these elements, the Bank classifies its debt instruments for valuation purposes into one of the following three categories:

a) Financial assets at amortized cost, when the following two conditions are met:

- they are managed under a business model which objective is the holding of financial assets to receive contractual cash flows, and

- the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

In addition to debt instruments managed based on a business model which purpose is to receive their contractual cash flows, which are recorded in the caption Other financial assets at amortized cost, the category of financial assets at amortized cost also includes Loans and advances to other credit institutions and Loans and advances to customers.

b) Financial assets at fair value through other comprehensive income, when the following two conditions are met:

- they are managed under a business model which purpose combines the receipt of contractual cash flows from financial assets and their sale, and

- the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

c) Financial assets at fair value through profit or loss, whenever due to the Bank's business model or the characteristics of their contractual cash flows, it is not appropriate to classify financial assets in any of the previous categories. At the transition date, to classify financial assets in this category, the Bank also considered whether it expects to recover the book value of the asset through the sale to a third party.

Also included in this portfolio are all instruments in respect of which any of the following characteristics are met:

- that were originated or acquired for the purpose of being traded in the short term.

- that are part of a group of identified and jointly managed financial instruments for which there is evidence of recent actions aimed at achieving short-term gains.

- that are derivative instruments that do not meet the definition of a financial collateral agreement and have not been designated as hedging instruments.

Assessment of the business model

The business model reflects the way the Bank manages its assets from a cash flow generation perspective. Therefore, it is important to understand whether the Bank's objective is only to receive contractual cash flows from assets or whether it intends to receive the contractual cash flows and the cash flows from the sale of the assets. If none of these situations apply (e.g. financial assets are held for trading), then financial assets are classified as part of "another" business model and recognized at fair value through profit or loss. Factors considered by the Bank in identifying the business model for a set of assets include past experience of how (i) cash flows are received, (ii) how asset performance is assessed and reported to management, (iii) how risks are assessed and managed and (iv) how directors are remunerated.

Securities held for trading are held, primarily, for the purpose of being sold in the short term, or as part of a portfolio of jointly managed financial instruments, for which there is clear evidence of a recent pattern of short-term gains. These securities are classified under "other" business models and recognized at fair value through profit or loss.

The assessment of the business model does not depend on the intentions for an individual instrument, but rather for a set of instruments, taking into account the frequency, value, the timing of sales in previous financial periods, the reasons for such sales and the expectations regarding future sales. Infrequent, or insignificant, or near-maturity sales and those motivated by the increased credit risk of the financial assets, or to manage concentration risk, among others, may be consistent with the model of holding assets to receive contractual cash flows.

If a financial asset contains a contractual clause that may modify the timing or value of the contractual cash flows (such as early amortization or extension of the term), the Bank determines whether the cash flows that will be generated during the life of the instrument, due to the exercise of said contractual clause, are only payments of principal and interest on the principal outstanding.

If a financial asset includes a periodic interest rate adjustment, but the frequency of such adjustment does not match with the reference interest rate term (for example, the interest rate is adjusted every three months), the Bank assesses, on initial recognition, such inconsistency in the interest component to determine whether the contractual cash flows represent only payments of principal and interest on the principal outstanding.

Contractual conditions that, on initial recognition, have a minimal effect on cash flows or depend on the occurrence of exceptional or highly unlikely events (such as settlement by the issuer) do not preclude their classification in the portfolios at amortized cost or at fair value through other comprehensive income.

SPPI assessment

When the business model involves holding assets for the purpose of (i) receiving contractual cash flows or (ii) receiving contractual cash flows and selling these assets, the Bank assesses whether the cash flows of the financial instrument correspond solely to payments of principal and interest on the principal outstanding (the "solely payments of principal and interest" ("SPPI") test). In this assessment, the Bank considers whether the contractual cash flows are consistent with a basic loan agreement, i.e. the interest includes only considerations regarding the time value of money, credit risk, other normal credit risks and a profit margin that is consistent with a basic loan agreement. When the contractual terms introduce risk exposure or cash flow variability that is inconsistent with a simple loan agreement, the financial instrument is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether cash flows correspond solely to payments of principal and interest on the principal outstanding ("SPPI" test).

b.1.2) *Equity instruments*

Equity instruments are instruments that meet the definition of capital from the issuer's perspective, that is, they are instruments that do not contain a contractual obligation to pay and that show a residual interest in the issuer's net assets. An example of equity instruments are the ordinary shares.

Investments in equity instruments are an exception to the general valuation criteria described above. As a general rule, the Bank exercises the option, on initial recognition, to irrevocably designate in the category of financial assets at fair value through other comprehensive income the investments in equity instruments that are not classified as held for trading and which, in the case of not exercising said option, would be classified as financial assets at fair value through profit or loss. Impairment losses (and impairment reversals) are not recorded separately from other fair value changes.

b.2) *Classification of financial liabilities*

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be realized through the delivery of cash or another financial asset, regardless of its legal form. Financial liabilities are classified in the following categories:

(i) Financial liabilities at amortized cost

This category includes deposits from central banks and other credit institutions, deposits from customers and other subordinated debt;

(ii) Financial assets held for trading

This category includes derivative financial instruments with a negative fair value, as per note 1 c);

(iii) Financial liabilities at fair value through profit or loss (Fair Value Option)

This category includes financial instruments designated by the Bank, on initial recognition, in this category provided that at least one of the following requirements is met:

- the financial liabilities are internally managed, valued and analysed based on their fair value;
- derivative operations are contracted to hedge these assets or liabilities, in this manner ensuring consistency in the valuation of assets or liabilities and the derivatives (countering accounting mismatch);
- the financial liabilities contain embedded derivatives;

(iv) Financial liabilities associated with assets transferred

This category includes liabilities associated with credit securitization operations that were not derecognized following the application of IFRS 9 - Financial instruments. These liabilities are initially recorded at the amount received on the cession of the loans and are subsequently valued at amortized cost, in a manner coherent with the valuation of the corresponding assets and the conditions defined in the securitization operation.

b.3) Recognition and initial valuation of financial instruments

On initial recognition all financial instruments are recorded at fair value. For financial instruments that are not recorded at fair value through profit or loss, the fair value is adjusted by adding or subtracting transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, directly attributable transaction costs are recognized immediately in profit or loss.

Transaction costs are defined as costs directly attributable to the acquisition or disposal of a financial asset, or the issue or assumption of a financial liability, which would not have been incurred if the Bank had not made the transaction. These include, for example, commissions paid to intermediaries (such as promoters) and mortgage formalization expenses.

Financial assets are recognized in the balance sheet on the transaction date - the date on which the Bank undertakes to purchase the assets, unless there is a contractual stipulation or applicable legal figure stating that the transfer of the rights occurs at a later date.

On initial recognition, when the fair value of financial assets and liabilities differs from the transaction price, the entity shall recognize this difference as follows:

- When the fair value is evidenced by the quotation in an active market of an equivalent asset or liability (i.e. level 1 inputs) or based on a valuation technique that uses only observable market data, the difference is recognized as a gain or loss, and

- In the remaining cases, the difference is deferred, and the moment of the initial recognition of the gain or loss is determined individually. This difference may then be (i) amortized over the life of the instrument, (ii) deferred until the fair value of the instrument can be determined using observable market data, or (iii) recognized through the liquidation of the asset or liability.

b.4) Subsequent valuation of financial instruments

Subsequent to initial recognition, the Bank values its financial assets at (i) amortized cost, (ii) fair value through other comprehensive income or (iii) fair value through profit or loss.

Amounts receivable from commercial operations that do not have a significant financing component and commercial loans and short-term debt instruments that are initially valued at transaction price or outstanding principal, respectively, are valued at said amount net of impairment losses.

Immediately after initial recognition, an impairment is also recognized for expected credit losses (ECL), of financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income, resulting in the recognition of an impairment loss when the asset is originated.

Financial liabilities are initially recorded at fair value less transaction costs incurred and subsequently at amortized cost, based on the effective interest rate method, except for financial liabilities designated at fair value through profit or loss, which are recorded at fair value.

b.5) Interest recognition

Interest income and expense on assets and liabilities measured at amortized cost is recognized in interest and similar income or interest and similar expense (net interest income) using the effective interest rate method. Interest on financial assets at fair value through other comprehensive income is calculated at the effective interest rate and recognized in net interest income as well as the interest on financial assets and liabilities at fair value through profit or loss.

The effective interest rate is the rate that discounts the estimated future payments or receipts over the expected life of the financial instrument (or, where appropriate, over a shorter period) to the net present book value of the financial asset or liability.

For the determination of the effective interest rate, Banco Montepio estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepayment options), but not considering any impairment losses. The calculation includes commissions paid or received as an integral part of the effective interest rate, transaction costs and all premiums or discounts directly related to the transaction, except in respect of financial assets and liabilities at fair value through profit or loss.

Interest income recognized in profit or loss associated with contracts classified in Stage 1 or 2 is calculated by applying the effective interest rate of each contract to its gross book value.

The gross book value of a contract is its amortized cost before deducting the respective impairment. For financial assets included in Stage 3, interest is recognized in profit or loss based on their book value net of impairment. Interest is always recognized prospectively, i.e., for financial assets that enter Stage 3, interest is recognized on the amortized cost (net of impairment) in the subsequent periods.

For financial assets originated or acquired in credit impairment ("POCI"), the effective interest rate reflects the expected credit losses determined based on the expected future cash flows receivable from the financial asset.

For derivative financial instruments, except for those classified as interest rate risk hedging instruments, the interest component is not separated from the changes in their fair value, being classified as Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss. For interest rate risk hedging derivatives associated with financial assets or financial liabilities recognized in the Fair Value Option category, the interest component is recognized in interest and similar income or interest and similar expense (net interest income).

b.6) *Reclassifications between financial instrument categories*

Reclassifications of financial assets can only occur when Banco Montepio changes its financial asset management business model, which changes are expected to be very infrequent. In this case, all affected financial assets shall be reclassified. The reclassification shall be applied prospectively from the date of the reclassification and there shall be no restatement of any previously recognized gains, losses (including impairment gains or losses) or interest. IFRS 9 does not permit the reclassification of investments in equity instruments measured at fair value through other comprehensive income or when the fair value option has been exercised for financial assets or liabilities. Financial liabilities may not be reclassified between categories.

Modification of loans

Occasionally, the Bank renegotiates or modifies contractual cash flows from loans to customers. In this situation, the Bank assesses whether the new contract terms are substantially different from the original terms. The Bank makes this analysis considering, among others, the following factors:

- If the debtor is in financial difficulty, whether the modification only reduces the contractual cash flows to an amount that the debtor is expected to be able to pay;
- A significant new term such as profit sharing or an equity-based return that substantially affects credit risk has been introduced;
- A significant extension of the contract maturity when the debtor is not in financial difficulty;
- A significant change in interest rate;
- A change from the currency in which the credit was contracted;
- The inclusion of a collateral, a guarantee or another credit enhancement instrument that significantly affects the credit risk associated with the loan.

If the terms of the contract differ significantly, the Bank derecognizes the original financial asset and recognizes the new asset at fair value, calculating its new effective interest rate. The renegotiation date is considered the initial recognition date for the purpose of calculating impairment and is also considered for the purpose of assessing whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the newly recognized financial asset is impaired on initial recognition, especially when the renegotiation is related to the fact that the debtor did not make the originally agreed payments. Differences in book value are recognized in profit or loss as a de-recognition gain or loss.

If the terms of the contract are not significantly different, the renegotiation, or modification, does not result in de-recognition and the Bank recalculates the gross book value based on the revised cash flows of the financial asset and recognizes a gain or loss from this modification in profit or loss. The new gross book value is recalculated by discounting the modified cash flows at the original effective interest rate (or adjusted effective interest rate for impaired financial assets, originated or acquired).

Following the modification, the Bank may determine that credit risk has significantly improved, and assets have moved from Stage 3 to Stage 2 (“ECL lifetime”) or from Stage 2 to Stage 1 (“ECL 12 months”). This situation can only occur when the performance of the modified asset is in accordance with the new contract terms for a period of twelve consecutive months. Additionally, the Bank continues to monitor whether there has been a significant increase in the credit risk of these assets, applying specific models for modified assets.

b.7) *<u>De-recognition that does not result from a modification</u>*

Financial assets granted are derecognized when the associated cash flows are extinguished, collected or disposed of to third parties and (i) the Bank substantially transfers all risks and rewards associated with holding the asset, or (ii) the Bank neither transfers nor substantially holds all risks and rewards associated with holding the asset and does not control the asset. Gains and losses from the disposal of loans and advances to customers on a definitive basis are recorded in Other operating income/(expense). These gains or losses correspond to the difference between the sale value set and the book value of these assets, net of impairment losses.

The Bank engages in transactions in which it has the contractual right to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and substantially transfers all the risks and rewards. These transactions result in de-recognition of the asset if the Bank:

- Does not have any obligation to make payments unless it receives equivalent amounts from the assets;

- It is prohibited from selling or pledging the assets;

- If it is obliged to remit any cash flow it receives from assets without material delays.

Guarantees granted by the Bank (shares and bonds) through repurchase agreements and securities' lending and borrowing operations are not derecognized because the Bank substantially holds all risks and rewards based on the pre-established repurchase price, thus not meeting the de-recognition criteria.

Financial liabilities are derecognized when the underlying obligation is settled, expires, or is cancelled.

b.8) *Write-off policy*

Banco Montepio recognizes a loan write-off from assets when it has no reasonable expectation of fully or partially recovering that asset. This recognition occurs after all recovery actions performed by Banco Montepio turn out to be unsuccessful. Loans written off from assets are recorded in off-balance sheet accounts.

b.9) *Impairment of financial assets*

The Bank determines impairment losses of debt instruments that are measured at amortized cost and fair value through other comprehensive income, as well as for other exposures that have an associated credit risk such as bank guarantees and commitments

The requirements of IFRS 9 have as their objective to recognize expected losses from operations, assessed on an individual or collective basis, considering all reasonable, reliable and duly substantiated information that is available, including forward-looking information.

Impairment losses of debt instruments that are measured at amortized cost are recognized against an accumulated impairment caption in balance sheet, which reduces the book value of the asset, while impairment of assets measured at fair value through other comprehensive income is recognized against other comprehensive income.

Impairment losses of loans and advances to customers are recognized in the income statement in the caption Impairment of customers and those 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 changes are recorded in the caption Other provisions in the income statement.

For the purpose of accounting for impairment losses of debt instruments, the following definitions shall be considered:

a) Credit losses: correspond to the difference between all cash flows owed to the 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) Expected credit losses: correspond to the weighted average of credit losses, using as weighting factor the probability of the occurrence of default events. The following distinction shall be taken into account: (i) expected credit losses over the lifetime of the operation: these are the expected credit losses that result from possible default events over the expected life of the operation; (ii) expected credit losses over a 12-month period: these are part of the expected credit losses over the life of the instrument representing the expected credit losses that result from default events of a financial instrument that may occur within the period of 12 months from the reference date.

b.10.1) Impairment model of loans and advances to customers

IFRS 9 considers the expected losses throughout the lifetime of the financial instruments. Thus, macroeconomic factors are considered when determining ECL, which changes have an impact on expected losses.

The impairment model is applicable to the following instruments of Banco Montepio that are not measured at fair value through profit or loss:

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

No impairment is recognized on equity instruments since these are measured at fair value.

Instruments that are subject to impairment calculations are divided into three stages considering their credit risk level, as follows:

- Stage 1: no significant increase in credit risk since initial recognition. In this case, impairment losses reflect expected credit losses resulting from default events that may occur within twelve months after the reporting date;

- Stage 2: instruments for which there is a significant increase in credit risk since initial recognition, but for which there is still no objective evidence of impairment. In this case, impairment losses reflect expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

- Stage 3: instruments for which there is objective evidence of impairment as a result of events that resulted in losses. In this case, impairment losses reflect expected credit losses over the expected residual life of the instrument.

The calculation of impairment losses is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since initial recognition;

- Incorporation of forward-looking information in the ECL calculation.

Calculation of ECLs

ECLs correspond to unbiased weighted estimates of credit losses that are determined as follows:

- Financial assets without signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that Banco Montepio expects to receive;

- Financial assets with signs of impairment at the reporting date: difference between the gross book value and the present value of the estimated cash flows;

- Unused credit commitments: the present value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that Banco Montepio expects to receive;

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

b.10.2) *Definition of default*

Banco Montepio aligned the definition used in the regulatory perspective with the accounting perspective, with financial assets classified in Stage 3 corresponding to the internal definition of default.

b.10.3) *Significant increase in credit risk (SICR)*

In order to determine if a significant increase in credit risk has occurred since the financial instrument´s initial recognition (i.e. risk of default), Banco Montepio considers as relevant information all the information available and without costs and/or excessive effort, including both quantitative and qualitative information, as well as an analysis based on Banco Montepio´s history (expert judgment).

The identification of a significant increase in credit risk is performed by comparing:

- The exposure's risk rating at the reporting date, and
- The exposure's risk rating attributed at the initial moment of the exposure´s recognition.

Banco Montepio identifies the occurrence of a significant increase in credit risk through a comparison of the actual risk rating with the risk rating attributed at the contract's inception, with the change in the risk rating necessary to identify a significant increase in credit risk being lower the higher the original rating was.

When evaluating the significant increase in credit risk, Banco Montepio also considers the existence of arrears of more than 30 days, as well as other indicators of customer behaviour vis-à-vis the Group and/or the financial system.

b.10.4) *Credit risk levels*

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

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

b.10.5) *Inputs for the measurement of ECL*

The main inputs used for measuring ECLs on a collective basis include the following parameters:

- Probability of Default – PD;
- Loss Given Default – LGD; and

- Exposure at Default – EAD.

These parameters are obtained through internal statistic models, and other relevant historical data, based on the existing regulatory models adjusted to reflect the forward-looking information.

The PDs are estimated based on a certain historical period and are calculated using statistical models. These models are based on internal data, including qualitative and quantitative factors. If a change in the degree of risk of the counterparty or the exposure occurs, the estimate of the associated PD is also changed.

The risk levels are a very important input for the determination of the PDs associated with each exposure. Banco Montepio collects default and performance indicators regarding its credit risk exposures through analyses by type of customers and products.

LGD is the magnitude of the loss that is expected to occur if the exposure enters in default. Banco Montepio estimates LGD parameters based on historical recovery rates after the counterparties' entry into default. The LGD models consider associated collateral and time in default as well as recovery costs. In case of contracts collateralized by real estate, LTV (loan-to-value) ratios are an extremely important parameter in the determination of the LGD.

The EAD represents the expected loss if the exposure and/or customer enters into default. Banco Montepio obtains the EAD values from the counterparty´s current exposure and from potential changes to its current value, permitted by the contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the EAD value includes both the amount of credit used as well as the expectation of the potential future value that may come to be used in accordance with the contract.

As described above, except for the financial assets that consider a 12-month PD because they do not present a significant increase in credit risk, Banco Montepio calculates the ECL considering the risk of default during the maximum maturity period of the contract or, in certain specific situations, based on the behavioural maturity.

b.11) *<u>Securitized loans and advances not derecognized</u>*

Banco Montepio does not derecognize from assets the credits sold in securitization operations when:

- it maintains control over the operations;
- it continues to receive a substantial portion of their remuneration; and
- it maintains a substantial portion of the risk of the transferred credits.

Credits sold and not derecognized are recorded in the caption Loans and advances to customers and are subject to accounting criteria identical to those of other loan operations.

The maintenance of the risk and/or benefit is represented by the higher-risk bonds issued by the securitization vehicle. The amount recorded in the assets and liabilities of Banco Montepio's separate financial statements represents the proportion of the risk/benefit held by Banco Montepio (continuing involvement). The bonds issued by the securitization vehicles and held by Banco Montepio are eliminated in the consolidation process.

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 risks arising from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading derivatives.

Derivative financial instruments can be classified for accounting purposes as hedging instruments provided they meet, cumulatively, the following conditions:

(i) Hedging instruments and hedged items are eligible for the hedging relationship;

(ii) At the start date of the transaction, the hedging relationship is identified and formally documented, including the identification of the hedged item, the hedging instrument, the nature of the hedged risk and the assessment of the hedge's effectiveness;

(iii) There is an economic relationship between the hedged item and the hedging instrument;

(iv) The credit risk effect does not dominate the changes in value that result from this economic relationship;

(v) The effectiveness of the hedge can be reliably measured at the start date of the transaction and throughout the life of the operation.

Fair value hedging

In a fair value hedging operation of an asset or liability, the balance sheet value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in its fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognized in the income statement, together with changes in the fair value of the hedged assets or liabilities, attributable to the hedged risk. In cases where the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income, the changes in fair value are also recognized in other comprehensive income. If the hedge no longer meets the effectiveness requirement, but the risk management objective remains, Banco Montepio may adjust the hedge to comply with the eligibility criteria. If the hedge fails to meet the criteria required for hedge accounting (in the event that the hedge instrument expires, is sold, terminated or exercised, without having been replaced according to the entity's documented risk management objective), the derivative financial instrument is transferred to the trading book and hedge accounting is discontinued prospectively. If the hedged asset or liability corresponds to a fixed-income instrument, the revaluation adjustment is amortized via the income statement until its maturity using the effective interest rate method.

Cash flow hedging

In a highly probable future cash flow hedging operation, the effective part of the changes in the fair value of the hedging derivative is recognized in reserves, being transferred to results in the financial years in which the respective hedged item affects results. The ineffective part of the hedge is recorded in the income statement. When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria required for hedge accounting, changes in the fair value of the derivative accumulated in reserves are recognized in the income statement when the hedged operation also affects results. If it is foreseeable that the hedged operation will not take place, the amounts still recorded in equity are immediately recognized in the income statement and the hedging instrument is transferred to the trading portfolio.

d) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently of its legal form, evidencing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instrument issuance are recognized in equity as a deduction from the amount of the issue. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs.

Income from equity instruments (dividends) are recognized when the right to receive such income is established and are deducted from equity.

e) Financial and performance guarantees

Financial guarantees

Financial guarantees are contracts that require the issuer to make payments to compensate the holder for losses incurred as a result of breaches of the contractual terms of debt instruments, namely the payment of capital and/or interest. Financial guarantees issued are initially recognized at their fair value. Subsequently, these guarantees are measured at the higher of (i) the initially recognized fair value and (ii) the amount of any obligation arising from the guarantee contract, measured at the balance sheet date. Any change in the amount of the obligation associated with financial guarantees issued is recognized in profit or loss. Financial guarantees issued by the Bank usually have a defined maturity and a periodic prepaid commission, which varies according to counterparty risk, amount and period of the contract. On that basis, the fair value of the guarantees on the date of their initial recognition is approximately equivalent to the amount of the initial commission received, considering that the agreed conditions are market. Thus, the amount recognized on the contract date equals the amount of the initial commission received, which is recognized in profit or loss over the financial year to which it relates. Subsequent commissions are recognized in profit or loss in the financial year to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of one of the parties if same does not fulfil a contractual obligation. Performance guarantees are initially recognized at fair value, which is usually evidenced by the amount of commissions received over the term of the contract. Upon breach of contract, the 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' loan and repurchase agreement transactions

Securities' loans

Securities loaned under securities' loan agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. Cash collateral received in respect of securities loaned is recognized as a financial liability. Securities borrowed under securities' borrowing agreements are not recognized on-balance sheet. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either customers or credit institutions. Income and expenses arising from the securities' lending and borrowing business are recognized on an accrual basis over the period of the transactions and are included in interest and similar income or interest and similar expense (net interest income).

Repurchase agreements

Banco Montepio carries out acquisitions/sales of securities under reselling/repurchase agreements of substantially equivalent securities at a future date at a predetermined price.

The securities acquired subject to reselling agreements (reverse repos) at a future date are not recognized in the balance sheet. The amounts paid are recognized in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralized by the related securities.

Securities sold through repurchase agreements (repos) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the category to which they belong. The proceeds from the sale of these securities are considered as deposits from customers or from other credit institutions.

The difference between the acquisition/sale and resale/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest and similar income or interest and similar expense (net interest income).

g) Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are accounted for in Banco Montepio's separate financial statements at historical cost less any impairment losses.

Subsidiaries are entities (including investment funds and securitization vehicles) controlled by Banco Montepio. Banco Montepio controls an entity when it is exposed to, or has rights to, the variability of returns from its involvement with that entity and can take possession of same through its power over the relevant activities of that entity (de facto control).

Associated companies are entities over which Banco Montepio has significant influence but does not control their financial and operating policy. Banco Montepio is presumed to have significant influence when it has the power to exercise more than 20% of the associated company's voting rights. If Banco Montepio, directly or indirectly, holds less than 20% of the voting rights, Banco Montepio is presumed not to have significant influence, except when such influence can be clearly demonstrated.

Significant influence on the part of Banco Montepio is usually demonstrated in one or more of the following ways:

- representation on the Board of Directors or equivalent management body of the investee;
- participation in policy-making processes, including participation in decisions involving dividends or other distributions;
- material transactions between Banco Montepio and the investee;
- interchange of management personnel; and
- provision of essential technical information.

Impairment

The recoverable value of investments in subsidiaries and associated companies is assessed whenever there is evidence of impairment. Impairment losses are calculated based on the difference between the recoverable value of investments in subsidiaries or associated companies and their book value. Impairment losses identified are recorded against profit or loss and subsequently reversed through profit or loss if the amount of the estimated loss is reduced in a subsequent period. The recoverable value is determined based on the higher of the value in use of the assets and the fair value less costs to sell, and is calculated using valuation methodologies, supported by discounted cash flow techniques, considering market conditions, time value and business risks.

h) Assets received in recovery of credit, non-current assets held for sale and discontinued operations

Non-current assets and groups of non-current assets held for sale (groups of assets together with their respective liabilities, which include at least one non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets or groups of assets are available for immediate sale and their sale is highly probable.

Banco Montepio also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to their subsequent disposal, which are available for immediate sale and which sale is highly probable.

Immediately before their classification as non-current assets held for sale, the measurement of all the non-current assets or of all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and their fair value less costs to sell, with the unrealized losses being, in this manner, recorded in the profit or loss for the financial year. When the book value corresponds to the fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds to level 3.

Although the Bank intends to immediately sell all properties and other assets received in recovery of credit, during financial year 2019 the Bank changed the classification of these assets from non-current assets held for sale to the caption Other assets, due to their length of stay in the portfolio exceeding 12 months. However, the accounting method has not changed from that laid down above, with these being recorded at initial recognition at the lower of their fair value less costs to sell and the book value of the loan being recovered.

i) Leases (IFRS 16)

Definition of lease

The definition of lease entails a focus on the control of the identified asset, i.e. an agreement constitutes or contains a lease if it conveys the right to control the use of an identified asset, i.e. substantially obtaining all the economic benefits of using same and the right to direct the use of this identified asset for a certain period of time in exchange for consideration.

Impact from the lessee's perspective

Banco Montepio recognizes for all leases, except for leases with a period of less than 12 months or for leases relating to assets of a reduced unitary value:

- a right-of-use asset, initially measured at cost, taking into account the Net Present Value (NPV) of the lease liability, plus payments made (fixed and/or variable) minus lease incentives received, penalties for termination (if reasonably certain), as well as any estimated costs to be borne by the lessee with the dismantling and removal of the underlying asset and/or with the restoration of the location where it is located. It is subsequently measured according to the cost model (subject to amortization according to the lease term of each agreement and to impairment tests);
- a lease liability, initially recorded at the present value of the future lease cash flows (NPV), which includes:
    - fixed payments, less lease incentives receivable;
    - variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date of the agreement;
- the amounts to be paid by the lessee as residual value guarantees;
- the exercise price of a call option if the lessee is reasonably certain to exercise that option;
- payments of lease termination penalties, if the lease term reflects the exercise of a lease termination option by the lessee.

When it is not possible to easily determine the interest rate implicit in the lease (paragraph 26 of IFRS 16), lease payments are discounted at the lessee's incremental financing interest rate, which incorporates the risk-free interest rate curve (swap curve), increased by a Banco Montepio risk spread, applied to the weighted average term of each lease agreement. For agreements with a termination date, such date is considered the lease termination date, and for other agreements without a termination date the period during which it will be enforceable is assessed. In the assessment of enforceability, the specific clauses of the agreements are considered as is the current legislation for Urban Leases.

It is subsequently measured as follows:

- by increasing its book value to reflect interest on same;
- by decreasing its book value to reflect lease payments;
- the book value is re-measured to reflect any revaluations or changes in the lease, as well as to incorporate the revision of lease payments that are, in substance, fixed and the revision of the lease term.

Banco Montepio re-measures a lease liability and calculates the related adjustment to the right-of-use asset whenever:

- there is a change in the lease term, or in the valuation of a call option on the underlying asset. In this situation, the lease liability is re-measured, discounting the revised lease payments and also using a revised discount rate;
- there is a change in the amounts payable under a residual value guarantee, or in the future lease payments resulting from a change in an index or rate used to determine such payments. In this situation, the lease liability is re-measured, discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments results from a change in variable interest rates, in which case a revised discount rate should be used);
- a lease agreement is modified but such modification in the lease is not accounted for as a separate lease. In this situation, the lease liability is re-measured, discounting the revised lease payments using a revised discount rate.

Banco Montepio did not make any adjustments for the financial years presented.

Right-of-use assets are amortized from the date of the agreement's entry into force to the end of the useful life of the underlying asset, or until the end of the lease term, if earlier. If the lease transfers ownership of the underlying asset, or if the cost of the right-of-use asset reflects the fact that Banco Montepio will exercise a call option, the right-of-use asset shall be amortized from the date of the agreement's entry into force to the end of the useful life of the underlying asset. Amortization begins on the date of the lease agreement's entry into force.

The recording of the lease agreements in the income statement is made in the following captions:

(i) recording in Net interest income of the interest expense related to lease liabilities;

(ii) recording in Other general and administrative expenses of the amounts related to short-term lease agreements and low-value asset lease agreements; and

(iii) recording in Depreciation and amortization of the amortization cost for the financial year of the right-of-use assets.

The recording of the lease agreements in the balance sheet is made in the following captions:

(i) recording in Other tangible assets of the right-of-use assets recognized; and

(ii) recording in Other liabilities of the amount of the lease liabilities recognized.

As regards the classification of the cash flows originated by the lease agreements, these are recorded in the statement of cash flows:

(i) in the caption Cash flows from operating activities – Costs with staff and suppliers, which includes the amounts related to short-term and to low-value lease agreements;

(ii) the caption Cash flows from investing activities - Finance lease agreements, which includes the amounts related to payments of the capital portion of the lease liabilities.

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operating.

j) Net gains/(losses) arising from financial operations (Net gains/(losses) arising from financial assets at fair value through other comprehensive income and Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss)

Net gains/(losses) arising from financial operations include gains and losses arising from financial assets and financial liabilities at fair value through profit or loss, that is, fair value changes and interest on trading derivatives and embedded derivatives, as well as dividends received associated with these portfolios. This caption also includes gains and losses arising from the sale of debt instruments and of financial assets at fair value through other comprehensive income. The changes in fair value of hedging derivatives and hedged items, when applicable to fair value hedging, are also recognized in this caption.

k) Fee and commission income

Fee and commission income are recognized as revenue from contracts with customers to the extent the performance obligations are met:

1. When obtained and to the extent the services are provided, they are recognized in income in the financial year to which they relate (for example: account maintenance fees);

2. When they result from the execution of a significant act they are recognized as income when the respective service is complete and are recorded in the income statement on being charged (for example: foreign currency exchange, consultancy or loan assemblage/syndication);

3. When they are an integral part of the effective interest rate of a financial instrument, they are recognized in net interest income. Their characteristics are:

   (i) Commissions received on credit operations realized that are not valued at fair value through profit or loss (for example: valuation of guarantees, preparation and processing of documentation). These commissions are received in advance and are deferred and recognized over the life of the operation;

   (ii) Commissions agreed for the commitment to provide financing and the granting of credit is likely. These are commissions are received in advance and are deferred over the expected life of the financing. If the commitment expires without the operation having materialized, the commission is recognized in profit or loss;

(iii) Commissions paid on the issuance of financial liabilities at amortized cost. These are included in the financial liabilities' amount, being recognized in profit or loss at the effective cost of the operation.

l) 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.

m) Other tangible assets

Other tangible assets are recorded at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for Banco Montepio. All repairs and maintenance expenses are charged to the income statement during the financial 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
Betterments in leasehold buildings	10
Other fixed assets	4 to 10

Betterments 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.

n) 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.

o) 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 at other credit institutions. Cash and cash equivalents exclude deposits at Central Banks.

p) 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.

q) 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.

r) Post-employment and long-term benefits

Defined benefit plans

Banco Montepio has the responsibility to pay its employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of the Collective Labour Agreement (ACT) it signed. In 2016, amendments were made to this agreement, namely the change in the retirement age, in line with the General Social Security System and the attribution of an end-of-career award corresponding to 1.5 times the monthly remuneration received at the retirement date.

Arising from the signing of the Collective Labour Agreement (ACT) and subsequent amendments, Banco Montepio set up a Pension Fund to cover the liabilities assumed with pensions on retirement, disability and survival, healthcare benefits and death subsidy.

On and as from 1 January 2011, bank employees were integrated in the General Social Security System, which ensures their protection in maternity, paternity, adoption and old age. Protection associated with sickness, disability, survival and death remains under the banks' responsibility (Decree-Law no. 1-A/2011, of 3 January).

The contribution rate is 25.4%, 22.4% paid by Banco Montepio and 3.0% by the employees, replacing the Caixa de Abono de Família dos Empregados Bancários ("CAFEB") extinguished by the same Decree-Law. As a result, the pension rights of active employees came to be covered by the terms defined in the General Social Security System, considering the period of service rendered since 1 January 2011 and up to their retirement age. The differential vis-à-vis the minimum pension guaranteed, in accordance with the terms defined in the Collective Labour Agreement ("Acordo Colectivo de Trabalho") is supported by the banks.

Following the Government's approval of Decree-Law no. 127/2011, of 31 December, a three-party agreement between the Government, the Portuguese Bank Association and the Union of Bank Employees was established, regarding the transfer to the Social Security's domain of the liabilities with pensions under payment to retired employees and pensioners as at 31 December 2011.

This Decree-Law established that the liabilities to be transferred were the liabilities with pensions under payment, as at 31 December 2011, to retired employees and pensioners, at constant amounts (update rate of 0%) for the component foreseen in the Collective Labour Regulation Instrument ("IRCT"). The liabilities in respect of the updating of pensions, complementary benefits, contributions to the Social-Medical Assistance Services ("SAMS") on the retirement and survival pensions, death subsidy and the deferred survival pension are still under the responsibility of the Institutions.

In December 2016, Banco Montepio signed a new ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the General Social Security System, and the attribution of an end-of-career award which replaced the extinguished seniority bonus, as disclosed in note 47.

The actuarial calculation is made using the projected unit credit method and considering actuarial and financial assumptions, in accordance with the parameters required by IAS 19.

The liabilities are covered by the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

Banco Montepio´s net liability regarding the defined benefit pension plan and other benefits is calculated separately for each plan by estimating the amount of future benefits that each employee will receive in return for his/her service in the current and prior financial years. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates associated with high-quality bonds and with a similar maturity to the date of termination of the plan's liabilities. The net liability is determined after deducting the fair value of the assets of the Pensions Fund.

The interest income/(expense) with the pension plan is calculated by multiplying the net asset/(liability) with retirement pensions (liabilities less the fair value of the Fund's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned above. On this basis, the net interest income/(expense) includes the interest expense associated with retirement pension liabilities and the return expected from the Fund's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) gains and losses resulting from differences between the actuarial assumptions used and the amounts actually observed (experience gains and losses) and from changes in the actuarial assumptions and (ii) gains and losses arising from the difference between the return expected from the Fund's assets and the amounts obtained, are recognized against equity under other comprehensive income.

Banco Montepio recognizes in its income statement a net total amount that includes (i) the current service cost, (ii) the net interest income/(expense) from the pension plan, (iii) the effect of early retirement, (iv) past service costs and (v) the effects of any settlement or curtailment occurring during the financial 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 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

Banco Montepio has a defined contribution plan for employees who were admitted after 3 March 2009. This plan, designated as contributory, receives monthly and equal contributions, based on the effective remuneration: 1.5% to be made by the company and 1.5% to be made by the employee.

Variable remuneration of employees and members of the Board of Directors (bonus)

In accordance with IAS 19 - Employee benefits, the variable remuneration (profit-sharing, bonuses and other) attributed to employees and to the members of the Board of Directors is recognized in profit or loss in the year to which it relates.

Employment termination benefits

The occurrence that gives rise to this obligation is the termination of the employment relationship between the Bank and the employee as a consequence of a Bank decision, the creation of a valid expectation for the employee or the decision of an employee to accept benefits for an irrevocable offer from the Bank in return for terminating the employment contract.

Employment termination benefits are recognized as a liability and a non-recurring cost from the moment when the Bank cannot withdraw the offer made to the employee or from the moment when the costs are recognized for a restructuring that includes the payment of benefits for termination of the employment contract. These benefits are recorded as a liability in the caption Charges payable - Staff costs in the balance sheet up to the time of their settlement or until their transfer to the Pension liabilities.

End-of-career award

As a result of the signing of the new ACT on 5 July 2016, the seniority bonus was extinguished and Banco Montepio paid its employees the proportional bonus that would be due up to the date of the entry into force of the new ACT. 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.

s) Income taxes

Until 31 December 2011, Banco Montepio was an entity exempt from Corporate Income Tax (“IRC”), in accordance with paragraph a) of no. 1 of article 10 of the IRC Code. This exemption had been recognized under an Order of 3 December 1993 of the Secretary of State for Tax Affairs and confirmed by Law no. 10-B/96, of 23 March approving the State Budget for 1996.

With effect from 1 January 2012, Banco Montepio is now subject to the regime established by the Corporate Income Tax Code (“CIRC”). Additionally, deferred taxes resulting from timing differences between the accounting net income and the net income accepted by the Tax Authorities for IRC assessment purposes are accounted for whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax recognized in the income statement includes the current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case the corresponding income tax is recognized in equity. Deferred taxes recognized in equity arise from the revaluation of financial assets at fair value through other comprehensive income and from cash-flow hedging derivatives. Only deferred taxes related to fair value hedging derivatives are subsequently recognized in profit or loss at the same moment the gains and losses that originated the deferred taxes are recognized.

Current tax corresponds to the tax assessed on the taxable income for the financial year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxes assessed in respect of previous financial periods.

Deferred taxes are calculated for timing differences between the book values of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes, using the tax rates approved or substantially approved at the balance sheet date and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for intangible assets with an indefinite life, which are not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither the accounting nor the taxable income and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the future, and to the extent that Banco Montepio does not exercise control over the period of the reversal of the differences.

Deferred tax assets are recognized when it is probable that future taxable income will be available to absorb the deductible timing differences for taxation purposes (including reportable taxable losses).

As established in IAS 12, paragraph 74, Banco Montepio offsets the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In the year 2018, Banco Montepio became the dominant company of the Group subject to Corporate Income Tax under the Special Taxation Regime of Groups of Companies ("Regime Especial de Tributação dos Grupos de Sociedades" ("RETGS")), constituted by the companies in which it holds a shareholding equal to or higher than 75% and which meet the conditions provided for in article 69 et sec of the IRC Code.

The companies included in the RETGS calculate and record income tax as if they were taxed on a separate basis. The liabilities determined are, however, payable to the parent company of the tax group, Banco Montepio, which is responsible for the global calculation and self-assessment of the tax. Gains or losses arising from the application of this regime are recorded in each of the companies that originate them.

t) Segmental reporting

Banco Montepio adopted IFRS 8 – Operating Segments for the purpose of disclosing financial information by operating segments. An operating segment is a component of the Bank: (i) that engages in business activities from which it may earn revenues or incur costs; (ii) which operating results are regularly reviewed by the main responsible for Bank operating decisions regarding the allocation of resources to the segment and the assessment of it performance; and (iii) for which distinct financial information is available.

Given that the separate financial statements are presented together with those of the Group, and considering paragraph 4 of IFRS 8, Banco Montepio is not required to present information on a separate basis on the segments.

u) 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 the expected cost and the most likely result for the ongoing processes considering the risks and uncertainties inherent to the process. In cases where the discount effect is material, provisions correspond to the present value of the expected future payments, discounted at a rate that considers the risk associated with the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reversed through profit or loss in the proportion of the payments that cease to be probable.

Contingent assets

A contingent asset is a possible asset that arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events that are not entirely under the control of the entity.

Contingent liabilities

A contingent liability is an obligation that is:

- Possible, which arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events, which are not entirely under the control of the entity; or
- Present, which arises from past events, but is not recognized because:
    - It is unlikely that an outflow of resources incorporating economic benefits will be required to settle that obligation;
    - The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, being, in accordance with IAS 37, disclosed whenever the possibility of an outflow of resources encompassing economic benefits is not remote.

v) 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 and deposits at other credit institutions;
- Operating Activities: the indirect method is used for the presentation of cash flows from operating activities, reflecting the flows of the typical activities of credit institutions, as well as other activities that do not qualify as investment or financing;
- Investment activities: the acquisition, sale or other disposals of long-term assets, such as financial shareholdings in subsidiaries and associated companies, the acquisition of tangible and intangible assets and other strategic investments not included in operating activities;

- Financing activities: activities that produce changes in Banco Montepio's medium- and long-term financing operations that are not part of the operating activities, such as securitized and subordinated debt, capital increases and dividend distributions.

w) Insurance and reinsurance brokerage services

Banco Montepio is duly authorized by the Insurance and Pension Funds Supervisory Authority ("Autoridade de Supervisão de Seguros e Fundos de Pensões" - "ASF") to provide insurance brokerage services, under the category of Tied Insurance Broker, in accordance with article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, operating in the life and non-life insurance brokerage areas.

In the insurance brokerage services scope, Banco Montepio sells insurance contracts, receiving as remuneration for the services rendered brokerage commissions on insurance and investment contracts, which are defined in agreements/protocols established between Banco Montepio and the Insurance Companies.

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

1. commissions that include a fixed and a variable component. The fixed component is calculated by applying a predetermined rate to the amount of the subscriptions made by Banco Montepio and the variable component is calculated based on predetermined criteria, with the total annual commission being the sum of the commissions calculated monthly;
2. commissions in the form of profit-sharing in the results of the insurance contracts, which are calculated annually and paid by the Insurance Companies in the beginning of the year following that to which they relate.

Commissions received for insurance brokerage services are recognized on an accrual basis. Fees paid in a different period from that to which they relate are recorded as a receivable in the caption Other assets with a corresponding entry in the caption Fee and commission income – For insurance brokerage services.

x) Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of Banco Montepio by the weighted average number of ordinary shares outstanding. For the calculation of diluted earnings per share, when applicable, the weighted average number of ordinary shares outstanding is adjusted to reflect the effect of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The effect of the dilution translates into a reduction in earnings per share resulting from the assumption that convertible instruments are converted or that the options granted are exercised.

y) Subsequent events

The Bank analyses events occurring after the balance sheet date, that is, favourable and/or unfavourable events that occur between the balance sheet date and the date on which the financial statements were authorized for issue. Within this scope, two types of events can be identified:

i) those that provide proof of conditions that existed at the balance sheet date (events after the balance sheet date that give rise to adjustments); and

ii) those that are indicative of conditions that arose after the balance sheet date (events after the balance sheet date that do not give rise to adjustments).

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

z) Significant judgements and estimates in the application of the accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgment and make the necessary estimates in deciding which treatment is most appropriate. The most significant of these accounting estimates and judgments used in the application of the accounting policies by Banco Montepio are discussed in the following paragraphs in order to improve understanding of how their application affects Banco Montepio’s reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, Banco Montepio´s reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present Banco Montepio’s financial position and results fairly in all material aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment losses of financial assets at amortized cost and debt instruments at fair value through other comprehensive income

The determination of impairment losses of financial instruments involves judgments and estimates regarding the following aspects, among others:

a) Significant increase in credit risk:

Impairment losses correspond to the expected losses in the event of default within a 12-month time horizon, for Stage 1 assets, and the expected losses considering the likelihood of a default event occurring at some point up to the maturity date of the financial instrument, for Stage 2 and 3 assets. An asset is classified as Stage 2 whenever there is a significant increase in its credit risk since its initial recognition. In assessing the existence of a significant increase in credit risk, the Bank considers reasonable and sustainable qualitative and quantitative information.

b) *Definition of asset groups with common credit risk characteristics:*

When the expected credit losses are measured on a collective basis, financial instruments are grouped based on common risk characteristics. The Bank monitors the appropriateness of credit risk characteristics on a regular basis to assess whether they maintain their similarity. This is necessary to ensure that in the event of a change in credit risk characteristics, the asset segmentation is revised. This revision may result in the creation of new portfolios or the transfer of assets to existing portfolios that better reflect their credit risk characteristics.

c) *Definition of the number and relative weighting of prospective information for each type of product/market and determination of relevant prospective information:*

In estimating the expected credit losses, the Bank uses reasonable and sustainable forward-looking information that is based on assumptions about the future evolution of different economic drivers and how each driver impacts the others.

d) *Probability of default:*

The probability of default represents a determining factor in measuring expected credit losses. The probability of default corresponds to an estimate of the probability of default in a given time period, which is calculated based on historical data, assumptions and expectations about future conditions.

e) *Loss given default:*

This corresponds to an estimate of the loss in a default scenario, being determined by the difference between the contractual and the expected cash flows that the Bank expects to receive, through cash flows generated by the Customer's business or from the credit collateral. The calculation of the estimated loss given default is based, among other things, on the different recovery scenarios, historical information, the costs involved in the recovery process and the estimated valuation of the collateral associated with credit operations.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of the impairment losses recognized and presented in notes 20, 21, 24 and 26, with a consequent impact in the income statement of Banco Montepio.

COVID-19 Pandemic

In the context of the pandemic crisis caused by COVID-19, and in accordance with the stipulations in IFRS 9, Banco Montepio proceeded, for the purposes of measuring credit impairment losses, to update the prospective information related to the macroeconomic data available at the end of the 1st half of 2020 in the risk parameters, determining impacts at the level of PD and LGD (see note 14).

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, 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 46.

Impairment of investments in subsidiaries and associated companies

Banco Montepio assesses the recoverable value when there are signs of evidence of impairment. Impairment losses are assessed based on the difference between the recoverable value of the investments in subsidiaries or associated companies and their book value. Impairment losses identified are recorded against profit or loss and subsequently reversed through profit or loss if the amount of the estimated loss is reduced in a subsequent period.

The recoverable value is determined based on the higher of the value in use of the assets and the fair value less costs to sell, and is calculated using valuation methodologies, supported by discounted cash flow techniques, considering market conditions, the time value and business risks, which require the use of certain assumptions or judgment in establishing the fair value estimates.

Different methodologies and the use of different assumptions and estimates could result in a different level of impairment losses being recognized and presented in note 27, with the consequent impact on the income statement of Banco Montepio.

Income taxes

Significant interpretations and estimates are required in determining the global amount of corporate income taxes. There are various transactions and calculations for which the assessment of the ultimate tax payable is uncertain during the ordinary course of business. The Bank complies with the guidelines of IFRIC 23 - Uncertainties related to the treatment of income tax related to the determination of taxable income, tax bases, tax losses to be carried forward, tax credits to be used and tax rates in scenarios of uncertainty regarding income tax treatment, with no material impact on its financial statements having resulted from the application of same.

Different interpretations and estimates could result in a different level of corporate income taxes, current and deferred, to those recognized in the period and presented in note 30. This aspect has an increased relevance in the deferred tax recoverability analysis, in which the Bank considers projections of future taxable income based on a set of assumptions, including estimated pre-tax income, adjustments to the tax base, the evolution of tax legislation and its interpretation. Accordingly, the recoverability of deferred tax assets depends on the implementation of the strategy of the Bank’s Board of Directors, namely the ability to generate the estimated taxable income, the evolution of tax legislation and its respective interpretation.

Law no. 98/2019, of 4 September was approved, establishing the new tax regime of credit impairment and provisions for guarantees for tax periods beginning on or after 1 January 2019, approximating the accounting and tax rules for the purpose of deducting costs in respect of the reinforcement of credit impairment. Until the end of financial year 2023, the rules in force until 2018 will continue to apply, unless the option to apply the new regime is exercised in advance. Banco Montepio opted to not apply the new tax regime for impairment, for which reason in the estimated taxable income in the 1st half of 2020 considers the tax rules in force until 2018.

In the future taxable income projections, namely for the purpose of the deferred tax asset recoverability analysis carried out as at 30 June 2020, the tax rules resulting from Law no. 98/2019, of 4 September, were considered, with tax rules identical to those in force in financial years 2015 through 2019 having been considered insofar as Banco Montepio did not adhere to the definitive regime on impairment, as a result of which the limits set forth in Bank of Portugal Notice no. 3/95 and other specific rules must 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, and since in this respect there is no transitional regime that establishes the tax treatment of transition adjustments to IFRS 9, the treatment given resulted from the Bank's interpretation of the application of the general rules of the IRC Code.

The Portuguese Tax and Customs Authority is entitled to review the annual taxable income assessment made by Banco Montepio for a period of four years, save where any deduction or tax credit has been made, in which case the period is that of the exercise of that right. Hence, corrections to the assessments may occur, mainly because of differences in interpretation of tax law. The Board of Directors considers it improbable that these will have a materially relevant effect on the financial statements.

Pensions and other post-employment and long-term benefits

The determination of the pension payment liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as the discount rate, pension and salary growth rates and mortality tables, estimated return on investments and others factors that may have an impact on the pension plan costs and liabilities.

Changes to these assumptions could have a significant impact on the amounts determined and presented in note 47.

Classification and valuation of assets received in recovery of credit

The classification of the real estate received in recovery of credit is determined in accordance with IFRS 5 and of the investment properties in accordance with IAS 40.

Assets received in recovery of credit are measured at the lower amount between their fair value net of selling costs and the book value of the loan on the date the asset is received in recovery. The fair value is determined based on periodic assessments made by external experts registered with the CMVM. Different methodologies and assumptions could have an impact on the classification and on the determination of the assets' fair value, which are presented in note 31.

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 37.

2 Net interest income and net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income

The existing IFRS require a separate disclosure of net interest income, net gains/(loss) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income, as presented in notes 3, 6 and 7. A particular business activity can generate impacts either in the net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income or in the net interest income captions. Therefore, the disclosure now presented highlights the contribution of the different business activities to the net interest income and to the net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss and from financial assets at fair value through other comprehensive income. The combined analysis of this caption is presented as follows:

(Euro thousand)

	Jun 2020	Jun 2019
Net interest income	96 638	111 725
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(6 361)	(644)
Net gains/(losses) arising from financial assets and liabilities at fair value through other comprehensive income	18 833	(2 954)
	109 110	108 127

3 Net interest income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Interest and similar income		
Loans and advances to customers	118 498	134 753
Other financial assets at amortized cost	4 407	9 861
Deposits and other loans and advances	4 545	4 704
Financial assets held for trading	5 737	6 407
Financial assets at fair value through other comprehensive income	992	633
Hedging derivatives	3 263	3 254
Financial assets at fair value through profit or loss	9	16 392
Other interest and similar income	7	56
	137 458	176 060
Interest and similar expense		
Deposits from customers	10 325	18 820
Financial liabilities related to transferred assets	9 036	20 477
Deposits from central banks and other credit institutions	2 058	7 848
Other subordinated debt	7 494	4 508
Debt securities issued	4 347	4 647
Financial liabilities held for trading	5 317	5 606
Hedging derivatives	1 801	1 895
Lease liabilities	440	534
Other interest and similar expense	2	-
	40 820	64 335
Net interest income	96 638	111 725

The caption Interest and similar income – Loans and advances to customers, as at 30 June 2020, includes, respectively, the amount of Euro 7,097 thousand and the amount of Euro 722 thousand (30 June 2019: Euro 8,579 thousand and Euro 809 thousand), related to commissions and to other gains/(losses), which are accounted for under the effective interest rate method, as referred to in the accounting policy described in note 1 b).

The caption Interest and similar income - Financial assets at fair value through profit or loss, as at 30 June 2020, includes the amount of Euro 9 thousand (30 June 2019: 109 thousand) related to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

The caption Interest and similar income – Loan and advances to customers, as at 30 June 2020, includes the amount of Euro 8,736 thousand (30 June 2019: Euro 7,704 thousand) related to customers classified under Stage 3, in accordance with the accounting policy described in note 1 b).

The caption Interest and similar expense – Lease liabilities refers to the interest cost related to the lease liabilities recognized in the scope of IFRS 16, as indicated in accounting policy 1 i).

4 Dividends from equity instruments

As at 30 June 2020, this caption records the amount of Euro 1,719 thousand (30 June 2019: Euro 6,210 thousand) which includes Euro 950 thousand (30 June 2019: Euro 2,375 thousand) related to dividends received from the company Almina and Euro 550 thousand (30 June 2019: Euro 2,672 thousand) related to dividends received from the company Monteiro Aranha, S.A.

5 Net fee and commission income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Fee and commission income		
From banking services	46 016	50 121
From transactions on behalf of third parties	10 806	12 170
From insurance brokerage services	4 048	3 419
Guarantees provided	2 147	2 503
Other fee and commission income	732	1 181
	63 749	69 394
Fee and commission expense		
From banking services rendered by third parties	7 861	8 590
From transactions with securities	137	260
Other fee and commission expense	1 125	2 876
	9 123	11 726
Net fee and commission income	54 626	57 668

As at 30 June 2020 and 2019, the caption Insurance brokerage services has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Life insurance	1 783	1 775
Non-life insurance	2 265	1 644
	4 048	3 419

The remuneration of insurance brokerage services was received in full, in cash, and all the commissions resulted from insurance intermediation for Lusitania, Companhia de Seguros, S.A. and for Lusitania Vida, Companhia de Seguros, S.A.

6 Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss

The amount of this caption has the following breakdown:

	Jun 2020			Jun 2019		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	2 574	2 331	243	2 087	732	1 355
Issued by other entities	161	8	153	81	-	81
Shares	546	1 091	(545)	659	640	19
Investment units	471	704	(233)	389	9	380
	3 752	4 134	(382)	3 216	1 381	1 835
Derivative financial instruments						
Interest rate contracts	36 121	35 922	199	35 042	33 102	1 940
Exchange rate contracts	17 525	18 084	(559)	11 378	11 502	(124)
Future contracts	2 713	3 159	(446)	1 088	1 942	(854)
Option contracts	1 225	1 813	(588)	1 470	1 868	(398)
Commodities contracts	-	12 840	(12 840)	423	-	423
	57 584	71 818	(14 234)	49 401	48 414	987
Financial assets not held for trading mandatorily at fair value through profit or loss						
Bonds and other fixed-income securities	-	-	-	-	3 311	(3 311)
Investment units	2 560	3 137	(577)	5 964	3 456	2 508
Loans and advances to customers	86	10	76	364	1 667	(1 303)
	2 646	3 147	(501)	6 328	8 434	(2 106)
Other financial assets at fair value through profit or loss						
Shares	-	(17)	17	-	1 742	(1 742)
Securitization units	8 668	273	8 395	-	-	-
Loans and advances to customers	28	14	14	143	4	139
	8 696	270	8 426	143	1 746	(1 603)
Financial liabilities at fair value through profit or loss						
Deposits from customers	-	-	-	11	-	11
Debt securities issued	149	49	100	901	812	89
	149	49	100	912	812	100
Hedging derivatives						
Interest rate contracts	17 229	16 214	1 015	23 001	14 197	8 804
	17 229	16 214	1 015	23 001	14 197	8 804
Hedged financial liabilities						
Debt securities issued	3 248	4 033	(785)	1 461	10 122	(8 661)
	3 248	4 033	(785)	1 461	10 122	(8 661)
	93 304	99 665	(6 361)	84 462	85 106	(644)

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.

In the 1st half of 2020, the caption Assets and liabilities held for trading shows the impact of the valuation of the derivative instruments portfolio, including, namely, the loss of value in a derivative resulting from a credit disposal operation, including the respective mortgage guarantees, as a result of the non-realization of that portfolio's performance compared to what was initially expected.

7 Net gains/(losses) arising from financial assets at fair value through other comprehensive income

The amount of this caption has the following breakdown:

	Jun 2020			Jun 2019		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Fixed-income securities						
Bonds						
Issued by public entities	24 336	9 928	14 408	144	3 223	(3 079)
Issued by other entities	4 698	273	4 425	125	-	125
	29 034	10 201	18 833	269	3 223	(2 954)

As at 30 June 2020, the caption Bonds – Issued by public entities includes net capital gains obtained on the sale of Portuguese sovereign bonds in the amount of Euro 11,535 thousand, of Greek sovereign bonds in the amount of Euro 2,294 thousand and of Croatian, Italian, Chilean and Spanish sovereign bonds in the amount of Euro 579 thousand. As at 30 June 2019, this caption included capital gains in the amount of Euro 144 thousand generated on the sale of Spanish sovereign bonds and capital losses in the amount of Euro 3,223 on the sale of Italian and Greek sovereign debt.

8 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020			Jun 2019		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Foreign exchange differences	23 613	22 436	1 177	8 081	7 159	922

This caption includes the results arising from the restatement of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 q).

9 Net gains/(losses) from sale of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Disposal of financial assets at amortized cost	-	10 024
Disposal of other assets	10 374	6 828
Disposal of loans and advances to customers	(170)	(296)
	10 204	16 556

As at 30 June 2019, the caption Disposal of financial assets at amortized cost includes the capital gains realized on the sale of Portuguese sovereign bonds of Euro 9,983 thousand and of Italian sovereign debt of Euro 41 thousand.

10 Other operating income/(expense)

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Other operating income		
Management fees on demand deposits	1 888	2 830
Services rendered	2 709	2 434
Reimbursement of expenses	989	1 166
Repurchase of own issues	380	45
Other	1 811	1 869
	7 777	8 344
Other operating expenses		
Contributions:		
Banking sector	8 882	9 330
Ex-ante to the Single Resolution Fund	6 083	6 508
National Resolution Fund	4 263	4 156
Deposits Guarantee Fund	22	22
Revaluation of investment properties	2 511	4 392
Servicing and expenses with recovery of loans	1 595	1 353
Expenses with issuances	580	349
Taxes	232	275
Donations and memberships	598	312
Repurchase of own issues	-	-
Other	4 168	2 266
	28 934	28 963
Other net operating income/(expense)	(21 157)	(20 619)

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 in the balance sheet less the core capital (Tier 1) and the supplementary capital (Tier 2) and the deposits covered by the Deposits Guarantee Fund; and (ii) the notional amount of the derivative financial instruments.

The caption Contribution ex-ante to the Single Resolution Fund corresponds to the annual contribution, determined in accordance with number 1 of article 153-H of the Legal Framework of Credit Institutions and Financial Companies (“Regime Geral das Instituições de Crédito e Sociedades Financeiras” – “RGICSF”), which transposed articles 100(4)(a) and 103(1) of Directive 2015/59/EU of the European Parliament and of the Council, of 15 May 2014, and article 20 of Delegated Regulation (EU) no. 2015/63 of the Commission, of 21 October 2014 (“Delegated Regulation”) and with the conditions provided for in Implementing Regulation 2015/81 of the Council, of 19 December 2014 (“Implementing Regulation”).

This contribution was determined by the Bank of Portugal, in its quality as national resolution authority, based on the methodology defined in articles 4, 13 and 20 of the Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund by 30 June of each year, as stipulated in the Agreement for the Transfer and Mutualization of the contributions to the Single Resolution Fund, signed in Brussels on 21 May 2014 and approved by Portuguese National Assembly Resolution 129/2015, of 3 September, pursuant to article 67(4) of Regulation (EU) no. 806/2014 of the European Parliament and of the Council, of 15 July 2014 (“MUR Regulation”).

In addition, it is the responsibility of the Single Resolution Council, in cooperation with the Bank of Portugal, in its quality as national resolution authority, to calculate these contributions on an annual basis, pursuant to and for the purposes of article 70(2) of the MUR Regulation. Banco Montepio opted, as at 30 June 2020 and 2019, 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, on 30 June 2020, Banco Montepio settled Euro 7,093 thousand (30 June 2019: Euro 6,024 thousand), in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposits, as disclosed in note 20. For irrevocable payment commitments only cash collateral is accepted.

The caption Contribution to the National Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are determined using a base rate, determined based on an Instruction of the Bank of Portugal, which may be adjusted in function of the credit institution’s risk profile, that is to be applied in each year on the objective incidence base of said contributions. The periodic contributions have as incidence base the liabilities of the credit institutions participating in the Fund, defined in accordance with article 10 of said Decree-Law, less the liability elements integrating Tier 1 and Tier 2 and the deposits covered by the Deposits Guarantee Fund.

The caption Other operating costs - Servicing and expenses with the recovery of loans registers the servicing costs charged by third parties related to a portfolio of non-performing loans.

11 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Remuneration	52 012	52 475
Mandatory social charges	15 611	15 610
Charges with Pension Funds	3 533	3 384
Other staff costs	2 034	1 539
	73 190	73 008

As at 30 June 2020 and 2019, the members of the Corporate Bodies did not receive any variable remuneration. First-line managers are considered Other key management staff.

The costs with remuneration and other benefits, including the respective social charges, attributed to the General Meeting Board, the Board of Directors (including the members of the Audit Committee) and Other key management staff, as at 30 June 2020, are presented as follows:

The costs with remuneration and other benefits, including the respective social charges, attributed to the General Meeting Board, the Board of Directors (including the members of the Audit Committee), and Other key management staff, as at 30 June 2019, are presented as follows:

(Euro thousand)

	General Meeting Board	Board of Directors	Other key management staff	Total
Remuneration and other short-term benefits	7	1 607	1 575	3 189
Pension costs	-	13	47	60
Costs with healthcare benefits (SAMS)	-	9	27	36
Social Security charges	1	344	347	692
	8	1 973	1 996	3 977

As at 30 June 2020, loans granted by Banco Montepio to members of the Board of Directors (including members of the Audit Committee) amounted to Euro 639 thousand (30 June 2019: Euro 676 thousand) and to Other key management staff to Euro 4,248 thousand (30 June 2019: Euro 3,740 thousand), as described in note 49.

12 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Rental costs	437	1 040
Specialized services		
IT services	5 748	5 436
Independent work	1 984	1 274
Other specialized services	7 307	6 387
Communication costs	3 128	2 843
Maintenance and repairs	2 192	2 009
Water, energy and fuel	1 640	2 024
Advertising costs	903	762
Transportation	938	1 304
Consumables	698	467
Travel, accommodation and representative expenses	324	476
Insurance	461	428
Training	61	110
Other general administrative costs	2 542	2 551
	28 363	27 111

The caption Rental costs includes, as at 30 June 2020, the amount of Euro 251 thousand (30 June 2019: Euro 838 thousand) related to short-term lease agreements, of which Euro 47 thousand (30 June 2019: Euro 312 thousand) correspond to leasehold rentals and Euro 204 thousand (30 June 2019: Euro 526 thousand) to rentals paid on motor vehicles, in both cases used by Banco Montepio as lessee.

As part of the development of its activity, the Bank records under the caption Other specialized services the costs incurred with the hiring of external consultants, with the payment of services related to databases, with charges associated with processing carried out by SIBS and also with costs related to the payment of fees and retainer fees.

The caption Other general and administrative expenses includes, as at 30 June 2020, the amount of Euro 1,477 thousand (30 June 2019: Euro 1,534 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

13 Depreciation and amortization

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Intangible assets		
Software	7 478	7 263
Other tangible assets		
Real Estate		
For own use	1 539	1 541
Leasehold improvements in rented buildings	306	315
Equipment		
IT equipment	1 707	1 676
Fixtures	830	762
Furniture	63	117
Security equipment	65	67
Machinery and tools	17	7
Transportation	4	-
Assets under operating leases	-	-
Right-of-use assets		
Real Estate	3 358	3 601
Motor vehicles	768	516
Other tangible assets	-	-
	8 657	8 602
	16 135	15 865

The caption Right-of-use assets corresponds, essentially, to properties (branches and central buildings) and the car fleet, being depreciated according to the period of each lease agreement, as indicated in accounting policy 1 i).

14 Impairment of loans and advances

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Other loans and advances to credit institutions (note 20)		
Charge for the financial year net of reversals	4 941	85
	4 941	85
Loans and advances to customers (note 21)		
Charge for the financial year net of reversals	107 820	44 046
Recovery of loans and interest	(765)	(2 968)
	107 055	41 078
	111 996	41 163

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

During financial year 2019, Banco Montepio revisited the models and processes associated with the assessment of impairment for credit risks, including, namely, the definitions of staging, EADs and LGDs.

Banco Montepio, in the 1st half of 2020, registered an impact resulting from the COVID-19 pandemic on credit impairment in the estimated amount of Euro 39.5 million.

15 Impairment of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Impairment of financial assets at fair value through other comprehensive income (note 24)		
Charge for the financial year net of reversals	3 512	689
Impairment of other financial assets at amortized cost (note 26)		
Charge for the financial year net of reversals	1 991	2 385
	1 991	2 385
	5 503	3 074

16 Impairment of other assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Impairment of investments in associated companies (note 27)		
Reversals for the financial year	-	(2 105)
	-	(2 105)
Impairment of other assets (note 31)		
Charge for the financial year	6 434	6 481
Reversals for the financial year	(660)	(2 795)
	5 774	3 686
	5 774	1 581

17 Other provisions

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2020	Jun 2019
Provisions for guarantees and commitments (note 37)		
Charge for the financial year	19 947	9 109
Reversals for the financial year	(17 031)	(10 324)
	2 916	(1 215)
Provisions for other risks and charges (note 37)		
Charge for the financial year	147	986
Reversals for the financial year	(729)	(1 300)
	(582)	(314)
	2 334	(1 529)

18 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Cash	161 078	194 529
Deposits at central banks		
Banco de Portugal	753 677	809 119
	914 755	1 003 648

The caption Deposits at central banks – Banco de Portugal includes the amount to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of the deposits and other effective liabilities. The cash reserve constitution regime, in accordance with directives of the European Central Bank System for the Eurozone, establishes the maintenance of a deposit at the Central Bank equivalent to 1% of the average value of the deposits and other liabilities, over each reserve constitution period.

19 Loans and deposits to credit institutions payable on demand

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Credit institutions in Portugal	1 260	1 245
Credit institutions abroad	50 948	34 147
Amounts to be collected	18 324	16 601
	70 532	51 993

The caption Amounts to be collected refers to cheques drawn by third parties on other credit institutions and which are due for collection.

20 Other loans and advances to credit institutions

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Loans and advances to credit institutions in Portugal		
Very short time loans and advances	-	-
Loans	563 089	358 937
Term deposits	6 433	6 416
Reverse repos	-	-
Other loans and advances	-	25 001
	569 522	390 354
Loans and advances to credit institutions abroad		
CSA's	29 049	29 109
Term deposits	30 092	37 964
Reverse repos	56 186	54 199
Subordinated loans and advances	-	-
Very short time loans and advances	-	-
Other loans and advances	23 797	22 036
	139 124	143 308
	708 646	533 662
Impairment for credit risk of loans and advances to credit institutions	(6 570)	(1 629)
	702 076	532 033

The caption Loans and advances to credit institutions in Portugal - Loans, includes loans made to subsidiaries of Banco Montepio.

Credit Support Annexes (“CSA’s”) are contracts that regulate the delivery, reception and monitoring of collateral delivered/received to cover the exposure of a counterparty of the contract to the other, as a result of open positions in over-the-counter derivatives. As provided for in most CSA’s celebrated by Banco Montepio, this collateral might be in the form of securities or cash, with, however, in Banco Montepio’s case, all collaterals being in cash.

Collaterals in cash delivered (constitution of reinforcement) or received (collateral release) result from the changes in the fair value of the various derivative instruments that Banco Montepio negotiated with each one of the counterparties and are materialized through an effective transfer of cash, through TARGET2 transfers to each one of the counterparties in question, as a guarantee/security of Banco Montepio’s exposure vis-à-vis the counterparty.

On this basis, and in the scope of the operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, Banco Montepio holds an amount of Euro 29,049 thousand (31 December 2019: Euro 29,109 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 7,093 thousand (31 December 2019: Euro 6,024 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 note 10.

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

(Euro thousand)

	Jun 2020	Jun 2019
Balance on 1 January	1 629	3 783
Charge for the financial year net of reversals	4 941	85
Balance on 30 June	6 570	3 868

As at 30 June 2020, the Other loans and advances to banks were remunerated at the average rate of 0.53% (31 December 2019: 0.79%).

21 Loans and advances to customers

This caption is presented as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Corporate		
Loans not represented by securities		
Loans	2 650 686	2 546 888
Current account loans	435 162	424 086
Finance lease	279 277	278 249
Discounted bills	51 357	63 262
Factoring	171 063	196 586
Overdrafts	1 027	1 935
Other loans	489 087	525 717
Loans represented by securities		
Commercial paper	380 770	270 009
Bonds	171 862	153 687
Retail		-
Mortgage loans	5 639 260	5 771 290
Finance lease	35 162	37 222
Consumer credit and other loans	624 580	652 411
	10 929 293	10 921 342
Value correction of assets subject to hedging operations	60	46
Past due loans and advances and interest		
Less than 90 days	80 636	94 169
More than 90 days	687 952	668 490
	768 588	762 659
	11 697 941	11 684 047
Impairment for credit risks	(845 216)	(762 877)
	10 852 725	10 921 170

As at 30 June 2020, the caption Loans and advances to customers includes the amount of Euro 2,728,716 thousand (31 December 2019: Euro 2,719,463 thousand) related to the issue of covered bonds realized by Banco Montepio, as referred to in note 35.

As at 30 June 2020, loans and advances, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that Banco Montepio granted to its shareholders and to related parties including companies of the consolidation perimeter, amounted to Euro 403, 314 thousand (31 December 2019: Euro 80,686 thousand), as described in note 49. The celebration of business between Banco Montepio and its shareholders or with individual or legal persons related to these, according to article 20 of the Portuguese Securities Code, regardless of the value, is always submitted to deliberation and assessment by the Board of Directors and the Audit Committee, under a proposed made by the commercial network, supported by analyses and opinions as to the compliance with the limit established in article 109 of the Legal Framework of Credit Institutions and Financial Companies issued by the Risk Department. The impairment for credit risks related to these contracts amounts to Euro 1,203 thousand as at 30 June 2020 (31 December 2019: Euro 208 thousand).

As at 30 June 2020, the caption Loans and advances to customers includes the amount of Euro 1,839,189 thousand (31 December 2019: Euro 1,962,407 thousand) related to loans and advances that were the object of securitization and that, in accordance with the accounting policy outlined in note 1 b), were not the object of derecognition, as described in note 50.

The caption Value correction of assets subject to hedge operations contains the fair value of the part of the portfolio that is hedged. This appreciation is accounted for through the income statement, in accordance with the accounting policy described in note 1 c). Banco Montepio periodically tests the effectiveness of the existing hedging relationships.

As at 30 June 2020 and in financial year 2019, the caption Loans and advances to customers includes loans recorded at fair value through profit or loss in the amount of Euro 1,207 thousand.

As at 30 June 2020, the fair value adjustment amounted to a positive Euro 60 thousand (31 December 2019: Euro 46 thousand), and the impact on profit or loss as at 30 June 2020 was positive in the amount of Euro 14 thousand (31 December 2019: positive in Euro 153 thousand), as per note 22.

The fair value of the Loans and advances to customers' portfolio is presented in note 46.

The analysis of the caption Loans and advances to customers, by interest rate type, as at 30 June 2020 and 31 December 2019, is as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Variable-rate loans and advances	10 280 222	10 356 789
Fixed-rate loans and advances	1 417 719	1 327 258
	11 697 941	11 684 047

The analysis of Past due loans and advances and interest, by credit type, is as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Asset-backed loans	544 920	551 009
Other guaranteed loans	141 136	130 528
Finance leases	4 489	3 615
Secured loans	34 800	34 800
Other loans and advances	43 243	42 707
	768 588	762 659

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 30 June 2020, is as follows:

(Euro thousand)

	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	136 458	565 073	7 686 182	544 920	8 932 633
Other guaranteed loans	438 458	144 454	311 059	141 136	1 035 107
Finance leases	6 372	94 455	213 612	4 489	318 928
Secured loans	380 320	100 089	72 223	34 800	587 432
Other loans and advances	215 343	85 020	480 235	43 243	823 841
	215 343	85 020	480 235	43 243	
	1 176 951	989 091	8 763 311	768 588	11 697 941

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 31 December 2019, is as follows:

(Euro thousand)

	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	148 893	592 967	7 703 290	551 009	8 996 159
Other guaranteed loans	453 403	206 936	266 688	130 528	1 057 555
Finance leases	10 225	89 827	215 419	3 615	319 086
Secured loans	346 099	77 597	-	34 800	458 496
Other loans and advances	234 645	99 189	476 210	42 707	852 751
	1 193 265	1 066 516	8 661 607	762 659	11 684 047

The outstanding amount of Finance leases, by residual maturity, as at 30 June 2020, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	47 668	152 383	112 509	312 560
Outstanding interest	(10 018)	(24 020)	(17 159)	(51 197)
Residual values	1 462	9 687	41 927	53 076
	39 112	138 050	137 277	314 439

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2019, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	56 912	144 561	111 677	313 150
Outstanding interest	(8 976)	(23 826)	(18 311)	(51 113)
Residual values	1 531	9 568	42 335	53 434
	49 467	130 303	135 701	315 471

As regards operating leases, Banco Montepio does not have significant agreements as Lessor.

The analysis of Past due loans and advances and interest, by customer type and purpose, is as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Corporate		
Construction/Production	154 757	159 455
Investment	313 588	311 778
Treasury	204 343	201 083
Other	23 115	17 235
Retail		
Mortgage loans	43 901	39 614
Consumer loans	13 760	16 342
Other	15 124	17 152
	768 588	762 659

The movements in impairment for credit risks are analysed as follows:

(Euro thousand)

	Jun 2020	Jun 2019
Balance on 31 January	762 877	942 368
IFRS 9 transition adjustment	-	-
Charge for the financial year net of reversals	107 820	44 046
Utilization	(27 089)	(83 273)
Financial liabilities related to transferred assets	1 608	-
Final balance	845 216	903 141

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

(Euro thousand)

	Jun 2020	Dec 2019
Asset-backed loans and finance leases	609 302	537 717
Other secured loans	170 877	162 792
Unsecured loans	65 037	62 368
	845 216	762 877

The analysis utilization of impairment losses, by credit type, is as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Asset-backed loans and finance leases	3 524	29 471
Other secured loans	17 373	36 123
Unsecured loans	6 192	17 679
	27 089	83 273

The total amount of loans and advances and interest recovered as at 30 June 2020 amounted to Euro 765 thousand (30 June 2019: Euro 2,968 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, in the amount to Euro 913,409 thousand (31 December 2019: Euro 857,707 thousand) with an impairment of Euro 432,487 thousand (31 December 2019: Euro 364,070 thousand).

Banco Montepio has adopted forbearance measures and practices, aligned in terms of risk, in order to adjust the disposable income or the financial capacity of customers to their debt service. On this basis, the recommendations legislated in the scope of the non-compliance regimes (Decree-Law no. 227/2012) and for companies (SIREVE, PER) were adopted, with these being widely disclosed in the institutional website, in the internal rules and communications, to be disclosed and implemented vis-à-vis customers presenting evidence of financial difficulties.

Regarding the forbearance measures and in accordance with Implementing Regulation (EU) 2015/227, of 9 January 2015, contractual changes were considered (grace period of the principal, extension of the term, deferral of the principal, etc.) as were the consolidation of debts in another contract with conditions adjusted to the customer's current situation.

Additionally, the restructured loans and advances to customers' portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent celebration of a new loan to replace the previous loans. The restructuring may result from a reinforcement of guarantees and/or liquidation of part of the loan and involve an extension of maturities or a change in the interest rate. The analysis of restructured loans entered, as at 30 June 2020 and 31 December 2019, by credit type, is as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Corporate		
Loans not represented by securities		
Loans	114 697	144 404
Current account loans	130	311
Finance leases	241	313
Other loans	386	2 000
Retail		
Mortgage loans	1 662	4 893
Consumer credit and other loans	361	5 075
	117 477	156 996

Restructured loans are also subject to an impairment analysis that results from the revaluation of the expectations given the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate, and considering the new collaterals presented.

As regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 58,988 thousand, which corresponds to an impairment rate of 50.2% (31 December 2019: Euro 58,142 thousand, impairment rate of 37%).

Banco Montepio uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revalued based on market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility. Most of the real collaterals are revalued at least once a year.

22 Financial assets and liabilities held for trading

The caption financial assets and liabilities held for trading is analysed as follows:

(euro thousand)

	Jun 2020	Dec 2019
Financial assets held for trading		
Securities		
Shares	2 549	1 089
Bonds	28 227	11 793
Investment units	2 798	127
	33 574	13 009
Derivative instruments		
Derivative financial instruments with positive fair value	3 767	16 895
	37 341	29 904
Financial liabilities held for trading		
Derivative instruments		
Derivative financial instruments with negative fair value	11 355	11 098
	11 355	11 098

As provided for in IFRS 13, financial instruments are measured in accordance with the following valuation levels, described in note 46, as follows:

(euro thousand)

	Jun 2020			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	2 549	-	-	2 549
Bonds	28 227	-	-	28 227
Investment units	2 798	-	-	2 798
	33 574	-	-	33 574
Derivative instruments				
Derivative financial instruments with positive fair value	-	3 767	-	3 767
	33 574	3 767	-	37 341
Financial liabilities held for trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	11 355	-	11 355
	-	11 355	-	11 355

(euro thousand)

	Dec 2019			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	1 089	-	-	1 089
Bonds	11 793	-	-	11 793
Investment units	127	-	-	127
	13 009	-	-	13 009
Derivative instruments				
Derivative financial instruments with positive fair value	-	4 056	12 839	16 895
	13 009	4 056	12 839	29 904
Financial liabilities held for trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	11 098	-	11 098
	-	11 098	-	11 098

The book value of the derivative financial instruments as at 30 June 2020 and the comparison with the respective assets and liabilities recorded at fair value, in the specific case of derivatives held for risk management, can be analysed as follows:

(euro thousand)

	Jun 2020	Derivative	Related Asset/Liability							
Derivative	**Related financial asset/liability**	**Notional**	**Positive fair value**	**Negative fair value**	**Total fair value**	**Changes in fair value in the period (1)**	**Fair value**	**Changes in fair value in the period**	**Book value**	**Reimbursement amount at maturity date**
Interest era swap	Debt securities issued	-	-	-	-	(191)	34	17	2 196	2 148
Interest era swap	Deposits for customers	-	-	-	-	-	-	-	-	-
Interest era swap	Loans and advances to customers	1 200	5	(69)	(64)	(15)	60	14	1 207	1 200
Interest era swap	Other	1 729 737	4 288	(11 091)	(6 803)	230	-	-	-	-
Currency swap (short)	-	50 253						-		
			5	(177)	(172)	(475)	-	-	-	-
Currency swap (long)	-	50 081						-		
Future options (short)	-	6 006						-		
			8	-	8	8	-	-	-	-
Future options (long)	-	7 691						-		
Forwards (Short)	-	29 371				-		-		
			-	-	-	-	-	-	-	-
Forwards (Long)	-	29 119				-		-		
Options *(Short)*	-	63 714						-		
			(539)	(18)	(557)	(12 942)	-	-	-	-
Options *(Long)*	-	139 789						-		
		2 106 961	3 767	(11 355)	(7 588)	(13 385)	94	31	3 403	3 348

Derivatives held for risk management include derivatives contracted for the purpose of hedging certain financial assets and liabilities, but that were not designated as hedging derivatives.

Within the scope of the loan obtained from the EIB, a set of Italian and Spanish sovereign bonds with a nominal value of Euro 11,500 thousand (31 December 2019: Euro 1,000 thousand of the Italian State) are part of the collateral, as described in note 33.

The nominal value of the assets pledged as collateral to the European Central Bank in the context of liquidity providing operations amounts, as at 31 December 2019, to Euro 3,357 thousand after the application of a haircut, as described in note 32. As at 30 June 2020 there were no assets given in guarantee under this category.

The book value of the derivative financial instruments as at 31 December 2019 and the comparison with the respective assets and liabilities recorded at fair value, can be analysed as follows:

(euro thousand)

Dec 2019									
	Derivative					Related Asset/Liability			
Related financial asset/liability	Notional	Positive fair value	Negative fair value	Total fair value	Changes in fair value in the period (1)	Fair value	Changes in fair value in the period	Book value	Reimbursement amount at maturity date
Debt securities issued	3 300	225	(34)	191	(110)	17	(61)	3 461	3 300
Deposits for customers	-	-	-	-	32	-	(11)	-	-
Loans and advances to customers	1 200	4	(53)	(49)	(172)	46	153	1 207	1 200
Other	1 820 428	3 944	(10 977)	(7 033)	1 918	-	-	-	-
-	53 682	311	(8)	303	341	-	-	-	-
-	53 974								
-	3 410	-	-	-	-	-	-	-	-
-	-								
-	1 493	-	-	-	-	-	-	-	-
-	1 494								
-	56 539	12 411	(26)	12 385	403	-	-	-	-
-	342 592								
	2 338 112	16 895	(11 098)	5 797	2 412	63	81	4 668	4 500

23 Financial assets at fair value through profit or loss

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Variable income securities		
Investment units	497 618	539 462
Securitization units	108 916	109 661
Loans and advances to customers at fair value		
Loans not represented by securities	4 182	5 315
	610 716	654 438

The caption Variable-income securities – Investment units includes, as at 30 June 2020, the amount of Euro 33,723 thousand (31 December 2019: Euro 35,391 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 53. The securitization units correspond to the residual notes acquired by Banco Montepio.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 46, as follows:

(euro thousand)

	Jun 2020			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	6 823	-	490 795	497 618
Securitization units	-	-	108 916	108 916
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	4 182	4 182
	6 823	-	603 893	610 716

(euro thousand)

	Dec 2019			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	7 551	-	531 911	539 462
Securitization units	-	-	109 661	109 661
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	5 315	5 315
	7 551	-	646 887	654 438

As at 30 June 2020, 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 490,795 thousand (31 December 2019: Euro 531,911 thousand), of which Euro 438,619 thousand (31 December 2019: Euro 474,316 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 2020, for all securities recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial assets, with an impact of Euro 60,389 thousand (31 December 2019: Euro 64,689 thousand) having been determined.

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

(euro thousand)

	Jun 2020	Dec 2019
Opening balance	641 572	857 523
Acquisitions	(3 990)	1 944
Reclassifications	-	-
Remeasurements	(37 951)	29 671
Disposals	80	(247 566)
Closing balance	599 711	641 572

The movements occurred in level 3 of the Loans and advances to customers at fair value relate, in their entirety, to revaluations made in the 1st half of 2020 and financial year 2019.

24 Financial assets at fair value through other comprehensive income

This caption is presented as follows:

(euro thousand)

	Jun 2020				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	251 417	207	(3 380)	(562)	247 682
Foreign	791 381	2 521	(1 444)	(3 007)	789 451
Bonds issued by other entities					
Domestic	4 193	137	(850)	(530)	2 950
Foreign	7 301	-	(81)	(21)	7 199
Variable income securities					
Shares					
Domestic	74 331	9 885	(2 150)	-	82 066
Foreign	71 555	5 353	(35 557)	-	41 351
	1 200 178	18 103	(43 462)	(4 120)	1 170 699

(euro thousand)

	Dec-2019				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	591 535	14 344	-	(1 334)	604 545
Foreign	804 684	6 235	(496)	(3 608)	806 815
Bonds issued by other entities					
Domestic	54 684	284	(2 077)	(167)	52 724
Foreign	231 798	2 335	(785)	(170)	233 178
Variable income securities					
Shares					
Domestic	74 235	9 885	(2 150)	-	81 970
Foreign	71 554	5 294	(22 639)	-	54 209
	1 828 490	38 377	(28 147)	(5 279)	1 833 441

The main assumptions used in the valuation of shares are as follows:

Almina

Banco Montepio holds 19.0% of the share capital of Almina. The book value of Almina in the Banco Montepio's financial statements amounts to Euro 67,200 thousand both as at 30 June 2020 and 31 December 2019.

The valuation of Almina with reference to 31 December 2019 was carried out by an external entity based on the Almina Holding Group's business plan, as well as other information provided by Almina's management. As at 30 June 2020, Banco Montepio considers that said valuation continues to reflect the fair value, with the valuation being expected to be updated by the end of financial year 2020.

Almina's valuation exercise considers a set of variables and assumptions, namely:

- Macroeconomic assumptions - forecasts of the outlook for inflation and the €/USD exchange rate;
- Forecasts on the evolution of metal prices (copper, zinc, lead, silver and tin);
- Discount rate parameters;
- Reasonableness of the KPIs assumed in the projection period, namely, on the zinc recovery and on commercial costs.

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

SIBS

The fair value of the shareholding held in SIBS, presented in the financial statements as at 30 June 2020, is supported by a valuation that considers the methodologies of the multiples of comparable companies (market and transaction) and of the Discounted Cash Flows (DCF) and is based on the performance projected by the company for 2020 and the adoption of a conservative approach in the assumptions used to project the forecast period.

Unicre

The fair value of the shareholding held in Unicre, presented in the financial statements as at 30 June 2020, is supported by a valuation that considers the methodologies of the multiples of comparable companies (market and transaction) and of the Gordon Growth Model, assuming for the projections a flat growth for the evolution of the company's operating results.

As at 30 June 2020 and 31 December 2019, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(euro thousand)

	Jun 2020				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	246 648	1 034	-	-	247 682
Foreign	789 451	-	-	-	789 451
Bonds issued by other entities				-	
Domestic	-	-	2 950	-	2 950
Foreign	-	7 199	-	-	7 199
	1 036 099	8 233	2 950	-	1 047 282
Variable income securities					
Shares					
Domestic	-	-	81 400	666	82 066
Foreign	29 752	-	11 138	461	41 351
	29 752	-	92 538	1 127	123 417
	1 065 851	8 233	95 488	1 127	1 170 699

(euro thousand)

	Dec-2019				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	604 545	-	-	-	604 545
Foreign	806 815	-	-	-	806 815
Bonds issued by other entities				-	
Domestic	46 570	3 052	3 102	-	52 724
Foreign	225 682	7 496		-	233 178
	1 683 612	10 548	3 102	-	1 697 262
Variable income securities					
Shares					
Domestic	-	-	81 400	570	81 970
Foreign	42 669	-	11 079	461	54 209
	42 669	-	92 479	1 031	136 179
	1 726 281	10 548	95 581	1 031	1 833 441

As provided for in IFRS 13, financial instruments are measured according to the valuation levels described in note 46.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset, with an impact of Euro 9,549 thousand as at 30 June 2020 (31 December 2019: Euro 9,558 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the positive amount of Euro 12,366 thousand (31 December 2019: positive amount of Euro 11,459 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 2020, the impairment recorded for these securities amounted to Euro 530 thousand (31 December 2019: Euros 61 thousand).

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

(euro thousand)

	Jun 2020	Dec 2019
Opening balance	95 581	87 226
Revaluations	491	8 224
Transfers to level 3	-	1 603
Amortization at nominal value	(584)	(1 472)
Closing balance	95 488	95 581

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

(euro thousand)

	Jun 2020	Jun 2019
Balance on 1 January	5 279	571
IFRS 9 transition adjustment	-	-
Charge for the financial year net of reversals	3 512	689
Charge off	(4 671)	(440)
Transfers	-	2 413
Balance on 31 December	4 120	3 233

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 2020, to Euro 832,656 thousand after haircut (31 December 2019: Euro 1,594,966 thousand), as described in note 32;
- 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 2020 and 31 December 2019;
- As at 30 June 2020, the EIB loan obtained is collateralized by a set of Portuguese, Spanish and Italian sovereign bonds with a nominal value of Euro 93,499 thousand (31 December 2019: 205,201 thousand of the Portuguese, Spanish, Greek, Dutch, French and German States), as described in note 33; and
- Securities pledged as collateral to the Deposits Guarantee Fund have a nominal amount of Euro 23,000 thousand (31 December 2019: Euro 21,500 thousand), as described in note 45.

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 celebrated contracts.

25 Hedging derivatives

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Assets		
Interest rate swaps	15 259	11 148
Liabilities		
Interest rate swaps	799	547
Net value	14 460	10 601

Banco Montepio contracted an interest rate swap to hedge its interest rate risk arising from a bond issued 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 to the hedging relationships.

The analysis of the hedging derivatives' portfolio, by residual maturity, as at 30 June 2020 and 31 December 2019, is as follows:

(euro thousand)

	Jun 2020			
	Notional by maturity date		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	14 460	14 460
	750 000	750 000	14 460	14 460

(euro thousand)

	Dec 2019			
	Notional by maturity date		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	10 601	10 601
	750 000	750 000	10 601	10 601

As at 30 June 2020, the fair value hedging operation can be analysed as follows:

(euro thousand)

	Jun 2020						
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	14 460	848	(10 009)	(786)
			750 000	14 460	848	(10 009)	(786)

As at 31 December 2019, the fair value hedging operation can be analysed as follows:

(euro thousand)

	Dec 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 swap	Liabilities represented by securities	Interest rate	750 000	10 601	4 935	(9 224)	(4 807)
			750 000	10 601	4 935	(9 224)	(4 807)

26 Other financial assets at amortized cost

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Fixed income securities		
Bond issued by public entities		
Domestic	1 300 573	699 604
Foreign	406 935	201 291
Bonds issued by other entities		
Foreign	1 783 145	1 894 012
	3 490 653	2 794 907
Impairment for other financial assets at amortized cost	(3 741)	(1 750)
	3 486 912	2 793 157

The fair value of the portfolio of Other financial assets at amortized cost is disclosed in note 46.

The caption Other financial assets at amortized cost, as at 30 June 2020, can be analysed as follows:

(euro thousand)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
Pelican Mortgages 07/15-09-2054_3_A	30-Mar-07	15-Sep-54	-	107 427	107 428
Pelican Mortgages 07/15-09-2054_3_B	30-Mar-07	15-Sep-54	-	3 853	3 853
Pelican Mortgages 07/15-09-2054_3_C	30-Mar-07	15-Sep-54	-	3 245	3 244
Pelican Mortgages 07/15-09-2054_3_D	30-Mar-07	15-Sep-54	0.311%	1 724	1 724
Pelican Mortgages 08/15-09-2056_4_A	20-May-08	15-Sep-56	-	374 947	374 947
Pelican Mortgages 08/15-09-2056_4_B	20-May-08	15-Sep-56	0.092%	33 192	33 193
Pelican Mortgages 08/15-09-2056_4_C	20-May-08	15-Sep-56	0.242%	35 883	35 887
Pelican Mortgages 08/15-09-2056_4_D	20-May-08	15-Sep-56	0.542%	14 951	14 955
Pelican Mortgages 07/15-09-2056_4_E	20-May-08	15-Sep-56	0.892%	16 446	16 452
Pelican Mortgages 09/15-12-2061_5_A	25-Mar-09	15-Dec-61	-	330 131	330 131
Pelican Mortgages 09/15-12-2061_5_B	25-Mar-09	15-Dec-61	0.136%	115 624	115 631
Pelican Mortgages 09/15-12-2061_5_C	25-Mar-09	15-Dec-61	0.536%	16 306	16 310
Pelican Mortgages 09/15-12-2061_5_D	25-Mar-09	15-Dec-61	0.886%	16 306	16 312
Aqua Mortgages 08/15-12-2063_1_A	9-Dec-08	15-Dec-63	-	61 828	61 828
Aqua Mortgages 08/15-12-2063_1_B	9-Dec-08	15-Dec-63	0.217%	20 152	20 154
Pelican Mortgages 12/02-12-2063_6_A	5-Mar-12	25-Jun-63	-	326 487	326 487
Pelican Mortgages 12/02-12-2063_6_B	5-Mar-12	25-Jun-63	0.091%	250 000	250 003
PEL FIN A 12/28	7-May-14	25-Jun-28	3.000%	33 866	33 880
PEL FIN B 12/28	7-May-14	25-Jun-28	4.000%	20 715	20 726
OT 4,95% 25-OCT-2023	10-Jun-08	25-Oct-23	4.950%	198 000	232 162
OT 5.65% 15-FEV-2024	14-May-13	15-Feb-24	5.650%	109 500	132 523
OT 2,200% 17-OCT-2022	9-Sep-15	17-Oct-22	2.200%	212 500	224 300
OT APR21	23-Feb-05	15-Apr-21	3.850%	120 000	124 264
OT 2,875% 15-OUT-2025	20-Jan-15	15-Oct-25	2.875%	110 100	122 735
OT 2,875% 21JUL2026	21-Jan-16	21-Jul-26	2.875%	115 000	132 143
OT 4,125% 14APR2027	18-Jan-17	14-Apr-27	4.125%	80 000	96 599
OT 0.475% 18OCT2030	15-Jan-20	18-Oct-30	0.475%	15 000	14 781
OT 2.125% 17OCT2028	17-Jan-18	17-Oct-28	2.125%	68 000	77 839
OT 1.950% 15JUN2029	16-Jan-19	15-Jun-29	1.950%	5 000	5 618
OT 0.700% 15OCT2027	8-Apr-20	15-Oct-27	0.700%	35 000	34 983
BT ZERO COUPON 18SEP2020	20-Sep-19	18-Sep-20	-	50 000	49 892
BT ZERO COUPON 17JUL2020	19-Jul-19	17-Jul-20	-	50 000	49 891
BONOS 0,750% 30JUL2021	8-Mar-16	30-Jul-21	0.750%	35 000	35 478
BONOS 0,350% 30JUL2023	22-May-18	30-Jul-23	0.350%	166 000	165 949
GREECE T BILL 10JUL2020	14-Apr-20	10-Jul-20	-	20 000	19 812
GREECE T BILL 02OCT2020	3-Apr-20	2-Oct-20	-	15 000	14 850
BOTS ZERO COUPON 14SEP2020	13-Sep-19	14-Sep-20	-	10 000	9 974
BOTS ZERO COUPON 30SEP2020	31-Mar-20	30-Sep-20	-	10 000	9 973
BOTS ZERO COUPON 14APR2021	14-Apr-20	14-Apr-21	-	25 000	24 895
BOTS ZERO COUPON 14MAY2021	14-May-20	14-May-21	-	45 000	44 830
BOTS ZERO COUPON 14JUN2021	12-Jun-20	14-Jun-21	-	64 000	63 940
ADIF 1.875% 28JAN2025	28-Jan-15	28-Jan-25	1.875%	15 200	16 336
				3 356 383	3 486 912

The caption Other financial assets at amortized cost, as at 31 December 2019, can be analysed as follows:

(euro thousand)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
OT APR21	23-Feb-05	15-Apr-21	3.850%	120 000	128 830
BONOS 0,750% 30JUL2021	8-Mar-16	30-Jul-21	0.750%	35 000	35 474
OT 2,200% 17-OCT-2022	9-Sep-15	17-Oct-22	2.200%	212 500	223 931
BONOS 0,350% 30JUL2023	22-May-18	30-Jul-23	0.350%	166 000	165 596
OT 4,95% 25-OCT-2023	10-Jun-08	25-Oct-23	4.950%	170 000	198 183
OT 5.65% 15-FEV-2024	14-May-13	15-Feb-24	5.650%	5 000	6 184
OT 2,875% 15-OCT-2025	20-Jan-15	15-Oct-25	2.875%	65 000	70 991
OT 2,875% 21JUL2026	21-Jan-16	21-Jul-26	2.875%	25 000	27 695
OT 4,125% 14APR2027	18-Jan-17	14-Apr-27	4.125%	35 000	42 261
Pelican Mortgages 07/15-09-2054_3_A	30-Mar-07	15-Sep-54	-	117 710	117 710
Pelican Mortgages 07/15-09-2054_3_B	30-Mar-07	15-Sep-54	-	4 222	4 222
Pelican Mortgages 07/15-09-2054_3_C	30-Mar-07	15-Sep-54	0.042%	3 555	3 555
Pelican Mortgages 07/15-09-2054_3_D	30-Mar-07	15-Sep-54	0.357%	1 889	1 889
Pelican Mortgages 08/15-09-2056_4_A	20-May-08	15-Sep-56	-	394 206	394 206
Pelican Mortgages 08/15-09-2056_4_B	20-May-08	15-Sep-56	0.132%	34 897	34 897
Pelican Mortgages 08/15-09-2056_4_C	20-May-08	15-Sep-56	0.282%	37 726	37 729
Pelican Mortgages 08/15-09-2056_4_D	20-May-08	15-Sep-56	0.582%	15 719	15 722
Pelican Mortgages 07/15-09-2056_4_E	20-May-08	15-Sep-56	0.932%	17 291	17 297
Pelican Mortgages 09/15-12-2061_5_A	25-Mar-09	15-Dec-61	-	346 011	346 011
Pelican Mortgages 09/15-12-2061_5_B	25-Mar-09	15-Dec-61	0.182%	121 186	121 191
Pelican Mortgages 09/15-12-2061_5_C	25-Mar-09	15-Dec-61	0.582%	17 090	17 094
Pelican Mortgages 09/15-12-2061_5_D	25-Mar-09	15-Dec-61	0.932%	17 090	17 096
Aqua Mortgages 08/15-12-2063_1_A	9-Dec-08	15-Dec-63	-	65 597	65 597
Aqua Mortgages 08/15-12-2063_1_B	9-Dec-08	15-Dec-63	-	21 080	21 081
Pelican Mortgages 12/02-12-2063_6_A	2-Mar-12	2-Dec-63	-	358 622	358 622
Pelican Mortgages 12/02-12-2063_6_B	2-Mar-12	2-Dec-63	0.156%	250 000	250 003
PEL FIN A 12/28	7-May-14	25-Dec-28	-	43 473	43 488
PEL FIN B 12/28	7-May-14	25-D-28	-	26 591	26 602
				2 727 455	2 793 157

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

As at 30 June 2020, the loan obtained from EIB is collateralized by Portuguese, Italian and Spanish sovereign bonds with a nominal value of Euro 259,825 thousand (31 December 2019: Euro 182,300 thousand of the Portuguese and Spanish States), provided as collateral and recorded in the caption Other financial assets at amortized cost, as disclosed in note 33.

As at 30 June 2020, the nominal value of the assets pledged as collateral to the European Central Bank under liquidity-providing operations amounts to Euro 2,103,942 thousand (31 December 2019: Euro 1,942,372 thousand) after the application of a haircut.

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

(euro thousand)

	Jun 2020	Jun 2019
Balance on 1 January	1 750	2 550
Charge for the period net of reversals	1 991	2 385
Charge-off	-	(710)
Transfers	-	(2 413)
Balance on 31 December	3 741	1 812

27 Investments in subsidiaries and associated companies

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Montepio Holding, S.G.P.S., S.A.	413 750	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	8 997	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Activos Imobiliários, ACE	637	637
	426 584	426 584
Impairment of investments in associated companies	(85 576)	(85 576)
	341 008	341 008

Banco Montepio analysed the impairment of investments made in its subsidiaries, considering the recoverable value of the businesses developed by each one. The recoverable value, in accordance with the accounting policy described in this report, was determined by the higher of fair value less costs to sell and value in use, in the case of continuing subsidiaries, and fair value less costs to sell, in the case of discontinued subsidiaries.

The value in use was determined based on the business plan approved by management and, depending on the specificity of the businesses and the markets in which Banco Montepio's subsidiaries operate, differentiated levels for the discount rate, for the solvency levels required for the banking activity and for the growth of net income in perpetuity, were also considered.

The verification of the assumptions used and the evolution of the macroeconomic and market conditions may result in the change of these same assumptions and, consequently, in the recoverable value determined for the subsidiaries object of this analysis.

The financial statements have been prepared on the assumption of the continuity of the respective operations, which depend on the future evolution of the assumptions underlying the recoverable value of its financial shareholdings as well as on the success of the initiatives to be taken by the Board of Directors to reinforce the net equity.

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

As a result of the analyses carried out, we concluded on the need to recognize, in the financial statements as at 30 June 2020 and financial year 2019, an impairment in Banco Montepio in the amount of Euro 85,576 thousand related to the financial shareholding held in Montepio Holding, S.G.P.S., S.A. (Montepio Holding). Montepio Holding holds financial shareholdings of 100% of the share capital and voting rights of Montepio Investimento, S.A., Montepio Crédito – Instituição Financeira de Crédito, S.A., Montepio Valor – Sociedade Gestora de Organismos de Investimento Coletivo, S.A. and Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. and a shareholding of 80.22% in Finibanco Angola, S.A. The valuation of Montepio Holding was made considering that the best estimate for determining its fair value corresponded to the amount of its equity adjusted for the fair value effect of assets and liabilities recorded at amortized cost or historical cost, except for the shareholding in Montepio Investimento, S.A. which considered the business plan envisaged under the Group's Transformation Plan, more specifically for Banco de Empresas Montepio, S.A.

The movements in impairment of investments in subsidiaries and associated companies are analysed as follows:

(euro thousand)

	Jun 2020	Dec 2019
Balance on 1 January	85 576	79 861
Charge for the period	-	-
Reversal of the period	-	(2 105)
Charge-off	-	-
Balance on 30 June	85 576	77 756

The information related to subsidiaries and associated companies is presented in the following table:

(euro thousand)

	Number of shares	% Stake	Unit value	Acquisition cost
30 June 2020				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100.00%	1.00	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100.00%	90.69	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5.00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26.00%	1.00	637
CESource, ACE	-	18.00%	-	-
				426 584
31 December 2019				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100.00%	1.00	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100.00%	90.69	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5.00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26.00%	1.00	637
CESource, ACE	-	18.00%	-	-
				426 584

The subsidiaries and associated companies of Banco Montepio are listed in note 55.

28 Other tangible assets

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Investments		
Land and buildings		
For own use	206 292	206 292
Leasehold improvements in rented building	28 851	28 851
Work in progress	-	-
Equipment		
IT equipment	94 727	94 056
Interior installations	31 828	31 766
Furniture	18 167	18 425
Security equipment	7 607	7 607
Machinery and tools	2 695	2 698
Transportation	601	601
Other equipment	1	1
Works of art	2 870	2 870
Assets in operating lease	109	109
Right-of-use assets		
Land and buildings	27 086	27 658
Vehicles	6 206	5 339
Work in progress	1 696	1 228
Other tangible assets	1 845	1 877
	430 581	429 378
Accumulated depreciation		
Charge for the period	8 657	17 267
Accumulated charge in previous periods	188 159	171 809
	196 816	189 076
	233 765	240 302

The caption Right-of-use assets corresponds, essentially, to real estate (branches and central buildings) and to the car fleet, being depreciated according to the lease term of each agreement, as indicated in note 1 I).

29 Intangible assets

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Investments		
Software	139 629	134 350
Other property, plant and equipment	1 319	1 319
Work in progress	5 866	3 365
	146 814	139 034
Accumulated depreciation		
Charge for the period	7 478	14 045
Accumulated charge in previous periods	107 211	93 167
	114 689	107 212
	32 125	31 822

30 Taxes

Deferred tax assets and liabilities, as at 30 June 2020 and 31 December 2019, can be analysed as follows:

	Assets		Liabilities		Net	
	Jun 2020	**Dec 2019**	**Jun 2020**	**Dec 2019**	**Jun 2020**	**Dec 2019**
Deferred taxes not dependent on future profitability						
Impairment on loans granted	42 625	42 123	-	-	42 625	42 123
Benefits to employees	22 067	16 149	-	-	22 067	16 149
	64 692	58 272	-	-	64 692	58 272
Deferred taxes dependent on future profitability						
Financial instruments	22 446	24 098	(10 999)	(17 558)	11 447	6 540
Other tangible assets			-	-	-	-
Provisions/Impairment						
Impairment on loans granted	186 866	171 255	-	-	186 866	171 255
Other risks and charges	9 170	8 458	-	-	9 170	8 458
Impairment in securities and non-financial assets	5 940	5 369	-	-	5 940	5 369
Impairment in financial assets	1 177	570	-	-	1 177	570
Benefits to employees	34 389	40 042	-	-	34 389	40 042
Other	-	130	(15)	(7)	(15)	123
Taxes losses carried forward	175 186	171 666	-	-	175 186	171 666
Net deferred tax assets/(liabilities)	499 866	479 860	(11 014)	(17 565)	488 852	462 295

Special regime applicable to deferred tax assets

On 6 July 2016, the Extraordinary General Meeting of Banco Montepio was held, approving the adherence to the special regime applicable to deferred tax assets, approved by Law no. 61/2014, of 26 August, which is applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as to deferred tax assets recorded in the annual accounts for the last tax period prior to that date and to the part of the costs and negative equity changes associated with same. In accordance with Law no. 23/2016, of 19 August, this special regime is not applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor to their associated deferred tax assets.

Law no. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. net loss in separate annual accounts or in settlement accounts on the voluntary winding-up, insolvency decided by law or withdrawal of the respective authorization), there will be a conversion into tax credits of deferred tax assets that resulted from the non-deduction of costs and of deductions of asset values resulting from credit impairment losses and post-employment or long-term employment benefits. In such case, a special reserve corresponding to 110% of their amount shall be constituted, requiring the simultaneous constitution of conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State of the same amount. Tax credits may be offset against tax debts of the beneficiaries (or of an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under this regime, the recovery of deferred tax assets covered by the regime approved by Law no. 61/2014, of 26 August, is not dependent upon future profits.

The aforementioned legal framework was regulated by Ordinance no. 259/2016, of 4 October, on the control and use of tax credits, and by Ordinance no. 293-A/2016, of 18 November, the latter altered by Ordinance no. 272/2017, of 13 September, determining the conditions and procedures for the acquisition of the referred State rights by the shareholders. According to this legislation, State rights are, among other factors, subject to a right of acquisition by the shareholders on their inception date, exercisable in periods to be established by the Board of Directors up to 10 years after the respective constitution, with the issuing bank depositing in the State’s name the full amount corresponding to the rights issued, within 3 months from the confirmation date of the deferred tax asset conversion into tax credit. Such deposit shall be redeemed when and to the extent that the State rights are acquired by the shareholders or exercised by the State.

Deferred taxes are determined using tax rates that are expected to be in force on the date of reversal of the timing differences, which correspond to the rates approved or substantially approved in the balance sheet date.

The caption Post-employment and long-term employment benefits includes the amount of Euro 9,168 thousand (31 December 2019: Euro 9,356 thousand) related to deferred taxes associated with the remeasurements recognized against reserves as a result of the change in accounting policy made in 2011. As at 30 June 2020, this caption also includes the amount of Euro 2,582 thousand (31 December 2019: Euro 2,715 thousand) related to deferred taxes associated with the cost generated by the transfer of liabilities with pensioners to the General Social Security System.

The negative equity variation due to the change in accounting policy related to the recognition of the remeasurements in the Pension Fund made in 2011 is deductible for tax purposes, in equal parts, over a 10-

year period, starting on 1 January 2012. The cost generated by the transfer of liabilities with pensioners to the General Social Security System is deductible for tax purposes, in equal parts, starting on 1 January 2012, according to the number of years of life expectancy of the pensioners whose liabilities were transferred (20 years in the case of Banco Montepio).

In the 1st half of 2020 and financial year 2019, deferred taxes associated with Post-employment and long-term benefits include the amount of Euro 21,853 thousand related to post-employment and long-term benefits in excess of the existing limits.

In the 1st half of 2020 and financial year 2019, and in function of (I) the tax rates effective after 1 January 2018 and ii) the expectation of the conversion into tax-accepted costs and profits and the prospects of tax profits or tax losses in each one of the subsequent periods, Banco Montepio considered the rates (base rate and surcharges) used to calculate deferred taxes, depending on the specific cases associated with timing differences or tax loss carry-forwards, of 30.5% and 21%, respectively.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to losses carried forward are recognized only if the existence of future taxable income is probable, for which reason the uncertainty associated with the recoverability of the tax losses carried forward is considered in the calculation of deferred tax assets.

As referred in the accounting policy described in note 1 s), 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 of the recoverability of deferred tax assets is based on the business plan used to draw up the Funding and Capital Plan submitted to the Bank of Portugal, which incorporates the macroeconomic scenario, the estimates, and the assumptions disclosed by the Bank of Portugal in the context of the pandemic caused by COVID-19, on the one hand, and the expectations regarding the impacts of the pandemic at the level of the financial markets, economic activity, and the evolution of credit risk levels, on the other.

The recovery of the profitability, liquidity and capital levels of Banco Montepio, is sought from four strategic focuses, having as the first condition the sustainability of the capital position, the growth in strategic business areas, with lower capital consumption and lower risk, the improvement of the efficiency and profitability, with a focus on cost control, and the simplification of the organizational structure and processes.

In this context, the prospects of sustainable improvements in the profitability levels derive from the following principles:

- Reduction of operating costs, eliminating redundancies, taking advantage of synergies, and simplifying the organizational structure.
- Increase in the commercial network business with growth in credit portfolios with less risk and less capital consumption, based on an appropriate management of return on capital, exploring the potential for growth in the complementary margin in cross-selling and new business areas, and leveraging the potential of the customer base of Banco Montepio, benefiting from the unique positioning of an almost bicentennial and mutualistic institution.
- The strategy outlined reflects a favourable effect at the level of net interest income, as well as of commissions, the latter evidencing the impacts of the management of the price list by adjusting it to

Banco Montepio's value proposal for each segment, defined in function of its life cycle and financial profile, as well as in terms of the growth of its "first bank" quota, leading to the progressive increase of the customer base with a greater trans actionality and level of commitment.

- Funding cost management, considering the adequacy of the liquidity position and sources of financing vis-à-vis market conditions. The increase in the deposits' portfolio reflects the objective of strengthening customer resources as the main source of financing for the activity, together with the gradual reduction in the cost of deposits, namely through the mix between demand and time deposits.
- Deleveraging in non-strategic assets with the objective of enhancing the profitability of the assets, either through the sustained decline in non-performing credit based on the improvement of credit recovery processes and the sale of portfolios, or through the reduction of trading properties.
- Positive evolution of the loan portfolio's risk profile in the new origination component, due to the change in the credit granting policy, as well as the growth strategy focus on business segments with lower risk, with favourable impacts in terms of the cost of the prospective risk and the return on the allocated capital.
- Improvement in efficiency and in the cost-to-income ratio, supported essentially by the reduction of operating costs, based on the rationalization and implementation of a set of measures outlined by the Board of Directors, as well as by the effect of the growth in the core banking product.

Following this assessment, and with reference to the 1st half of 2020 and as at 31 December 2019, Banco Montepio recognized all deferred tax assets; hence, there are no deferred tax assets to be recognized.

In addition, a sensitivity analysis was carried out considering a scenario in which profit or loss before tax evolved at a rate 10% lower than that considered in the aforementioned projections, with no impact at the level of deferred taxes being determined.

The deferred tax assets associated with tax losses carried forward, by expiry year, are presented as follows:

(euro thousand)

Expiry date	Jun 2020	Dec 2019
2027	-	42 836
2028	-	128 830
2029	42 836	-
2030	128 831	-
2032	3 519	-
	175 186	171 666

Following the approval of the Supplementary State Budget for 2020 (Law no. 27-A/2020, of 24 July), tax losses assessed in the tax periods of 2020 and 2021 are now deductible in one or more of the 12 subsequent tax periods (instead of the carry-forward period of 5 tax periods), and as from 2021 and thereafter, inclusive the deduction of tax losses carried forward may amount to 80% of the taxable income (instead of 70%). In addition, the counting of the period to deduct tax losses carried forward until tax period 2019, inclusive, is suspended during the tax periods of 2020 and 2021.

Tax recognized in net income/ (loss) and in reserves during the 1st half of 2020 and financial year 2019 originated as follows:

(euro thousand)

	Jun 2020		Dec 2019	
	Charged to net income/(loss)	Charged to reserves and retained earnings	Charged to net income/(loss)	Charged to reserves and retained earnings
Financial instruments	(2 127)	6 997	(9 081)	(10 070)
Provision/Impairment	18 534	-	(14 168)	-
Employee benefits	(79)	(188)	2 045	(734)
Tax losses carried forward	3 520	-	1 474	-
Other	(51)	30	46	-
Deferred taxes/recognise as profit/(loses)	19 797	6 839	(19 684)	(10 804)
Current taxes	1 858	-	(667)	-
	21 655	6 839	(20 351)	(10 804)

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

(euro thousand)

	Jun 2020		Jun 2019	
	%	Value	%	Value
Profit before income tax		(87 616)		8 591
Income tax based on the current nominal tax rate	(21,0)	18 399	(21,0)	(1 804)
Gains and losses associated with the transfer of equity	0,2	(156)	-	-
Municipal and State Surcharge	-	-	(0,0)	(2)
Equity contribution for the banking sector	2,1	(1 865)	(22,8)	(1 959)
Post-employment benefits and pension fund	(0,2)	196	-	-
Taxable provisions/impairment	1,5	(1 339)	(9,9)	(852)
Autonomous taxation	0,6	(488)	(5,8)	(499)
Corrections to previous periods	(2,7)	2 346	(7,2)	(617)
Effect of differences in income tax for the period	(5,8)	5 045	(13,9)	(1 197)
Other	0,6	(483)	(1,1)	(91)
Income tax for the period	(24,7)	21 655	(81,7)	(7 021)

Law no. 98/2019, of 4 September, amends the rules applicable to impairment losses recognized as at 1 January 2019, as well as impairment losses recorded in tax periods beginning before 1 January 2019 and not yet accepted for tax purposes. The new regime includes a maximum adjustment period of 5 years, i.e., until 31 December 2023.

Banco Montepio has not opted for the application of the new tax regime on impairment, for which reason, for the current and deferred tax assessment as at 31 December 2019, it estimated its taxes based on the regime that was in force until 31 December 2018.

The Tax Authority can review Banco Montepio's taxable income during a period of four years, except in the event of the carry-forward of tax losses, as well as any other deduction or tax credit, in which case the period is the period of the exercise of that right.

Banco Montepio was subject to inspection by the Tax Authority up to and including the 2017 tax period, with the inspection of the 2018 tax period being 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.

The caption Current tax assets, in the amount of Euro 9,509 thousand relates, essentially, to IRC recoverable, of which Euro 8,520 thousand relates to payments on account, additional payments on account and special payments on account.

In addition, the above-mentioned asset includes an amount of Euro 981 thousand related to the tax saving associated with the entities that contribute with a tax loss to the RETGS, for which reason said amount will be reimbursed to those entities upon the assessment of the IRC.

31 Other assets

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Assets received for credit recovery	667 162	687 852
Sundry debtors	29 590	8 342
Other debtors	40 674	44 114
Supplies - Montepio Holding	130 363	130 265
Deposits placed with courts	11 589	13 502
Other amounts receivable	2 780	2 665
Bonifications to be received from the Portuguese Government	6 797	6 338
Deferred costs	5 428	3 027
	894 383	896 105
Impairment for assets received for credit recovery	(124 421)	(124 184)
Impairment for other assets	(28 643)	(26 597)
	741 319	745 324

The caption Assets received in recovery of credit is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Assets received for credit recovery	667 162	687 852
Impairment for assets received for credit recovery	(124 421)	(124 184)
	542 741	563 668

The assets included in the caption Assets received in recovery of credit are accounted for in accordance with the accounting policy described in note 1 h).

As at 30 June 2020 the caption Assets received in recovery of credit includes the amount of Euro 1,199 thousand (31 December 2019: Euro 1,085 thousand) related to equipment resulting from the resolution of loans and advances to customers' contracts and is fully provided against.

The resolution of loans and advances to customers' contracts results from (i) the simple foreclosure, delivery with a repurchase option or delivery with a leasing option, being accounted for upon the celebration of the contract or the promissory contract to deliver the asset and the respective irrevocable power of attorney issued by the customer in Banco Montepio's name; or (ii) the adjudication of the assets as a result of a judicial guarantee execution process, being accounted for based on the title of adjudication or the adjudication request after having registered the first pledge.

Banco Montepio has implemented a plan aimed at the immediate sale of the assets received in recovery of credit. According to Banco Montepio's expectation, it is intended that these assets be available for sale in a period under 1 year and that there is a strategy for their sale. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period. The referred caption includes, as at 30 June 2020, properties for which promissory contracts to buy and sell, in the amount of Euro 16,391 thousand, have already been celebrated.

The movements, in the 1st half of 2020 and financial year 2019, in Assets received in recovery of credit are analysed as follows:

(euro thousand)

	Jun 2020	Dec 2019
Opening balance	687 852	839 990
Acquisitions	7 672	31 928
Disposals	(28 857)	(187 333)
Other movements	495	3 525
Transfers		(258)
Closing balance	667 162	687 852

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

(euro thousand)

	Jun 2020	Jun 2019
Balance at 1 January	124 184	134 639
Charge of the period	3 232	5 102
Reversal of the period	(589)	(33)
Charge off	(2 406)	(7 904)
Balance at 31 December	124 421	131 804

In addition to the impairment losses observed, Banco Montepio recognized in profit or loss, in the 1st half of 2020, gains in the amount of Euro 10,371 thousand (30 June 2019: Euro 7,121 thousand), as referred to in note 9.

As at 30 June 2020 and 31 December 2019, the caption Other debtors is analysed as follows:

(euro thousand)

	Jun 2020	Dec 2019
Silver Equation	14 910	14 910
Public entities	2 300	2 300
Other	23 464	26 904
	40 674	44 114

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

As at 30 June 2020, 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.

Additionally, the amount shown in Others, included in the caption Other debtors, also considers amounts receivable related to sales operations of non-productive assets, in accordance with the contracts signed, and also amounts invoiced by Banco Montepio with financial settlement in 2020.

The caption 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 2020 and 31 December 2019, the caption Recoverable grants receivable from the Portuguese State are presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Overdue bonifications unclaimed	2 483	2 398
Unsettled recoverable bonifications from the Portuguese Government	4 262	3 875
Unclaimed bonifications	52	65
	6 797	6 338

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

(euro thousand)

	Jun 2020	Jun 2019
Balance on 1 January	26 597	30 115
IFRS 9 transition adjustment	-	-
Charge for the period	3 202	1 379
Reversal for the period	(71)	(2 762)
Charge-off	(1 085)	(1 752)
Balance on 31 December	28 643	26 980

The impairment of Other assets includes the exposures of Supplementary capital contributions (Euro 14,910 thousand), Deposits in court (Euro 5,084 thousand), Guarantee commissions (Euro 1,637 thousand), Factoring operations (Euro 498 thousand) and Other debtors (Euro 6,514 thousand).

32 Deposits from central banks

This caption includes deposits obtained from the European System of Central Banks, which are collateralized by the pledge of securities from the portfolio of financial assets at fair value through other comprehensive income and the portfolio of other financial assets at amortized cost, as described in notes 24 and 26.

These funds are composed of three operations with maturities in March 2021, in the amount of Euro 451,791 thousand, in March 2023, in the amount of Euro 284,873 thousand and in June 2023, in the amount of Euro 899,975 thousand.

The operations are remunerated at the Bank of Portugal rates in force as at the contract date.

33 Deposits from other credit institutions

This caption is presented as follows:

(euro thousand)

	Jun 2020			Dec 2019		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	45 462	-	45 462	34 644	-	34 644
Term deposits	-	9 210	9 210	-	14 293	14 293
	45 462	9 210	54 672	34 644	14 293	48 937
Deposits from credit institutions abroad						
BEI loan	-	350 355	350 355	-	350 359	350 359
Deposits repayable on demand	51 127	-	51 127	40 137	-	40 137
Term deposits	-	128 084	128 084	-	146 987	146 987
Sales operations with repurchase agreement	-	109 620	109 620	-	109 756	109 756
Other deposits	5 074	-	5 074	5 498	-	5 498
	56 201	588 059	644 260	45 635	607 102	652 737
Adjustments arising from fair value option operations	-	-	-	-	-	-
	101 663	597 269	698 932	80 279	621 395	701 674

The amount of the EIB loan is collateralized by Portuguese, Spanish, and Italian sovereign bonds in the nominal amount of Euro 364,824 thousand (31 December 2019: Euro 388,501 thousand of the Portuguese, Greek, Spanish, Dutch, Italian, French and German States), 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 amortized cost, as described in notes 22, 24 and 26, respectively.

34 Deposits from customers

This caption is presented as follows:

(euro thousand)

	Jun 2020			Dec 2019		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	5 051 933	38 493	5 090 426	4 413 530	313 817	4 727 347
Term deposits	-	7 181 836	7 181 836	-	7 657 328	7 657 328
Saving accounts	-	126 468	126 468	-	123 952	123 952
Other deposits	21 892	-	21 892	18 919	-	18 919
Adjustments arising from fair value option operations	-	-	-	-	-	-
	5 073 825	7 346 797	12 420 622	4 432 449	8 095 097	12 527 546

Ordinance no. 180/94, of 15 December, gave rise to the incorporation of the Deposits Guarantee Fund to guarantee the reimbursement of funds deposited at credit institutions. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

In the 1st half of 2020, deposits from customers were remunerated at the average rate of 0.16% (31 December 2019: 0.26%).

35 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(euro thousand)

	Jun 2020	Dec 2019
Cash bonds	3 162	7 357
Covered bonds	1 223 750	1 255 904
	1 226 912	1 263 261

The fair value of the debt securities issued is presented in note 46.

The caption Debt securities issued includes issues recognized at fair value through profit or loss, in the amount of Euro 3,162 thousand (31 December 2019: Euro 6,611 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 in accordance with the accounting policy presented in note 1 b), with a gain having been recognized in the 1st half of 2020 in the amount of Euro 100 thousand (31 December 2019: a gain in the amount of Euro 155 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 circulation in a total amount of Euro 2,300,000 thousand, at nominal value, as at 30 June 2020 and 31 December 2019.

As at 30 June 2020, the main characteristics of the covered bonds issues in circulation are as follows:

(euro thousand)

Description	Nominal value	Value at amortized cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	*Rating (Moody´s/Fitch/Dbrs)*
Covered bonds - 6S	300 000	300 226	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A1/AA-/A
Covered bonds - 8S	500 000	500 104	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A1/AA-/A
Covered bonds - 9S	250 000	250 154	-	May 2017	May 2024	quarterly	Euribor 3M + 0,85%	A1/AA-/A
Covered bonds - 10S	750 000	763 343	763 343	October 2017	October 2022	annual	Fixed at 0,875%	A1/AA-/A
Covered bonds - 11S	500 000	460 407	460 407	November 2019	November 2024	annual	Fixed at 0.125%	A1/AA-/A
	2 300 000	2 274 234	1 223 750					

As at 31 December 2019, the main characteristics of the covered bonds issues in circulation are as follows:

(euro thousand)

Description	Nominal value	Value at amortized cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	*Rating (Moody´s/Fitch/Dbrs)*
Covered bonds - 6S	300 000	300 167	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A1/AA-/A
Covered bonds - 8S	500 000	500 105	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A1/AA-/A
Covered bonds - 9S	250 000	250 120	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A1/AA-/A
Covered bonds - 10S	750 000	759 001	759 001	October 2017	October 2022	annual	Fixed at 0.875%	A1/AA-/A
Covered bonds - 11S	500 000	496 903	496 903	November 2019	November 2024	annual	Fixed at 0.125%	A1/AA-/A
	2 300 000	2 306 296	1 255 904					

In financial year 2019, under Banco Montepio's Mortgage Bond Issuance Program, the amount of Euro 500,000 thousand, with a 5-year maturity and a fixed annual interest rate of 0.125% was issued and the issue of the series 5 mortgage bonds in the amount of Euro 500,000 thousand was repaid.

The covered bonds are guaranteed by a pool of mortgage loans which are segregated as an autonomous asset in Banco Montepio's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

The legal and regulatory framework of these bonds is set out in Decree-Law no. 59/2006, in Bank of Portugal Notices no. 5/2006, of 20 March, no. 6/2006, of 11 October, no. 7/2006, of 11 October, and no. 8/2006, of 11 October and Instruction no. 13/2006, of 15 November, of the Bank of Portugal.

As at 30 June 2020, the value of the loans collateralizing these issues amounted to Euro 2,728,716 thousand (31 December 2019: Euro 2,719,463 thousand), according to note 21.

The movements in Debt securities issued during the period ended 30 June 2020, are analysed as follows:

(euro thousand)

	Balance on 1 January	Issuance	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
Cash bonds	7 357	-	(3 900)	-	(295)	3 162
Covered bonds	1 255 904	-	-	-	(32 154)	1 223 750
	1 263 261	-	(3 900)	-	(32 449)	1 226 912

The movements in Debt securities issued during financial year 2019, are analysed as follows:

(euro thousand)

	Balance on 1 January	Issuance	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
Cash bonds	124 719	-	(114 000)	-	(3 362)	7 357
Covered bonds	753 612	500 000	-	-	2 292	1 255 904
	878 331	500 000	(114 000)	-	(1 070)	1 263 261

In accordance with the accounting policy described in note 1 b), the purchase of debt securities issued by Banco Montepio is written off from liabilities and the difference between the acquisition cost and the respective book value is recognized in the income statement.

As at 30 June 2020, the caption Debt securities issued is composed of the following issues:

(euro thousand)

Security	Issue date	Maturity date	Interest rate	Book value
CAIXA-MG BONDS FIXED RATE SEPTEMBER 2010-2020	09/09/2010	09/09/2020	Annual fixed rate of 4%	100
CAIXA-MG CAPITAL CERTO BONDS 2013/2021-1.SERIE	28/02/2013	01/03/2021	Annual fixed rate: 5.15% (3rd year rate: 5.30%; 4th year rate: 5.30%; 5th year rate: 5.90%; 6th coupon Max [5.95%; Min (IPC+2%; 8.25%)]; 7th coupon Max [6.15%; Min (IPC+2%; 8.50%)]; 8th coupon Max [6.45%; Min (IPC+2%; 8.50%)])	2 148
CAIXA-MG CAPITAL CERTO BONDS 2013/2021-2.SERIE	28/06/2013	29/06/2021	Annual fixed rate of 4.9% (3rd year rate: 5.1%, 4th year rate: 5.1%, 5th year rate: 5.65% and from 6th to 8th year: Max (5.95%; Min (IPC+2%; 8.15%))	812
Covered Bonds - 10S	17/11/2017	17/11/2022	Annual fixed rate of 0.875%	750 000
Covered Bonds - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
				1 253 060
			Adjustments of hedging operations	10 063
			Accrual based accounting, deferred income and costs	(36 211)
				1 226 912

As at 31 December 2019, the caption Debt securities issued is composed of the following issues:

(euro thousand)

Security	Issue date	Maturity date	Interest rate	Book value
CAIXA-MG BONDS FIXED RATE SEPTEMBER 2010-2020	09/09/2010	09/09/2020	Annual fixed rate of 4%	100
CAIXA- MG-CRPC BONDS 2012/2020- 1ST SERIES	30/03/2012	31/03/2020	Annual fixed rate of 5.25% (4th year: 6% e 5th year: 6.75%; 6th, 7th and 8th coupon Max [6.25% e Min (IPC+2%; 9.15%)]	3 300
CAIXA-MONTEPIO CAPITAL CERTO BONDS 2012-2020-2ªSERIE	31/05/2012	01/06/2020	Annual fixed rate of 8.2583% (4th year: 9.7083%; 5th year: 10.7250%; 6th year: 7.4750%; 7th year: 8.3% and 8th year: 11.1583%)	600
CAIXA-MG CAPITAL CERTO BONDS 2013/2021-1.SERIE	28/02/2013	01/03/2021	Annual fixed rate: 5.15% (3rd year rate: 5.30%; 4th year rate: 5.30%; 5th year rate: 5.90%; 6th coupon Max [5.95%; Min (IPC+2%; 8.25%)]; 7th coupon Max [6.15%; Min (IPC+2%; 8.50%)]; 8th coupon Max [6.45%; Min (IPC+2%; 8.50%)])	2 148
CAIXA-MG CAPITAL CERTO BONDS 2013/2021-2.SERIE	28/06/2013	29/06/2021	Annual fixed rate of 4.9% (3rd year rate: 5.1%, 4th year rate: 5.1%, 5th year rate: 5.65% and from 6th to 8th year: Max (5.95%; Min (IPC+2%; 8.15%))	812
Covered Bonds - 10S	17/11/2017	17/11/2022	Annual fixed rate of 0.875%	750 000
Covered Bonds - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
				1 256 960
			Adjustments of hedging operations	9 279
			Accrual based accounting, deferred income and costs	(2 978)
				1 263 261

36 Financial liabilities associated with assets transferred

In the scope of the securitization operations described in note 50, in respect of which Banco Montepio retained the majority of the risks and rewards associated with the securitized loans, it recorded the financial liabilities associated with the assets transferred, which are detailed as follows:

(euro thousand)

	Jun 2020	Dec 2019
Pelican Mortgages No 3	156 566	170 683
Pelican Mortgages No 4	470 028	493 637
Aqua Mortgages No 1	78 989	86 041
Pelican Mortgages No 5	471 578	496 929
Pelican Mortgages No 6	585 701	624 810
Pelican Finance No 1	52 588	67 362
	1 815 450	1 939 462

37 Provisions

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Provisions for guarantees and commitments	18 372	15 456
Provisions for other risks and charges	14 230	14 812
	32 602	30 268

The Provisions for other risks and charges were set up based on the probability of the occurrence of certain contingencies related to risks inherent to Banco Montepio's activity.

This caption includes provisions for tax contingencies (Stamp Duty, IRC, Property taxes (IMI) and TSC), lawsuits and frauds.

The movements in provisions for guarantees and commitments occurred in the 1st half of 2020 and 2019, are analysed as follows:

(euro thousand)

	Jun 2020	Jun 2019
Open balance	15 456	15 597
Charge of the period	19 947	9 109
Reversal of the period	(17 031)	(10 324)
Financial liabilities related to financial assets	-	-
Final balance	18 372	14 382

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

(euro thousand)

	Jun 2020	Jun 2019
Open balance	14 812	15 159
Charge of the period	147	986
Reversal of the period	(729)	(1 300)
Charge off	-	-
Transfers	-	-
Final balance	14 230	14 845

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 to reflect the best estimate of the loss amount.

38 Other subordinated debt

As at 30 June 2020, the main characteristics of subordinated debt, are analysed as follows:

(euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest date	Jun 2020	Dec 2019
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	52 033	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%	102 531	107 803
MONTEPIO EMTN SUB 2020/2030	Mar 2019	Jun 2030	50 000	10,5% the first 5 years and at EurSwap for 5y + Fixing ICE (FFT 11:00 AM) + 9,742%	50 277	-
FINIBANCO VALOR INVEST 2010	Feb 2010	-	15 000	7% for the first 4 coupon dates and Max[Euribor 6M + 2.75%; 5%] for the remaining years	6 323	-
					211 164	157 847

The movements in Other subordinated debt during the 1st half of 2020 and financial year 2019, were as follows:

(euro thousand)

	Jun 2020			
	Balance at 1 January	Issued	Other movements (a)	Balance on 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	1 989	52 033
MONTEPIO EMTN SUB 2019/2029	107 803	-	(5 272)	102 531
MONTEPIO EMTN SUB 2020/2030	-	50 000	277	50 277
FINIBANCO VALOR INVEST 2010	-	-	6 323	6 323
	157 847	50 000	3 317	211 164

(a) Including the accrued interest in the balance.

(euro thousand)

	Dec 2019			
	Balance at 1 January	Issued	Other movements (a)	Balance on 31 December
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	50 044
MONTEPIO EMTN SUB 2019/2029	-	100 000	7 803	107 803
	50 044	100 000	7 803	157 847

(a) Including the accrued interest in the balance.

In financial year 2019, under the Euro Medium Term Note Programme (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 100,000 thousand, with a 10-year maturity, with a rate of 10.50% in the first five years and a call option, at par, in the 5th year.

In the 1st half of 2020, under the Euro Medium Term Note Programme (EMTN) of Banco Montepio, bonds were issued in the amount of Euro 50,000 thousand, with a 10-year maturity, with a rate of 9.5% in the first five years and a call option, at par, in the 5th year.

The issue of "Finibanco Valor Invest 2010" was transferred to this liability category, as described in note 41. The main characteristics of this issue are as follows:

- Interest rate: fixed rate of 7% on the first 4 interest payment dates and on the following interest payment dates, a variable rate corresponding to the Euribor rate for the period of 6 months plus 2.75%, with a minimum of 5%;
- Maturity: Not applicable (not subject to mandatory refund);
- Refund amount: Refund at nominal value. As a result of applicable laws or regulations, including any European Union directives or regulations, which establish a legal regime for the recovery and liquidation of credit institutions (Directive 2015/59/EU of the European Parliament and of the Council, of 15 May 2014 and Law no. 23-A/2015, of 26 March), or any implementation of those in Portugal, the amounts may be used to cover the issuer's losses, and may be called upon to absorb losses.

39 Other liabilities

This caption is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Domestic and foreign operations pending settlement	136 994	95 523
Other sundry liabilities	19 023	17 108
Lease liabilities	21 637	24 904
Pension costs	11 484	14 510
Charge with staff expenses	23 917	24 471
Other expenses	8 162	30 212
Suppliers	4 327	6 765
Administrative public sector	8 822	10 574
Deferred income	338	352
	234 704	224 419

As at 30 June 2020, the caption Sundry accounts includes the amount of Euro 11,484 thousand (31 December 2019: Euro 14,510 thousand), related to net liabilities recognized in the balance sheet and that present the difference between the liabilities in pensions, health benefits, death subsidy and the assets, as per note 47.

As at 30 June 2020, the caption Lease liabilities corresponds to the amount of lease liabilities recognized in the scope of IFRS 16, as described in accounting policy 1 i), and relates to operating leases of real estate and motor vehicles.

The residual maturity of the lease liabilities is as follows:

(euro thousand)

	Jun 2020	Dec 2019
Up to 1 year	777	1 109
1 to 5 years	20 581	24 974
More than 5 years	721	902
	22 079	26 985
Accrual financial costs	(442)	(2 081)
	21 637	24 904

As at 30 June 2020, the caption Staff charges payable includes the amount of Euro 18,760 thousand (31 December 2019: Euro 18,874 thousand), related to holiday pay and subsidy. Additionally, as at 30 June 2020, this caption also includes the amount of Euro 2,421 thousand (31 December 2019: Euro 1,989 thousand) related to end-of-career awards, as per note 47.

40 Share capital

As at 30 June 2020 and 31 December 2019, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

In the 1st half of 2020, MGAM sold 7,500 (financial year 2019: 3,000) shares of Banco Montepio's share capital, which is now held as follows:

	Jun 2020		Dec 2019	
	Number of shares	Percentage	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 830 580	99.9930%	2 419 841 080	99.9934%
Other shareholders	169 420	0.0070%	158 920	0.0066%
	2 420 000 000	100.0%	2 420 000 000	100.0%

41 Other equity instruments

The issue of Euro 15,000 thousand, occurred in the 1st quarter of 2010, of Subordinated Perpetual Securities with conditional interest ("Finibanco Valor Invest 2010" – ISIN: PTFNI1OM0011) made by Montepio Investimento, S.A. (previously designated Finibanco, S.A.), and that, in the scope of the acquisition of Montepio Holding, S.G.P.S., S.A. (previously designated Finibanco Holding, S.G.P.S., S.A.) and its subsidiaries, was integrated in Banco Montepio's equity.

At the bondholders' meeting held on 29 January 2020 and ratified at the General Meeting of 30 June 2020, it was deliberated to amend the bond's technical sheet to adapt its conditions to the prudential treatment adopted.

Within the scope of the proposed changes, this instrument was reclassified to the caption Other subordinated liabilities.

42 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 43.

43 Fair value reserves, Other reserves and Retained earnings

This caption is presented as follows:

		(Euro thousand)
	Jun 2020	**Dec 2019**
Fair value reserve		
Fair value reserve		
Financial assets at fair value through other comprehensive income	(25 359)	10 230
Loans and advances to customers	288	557
Own credit risk	58	157
	(25 013)	10 944
Taxes		
Financial assets at fair value through other comprehensive income	(3 763)	(10 629)
Loans and advances to customers	(88)	(170)
	(3 851)	(10 799)
Fair value reserve net of taxes	(28 864)	145
Other reserves and retained earnings		
Legal reserve	193 266	191 969
Other reserves and retained earnings	(1 101 839)	(1 118 381)
Realized gains on equity instruments	268	268
	(908 305)	(926 144)

Fair value reserves related to financial assets at fair value through other comprehensive income represent the potential gains and losses in the portfolio of financial assets at fair value through other comprehensive income, and record the amount, of the fair value reserve, related to the loans and advances to customers' portfolio reclassified from Other financial assets at fair value through other comprehensive income to Loans and advances to customers.

The caption Loans and advances to customers records the amount of the fair value reserve related to the loans and advances to customers' portfolio reclassified to Other financial assets at fair value through other comprehensive income.

The movements in the fair value reserve related to financial assets at fair value through other comprehensive income, during the 1st half of 2020, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Recognized impairment in the period	Balance on 30 June
Fixed income securities						
Bonds issued by Portuguese public entities	14 344	(35)	(2 828)	(15 425)	772	(3 172)
Bonds issued by foreign public entities	5 739	(64)	2 006	(7 206)	601	1 076
Bonds issued by other entities:						
Domestic	(1 793)	1 260	-	183	(363)	(713)
Foreign	1 550	(105)	-	(1 675)	149	(81)
	19 840	1 056	(822)	(24 123)	1 159	(2 890)
Variable income securities						
Shares						
Domestic	7 735	-	-	-	-	7 735
Foreign	(17 345)	(12 859)	-	-	-	(30 204)
	(9 610)	(12 859)	-	-	-	(22 469)
	10 230	(11 803)	(822)	(24 123)	1 159	(25 359)

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

(Euro thousand)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Recognized impairment in the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	-	1 334	14 344	-	(1 334)	14 344
Bonds issued by foreign public entities	(5 029)	3 185	5 664	5 095	(3 176)	5 739
Bonds issued by other entities:						
Domestic	(1 699)	372	(448)	53	(71)	(1 793)
Foreign	(737)	1 391	979	44	(127)	1 550
	(7 465)	6 282	20 539	5 192	(4 708)	19 840
Variable income securities						
Shares						
Domestic	2 099	4 461	1 175	-	-	7 735
Foreign	(15 303)	(2 034)	(8)	-	-	(17 345)
	(13 204)	2 427	1 167	-	-	(9 610)
	(20 669)	8 709	21 706	5 192	(4 708)	10 230

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Amortized cost of financial assets at fair value through other comprehensive income	1 200 178	1 828 490
Recognized accumulated impairment	(4 120)	(5 279)
Amortized cost of financial assets at fair value through other comprehensive income net of impairment	1 196 058	1 823 211
Market value of financial assets at fair value through other comprehensive income	1 170 699	1 833 441
Potential realized gains/(losses) recognized in the fair value reserve	(25 359)	10 230

44 Distribution of dividends

In the 1st half of 2020 and financial year 2019, Banco Montepio did not distributed dividends.

The Annual General Meeting realized on 30 June 2020 approved the Net Income for financial year 2019, in the amount of Euro 12,971 thousand.

45 Guarantees and other commitments

The balances of these accounts are analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Guarantees granted	475 942	489 009
Commitments to third parties	1 804 740	1 338 095
Deposit and custody of securities	6 861 853	7 327 873
	9 142 535	9 154 977

The amounts of Guarantees provided, and Commitments assumed to third parties are analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Guarantees granted		
Guarantees	460 782	464 500
Letters of credit	15 160	24 509
	475 942	489 009
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	1 023 498	616 472
Potential liability with the Investors Indemnity System	1 439	1 431
Term liability to the Guarantee Deposits Fund	22 768	22 768
Securities subscription	2 972	2 872
Revocable commitments		
Revocable credit facilities	754 063	694 552
	1 804 740	1 338 095

Guarantees and standby letters granted are financial 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 alterable without the express agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Banco Montepio's customers (for example unused 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 conditions defined at the time the commitments were contracted.

Notwithstanding the particular characteristics of these commitments, the analysis of these operations follows the same basic principles of any commercial operation, namely the solvency of the underlying customer and business, with Banco Montepio requiring that these operations be adequately covered by collaterals when necessary. Considering that it is expected that the majority of these expire without having been used, the indicated amounts do not necessarily represent future cash-flow needs.

As at 30 June 2020 and 31 December 2019, the caption Term liability to the Deposits Guarantee Fund is related to the irrevocable commitment assumed by Banco Montepio, as required by law, to deliver the unrealized amounts of the annual contributions, to that Fund, if requested to do so.

As at 30 June 2020, in the scope of the Deposits Guarantee Fund, Banco Montepio pledged treasury bonds (OT 4.95% 25.10.2023), recorded as Financial assets at fair value through other comprehensive income, with a nominal value of Euro 23,000 thousand (31 December 2019: Euro 21,500 thousand), as described in note 24.

As at 30 June 2020 and 31 December 2019, the caption Potential liability - Investors' Compensation System refers to the irrevocable obligation that Banco Montepio assumed, as required by law, to deliver to that System, if actioned by same, the amounts necessary to pay its share of the indemnities due to investors.

The financial instruments accounted for as Guarantees and other commitments are subject to the same approval and control procedures applied to the loans and advances to customers' portfolio, namely regarding the assessment of the adequacy of the impairment constituted, as referred in the accounting policy described in note 1 b). The maximum credit exposure is represented by the nominal amount that could be lost related to contingent liabilities and other commitments assumed by Banco Montepio in the event of default by the respective counterparties, without considering potential loan or collateral recoveries.

46 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:

  a) Financial instruments shall be classified in level 2 if they are:
     i. valued based on models using observable market data (such as interest rate curves or exchange rates). Market interest rates are calculated based on information disseminated by financial content providers, for example Bloomberg, namely those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. The same interest rate curves are also used to project non-deterministic cash flows, such as indexers; or
     ii. valued using indicative third-party purchase prices, based on observable market data.

- 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, options and other derivative financial instruments traded on a regulated market.

- Level 2: This level includes derivative financial instruments traded on unregulated (OTC) markets that do not have an optional component.

  The valuation of these derivatives is made by discounting the cash flows from operations, using as a discounting base the market interest rate curves deemed appropriate for the currency in force at the time of the calculation. Interest rates are obtained from Bloomberg or Reuters

  Market interest rates are calculated based on information disseminated by financial content providers - Bloomberg or Reuters - specifically those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. Interest rate curves are also used to project non-deterministic cash flows such as indexers.

- Level 3: This level includes options and derivatives traded on an unregulated (OTC) market, incorporating optional elements.

Options are valued based on statistical models that consider the market values of the underlying assets and their volatilities (assuming that they are not directly observable in the market). The theoretical models used in the valuation of derivatives classified in level 3 are presented as follows:

i. For simple options, the Black-Scholes, Black, Ho and other models are used, considering the applicable volatility surfaces and their derivatives (models commonly used by the market in valuing this type of operations). Unobservable market inputs used in the valuation (implied volatilities of the subjacent) are taken from Bloomberg.
ii. For exotic options or for complex derivatives with embedded optional elements for which no valuation models are available, Banco Montepio hires specialized entities that value such assets using specific models that they develop according to generally accepted criteria and methodologies.

The valuations thus obtained are, in the case of interbank operations, compared with those used by the counterparties and, whenever it is understood that there are insufficient quality market references or that the available models do not fully apply to the characteristics of the financial instrument, specific quotations provided by an external entity, typically the counterparty of the business, are used.

The valuation of non-optional components, not adjusted for credit risk, (cash flows from the operations), is made based on their respective discounting, using a methodology similar to that used for derivatives without an optional component; even so, the derivative in question is still considered in level 3.

Financial instruments recorded in the balance sheet at amortized cost

For financial instruments recorded in the balance sheet at amortized cost, Banco Montepio calculates their fair value using valuation techniques that seek to be based on the market conditions applicable to similar operations at the reference date of the financial statements, namely the value of the respective cash flows discounted based on the interest rates considered most appropriate, that is:

- *Other loans and advances to credit institutions, Deposits from central banks, Deposits from other credit institutions and Assets with repurchase agreements*

  The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates.

  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of their fair value, considering the nature of the operations and the associated period. The rate of return of funding from the European Central Bank is negative in 0.23% for live operations as at 30 June 2020 (31 December 2019: negative in 0.4%).

  For repo associated with the reverse repo the book value was considered. For the remaining loans and advances and deposits received, the discount rate used reflects the current conditions applied by Banco Montepio to identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (money market or interest rate swap market rates, at the end of the financial period). As at 30 June 2020, the average discount rate was a negative 0.29% (31 December 2019: 0.21%) for the remaining funds.

For Loans and advances to other credit institutions a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term operations was applied. Considering the short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

- *Other financial assets at amortized cost*

These financial instruments are accounted for at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for associated factors, predominantly the credit and liquidity risks, determined in accordance with the respective market conditions and periods.

- *Loans and advances to customers without a defined maturity date and Deposits from customers repayable on demand*

Considering the short-term maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the book value is a reasonable estimate of their fair value.

- *Loans and advances to customers with a defined maturity date*

The fair value of these financial instruments is calculated by discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. For loans in default, the value, net of impairment, of these operations is a reasonable estimate of their fair value, given the economic valuation performed for the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by Banco Montepio to similar instruments for each of the homogeneous classes of this type of instrument and with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial period) and the spread used at the reporting date, calculated based on the average production of the last quarter. The average discount rate was 2.47% for mortgage loans (31 December 2019: 2.81%), 5.51% for private individual loans (31 December 2019: 5.98%) and 2.80% for the remaining loans (31 December 2019: 4.28%), assuming a projection of the variable rates that is based on macroeconomic fundamentals and on market forward rates. The calculations also include the credit risk spread.

- *Deposits from customers*

The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. The discount rate used reflects the current conditions applied by Banco Montepio to identical instruments with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial 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 2020 was 0.07% (31 December 2019: 0.15%).

- *Debt securities issued and Other subordinated debt*

  For these financial instruments, the fair value was calculated for the components which fair value is not yet reflected in the balance sheet. For the fixed interest rate instruments in respect of which Banco Montepio applies hedge accounting, the fair value related to the interest rate risk is already accounted for.

  In the fair value calculation, the other risk components were also considered, besides the interest rate risk already accounted for. Fair value is based on market quotations, whenever these are available. If these are not available, fair value is estimated using internal models, based on cash-flow discounting techniques, using the market interest rate curve adjusted by the associated factors, predominantly the credit risk and the trading margin, the latter only in the case of issues sold to non-institutional customers of Banco Montepio.

  As original reference, the interest rate swaps market curves for each specific currency are used. The credit risk (credit spread) is represented by an excess over the interest rate swaps' curve, calculated specifically for each term and class of instruments based on the market prices of equivalent instruments.

  In case of covered bond issues, the fair value is determined based on quotations disseminated by the financial content provider Bloomberg.

  As regards subordinated issues, the discount rate calculated was 5.66% (31 December 2019: 6.17%). The average discount rate calculated for senior issues placed on the retail market was a negative 0.30% (31 December 2019: 0.17%). The discount rate for the subordinated issue reflects the spreads observed on the market for comparable issues increased by a liquidity premium, considering the lower depth of the market for the subordinated debt issued by Banco Montepio.

- *Cash, Deposits at central banks and Loans and advances to credit institutions repayable on demand*

  Considering the extremely short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

It should be noted that the fair value presented may not correspond to the realization value of these financial instruments in a sale or liquidation scenario, since it has not been calculated for this purpose.

The main valuation methods, assumptions and inputs used to calculate the fair value estimate for levels 2 and 3, depending on the type of financial instrument, are presented as follows:

	Type of instruments		Valuation methods	Main assumptions
Financial assets and liabilities held for trading	Derivatives [1]	*Swaps*	Discounted Cash flow method [2]	Interest rate curves
		Exchange rate options	*Black-Scholes* Model	Implied volatilities
		Interest rate options	Normal model	Probability of default for CVA and DVA calculation
	Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premium Comparable assets [3] Market observable prices
Financial assets at fair value though profit or loss	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premium Comparable assets [3] Market observable prices
Financial assets at fair value through other comprehensive income	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premium Comparable assets [3]
Financial Assets at amortized cost	Debt securities Loans and advances outstanding		Discounted Cash Flow Method [2]	Interest rate curves Comparable assets [3] *Spreads*
Derivatives - Hedge accounting	*Swaps* [1]		Discounted Cash Flow Method [2]	Interest rate curves Implied volatilities Probability of default for CVA and DVA calculation
Financial liabilities at amortized cost	Term deposits Debt securities issued		Discounted Cash Flow Method [2]	Interest rate curves *Spreads*

(1) In derivative valuations, an adjustment to the valuation is made to take into account counterparty credit risk when the exposure is the Bank's or the credit risk of the Bank's when the exposure is the counterparty's (generally referred to by the abbreviations CVA - Credit Valuation Adjustment and DVA - Debit Valuation Adjustment).

(2) Cash-flow discounting method (net present value): this model uses the cash flows of each instrument, established in the different contracts, and discounts them to calculate their present value.

(3) Comparable assets (prices of similar assets): comparable financial instrument prices or market benchmarks are used to calculate yield from the purchase price to its current valuation, making subsequent adjustments to take into account possible differences between the revalued instrument and the reference instrument. It can also be assumed that the price of one instrument equals that of another.

Valuation adjustments for Credit Risk

Counterparty Credit Risk Valuation Adjustments ("CVA") and the Bank's Credit Risk Valuation Adjustments ("DVA") are incorporated in the valuation of OTC derivatives as a result of the risk associated with the credit exposure of the counterparty and its own, respectively.

The CVA value is calculated considering the expected exposure for each counterparty in each future term, with the CVA by counterparty being calculated by summing the various CVA values of the various future terms. The adjustments are then determined by estimating the counterparty's exposure at default (EAD), the respective probability of default (PD) and the loss given default (LGD) for all derivative financial instruments traded under the same contract negotiated with Banco Montepio with a netting clause (of the same netting set). Similarly, the DVA corresponds to the product of the negative expected exposure at default by the probability of default and by Banco Montepio's LGD.

The PD and LGD values are calibrated using market data, for the effect using the counterparty's rating and sector or historical information on the probability of default.

Changes in CVA/FVA and DVA/FVA adjustments are accounted for as gains or losses on assets and liabilities held for trading in the profit or loss. The detail of the movements of these adjustments is shown in the table.

CVA Movements

(Euro thousand)

	Jun 2020	Dec 2019
Adjustment	**547**	**446**
Of which: Derivative expiry	1	(4)

Fair value of assets received in recovery of credit

The fair value and impairment constituted for real estate assets received in recovery of credit are a function of the valuation amount and the book value of the properties. The valuation amount is equal to the lower of the following values:

- Value 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 always ensure an adequate diversification and rotation in the performance of the valuations.

Independent external appraisers follow the principles defined by:

- Notice no. 5/2006 of the Bank of Portugal (Valuation of Mortgaged Properties as a Guarantee of Loans with Mortgage requirements);
- Regulation no. 575/2013 of the European Parliament and of the Council (Prudential Requirements).

Fair value determination is made by independent appraisers duly certified for this purpose, duly registered with the CMVM, and using at least two of the following methods.

Comparative market method

This method provides an estimate of the amount by which it is understood that a particular property may be traded, after an appropriate period of trading, between an interested seller and buyer, in which both parties act in an informed, prudent and unconditional or non-coerced manner.

The value of the property is determined after analysis of comparable transaction and property offer values, obtained through knowledge of the local market and the exhaustive collection of real estate market data that provides knowledge of the supply and demand situation for similar properties, and which constitute a decisive factor in determining the Market Value of the property under valuation.

Income method

In this method, the market value of a property corresponds to the present value of all the rights to future benefits arising from its ownership.

This method assumes that property management and operation is based on the principles of legality, rationality, and competence. The purpose of the analysis is to determine its respective ability to generate revenue flows, as well as the frequency of their occurrence, as well as to infer all the inherent expenses.

Cost method

In this method, the estimated value of a property corresponds to the cost of constructing a property that fulfils the same functions and with the same material and technology characteristics, at current market prices. The value assessed includes the value of the land, construction costs and the investment promotion profit margin, as well as a deduction corresponding to the depreciation, or loss of property value, resulting from physical, functional, economic or environmental obsolescence or a combination of these.

For all valuations not based on all 3 valuation methods, the expert appraiser should consider the local market characteristics and the specific characteristics of the property under valuation. The valuation adopted shall be the lower of the values determined because it is the most prudent in terms of guarantee.

As at 30 June 2020, 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 yean**
1 day	-0.500000	0.150000	0.145000	-0.745000	-0.210000
7 days	-0.518000	0.145536	0.145000	-0.595000	-0.290000
1 month	-0.510000	0.150000	0.195000	-0.800000	-0.290000
2 months	-0.466000	0.185000	0.195000	-0.695000	-0.260000
3 months	-0.422000	0.225000	0.245000	-0.705000	-0.240000
6 months	-0.308000	0.295000	0.295000	-0.475000	-0.200000
9 months	-0.265341	0.385000	0.400000	-0.470000	-0.220000
1 year	-0.225000	0.475000	0.500000	-0.355000	-0.150000
2 years	-0.389000	0.495204	0.499377	-0.632500	-0.150037
3 years	-0.390500	0.515134	0.499377	-0.618000	-0.150037
5 years	-0.355500	0.555213	0.499377	-0.544000	-0.150037
7 years	-0.296000	0.595292	0.499377	-0.453000	-0.150037
10 years	-0.181500	0.655466	0.499377	-0.307000	-0.150037
15 years	-0.006000	0.758295	0.499377	-0.147500	-0.150037
20 years	0.065000	0.862900	0.499377	-0.147500	-0.150037
30 years	0.024000	0.895100	0.499377	-0.147500	-0.150037

As at 31 December 2019, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of Banco Montepio:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese yean
1 day	-0.510000	1.530000	0.745000	-0.745000	-0.200000
7 days	-0.499000	1.586327	0.745000	-0.770000	-0.084600
1 month	-0.438000	1.790000	0.745000	-0.755000	-0.370000
2 months	-0.411417	1.850000	0.810000	-0.725000	-0.310000
3 months	-0.383000	1.920000	0.850000	-0.695000	-0.350000
6 months	-0.324000	1.930000	0.920000	-0.650000	-0.310000
9 months	-0.285892	1.910000	0.945000	-0.580000	-0.130000
1 year	-0.249000	1.940000	0.995000	-0.590000	-0.270000
2 years	-0.293500	1.937916	0.992537	-0.607000	-0.270156
3 years	-0.238000	1.935827	0.992537	-0.558000	-0.270156
5 years	-0.119500	1.931643	0.992537	-0.436000	-0.270156
7 years	0.016000	1.927458	0.992537	-0.302000	-0.270156
10 years	0.211000	1.921190	0.992537	-0.112000	-0.270156
15 years	0.467000	1.958212	0.992537	0.094000	-0.270156
20 years	0.599000	2.027000	0.992537	0.094000	-0.270156
30 years	0.631000	2.056000	0.992537	0.094000	-0.270156

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 2020	Dec 2019	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1198	1.1234	7.225	7.415	7.605	7.455	7.452
EUR/GBP	0.9124	0.8508	7.700	8.038	8.563	8.663	8.712
EUR/CHF	1.0651	1.0854	5.410	5.582	5.890	5.920	5.935
EUR/JPY	120.66	121.94	7.950	8.275	8.760	8.875	8.940
EUR/BRL	6.1118	4.5157	27.650	23.500	21.125	19.925	19.225
EUR/AOA	646.9330	540.0370	-	-	-	-	-

Regarding exchange rates, Banco Montepio uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of Banco Montepio as at 30 June 2020 and 31 December 2019, is presented as follows:

	Jun 2020				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	914 755	914 755	914 755
Loans and deposits to credit institutions repayable on demand	-	-	70 532	70 532	70 532
Other loans and advances to credit institutions	-	-	702 076	702 076	698 148
Loans and advances to customers	1 207	-	10 851 518	10 852 725	10 656 931
Financial assets held for trading	37 341	-	-	37 341	37 341
Financial assets at fair value through profit or loss	610 716	-	-	610 716	610 716
Financial assets at fair value through other comprehensive income	-	1 170 699	-	1 170 699	1 170 699
Hedging derivatives	15 259	-	-	15 259	15 259
Other financial assets at amortized cost	-	-	3 486 912	3 486 912	3 520 472
	664 523	1 170 699	16 025 793	17 861 015	17 694 853
Financial liabilities					
Deposits from central banks	-	-	1 636 639	1 636 639	1 636 639
Deposits from other credit institutions	-	-	698 932	698 932	704 417
Deposits from customers	-	-	12 420 622	12 420 622	12 433 614
Debt securities issued	5 205	-	1 221 707	1 226 912	1 227 118
Financial liabilities related to transferred assets	-	-	1 815 450	1 815 450	1 813 986
Financial liabilities held for trading	11 355	-	-	11 355	11 355
Hedging derivatives	799	-	-	799	799
Other subordinated debt	-	-	211 164	211 164	231 752
	17 359	-	18 004 514	18 021 873	18 059 680

	Dec 2019				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 003 648	1 003 648	1 003 648
Loans and deposits to credit institutions repayable on demand	-	-	51 993	51 993	51 993
Other loans and advances to credit institutions	-	-	532 033	532 033	528 394
Loans and advances to customers	1 207	-	10 919 963	10 921 170	10 778 902
Financial assets held for trading	29 904	-	-	29 904	29 904
Financial assets at fair value through profit or loss	654 438	-	-	654 438	654 438
Financial assets at fair value through other comprehensive income	-	1 833 441	-	1 833 441	1 833 441
Hedging derivatives	11 148	-	-	11 148	11 148
Other financial assets at amortized cost	-	-	2 793 157	2 793 157	2 821 127
	696 697	1 833 441	15 300 794	17 830 932	17 712 995
Financial liabilities					
Deposits from central banks	-	-	1 291 033	1 291 033	1 291 033
Deposits from other credit institutions	-	-	701 674	701 674	707 958
Deposits from customers	-	-	12 527 546	12 527 546	12 529 701
Debt securities issued	6 587	-	1 256 674	1 263 261	1 263 092
Financial liabilities related to transferred assets	-	-	1 939 462	1 939 462	1 939 835
Financial liabilities held for trading	11 098	-	-	11 098	11 098
Hedging derivatives	547	-	-	547	547
Other subordinated debt	-	-	157 847	157 847	172 668
	18 232	-	17 874 236	17 892 468	17 915 932

The following table summarizes, by valuation levels, the fair value of Banco Montepio's financial assets and liabilities, as at 30 June 2020:

	Jun 2020				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial assets					
Cash and deposits at central banks	914 755	-	-	-	914 755
Loans and deposits to credit institutions repayable on demand	70 532	-	-	-	70 532
Other loans and advances to credit institutions	-	-	698 148	-	698 148
Loans and advances to customers	-	1 207	10 655 724	-	10 656 931
Financial assets held for trading	33 574	3 767	-		37 341
Financial assets at fair value through profit or loss	6 823	-	603 893		610 716
Financial assets at fair value through other comprehensive income	1 065 851	8 233	95 488	1 127	1 170 699
Hedging derivatives	-	15 259	-	-	15 259
Other financial assets at amortized cost	3 520 472	-	-	-	3 520 472
	5 612 007	28 466	12 053 253	1 127	17 694 853
Financial liabilities					
Deposits from central banks	1 636 639	-	-	-	1 636 639
Deposits from other credit institutions	-	-	704 417	-	704 417
Deposits from customers	-	-	12 433 614	-	12 433 614
Debt securities issued	-	5 205	1 221 913	-	1 227 118
Financial liabilities related to transferred assets			1 813 986		1 813 986
Financial liabilities held for trading	-	11 355	-	-	11 355
Hedging derivatives	-	799	-	-	799
Other subordinated debt	-	-	231 752	-	231 752
	1 636 639	17 359	16 405 682	-	18 059 680

The following table summarizes, by valuation levels, the fair value of Banco Montepio's financial assets and liabilities, as at 31 December 2019:

	Dec 2019				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial assets					
Cash and deposits at central banks	1 003 648	-	-	-	1 003 648
Loans and deposits to credit institutions repayable on demand	51 993	-	-	-	51 993
Other loans and advances to credit institutions	-	-	528 394	-	528 394
Loans and advances to customers	-	1 207	10 777 695	-	10 778 902
Financial assets held for trading	13 009	4 056	12 839	-	29 904
Financial assets at fair value through profit or loss	7 551	-	646 887	-	654 438
Financial assets at fair value through other comprehensive income	1 726 281	10 548	95 581	1 031	1 833 441
Hedging derivatives	-	11 148	-	-	11 148
Other financial assets at amortized cost	2 821 127	-		-	2 821 127
	5 623 609	26 959	12 061 396	1 031	17 712 995
Financial liabilities					
Deposits from central banks	1 291 033	-	-	-	1 291 033
Deposits from other credit institutions	-	-	707 958	-	707 958
Deposits from customers	-	-	12 529 701	-	12 529 701
Debt securities issued	-	6 587	1 256 505	-	1 263 092
Financial liabilities related to transferred assets	-	-	1 936 835	-	1 936 835
Financial liabilities held for trading	-	11 098	-	-	11 098
Hedging derivatives	-	547	-	-	547
Other subordinated debt	-	-	172 668	-	172 668
	1 291 033	18 232	16 603 667	-	17 912 932

47 Post-employment and long-term benefits

Banco Montepio assumed the responsibility to pay its employees old-age and disability pensions and other benefits, in accordance with the accounting policy described in note 1 s). In addition, and in accordance with the same policy, Banco Montepio calculates at least once a year, with reference to 31 December of each year, the liabilities with retirement pensions and other benefits. This also occurs whenever the changes substantiated on the main actuarial assumptions so determine.

Nevertheless, it should be referred that Banco Montepio considers it adequate to calculate said liabilities with reference to 30 June 2020.

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.

To the respective beneficiaries are guaranteed all social benefits, on the terms, conditions and values included in the pension plan in the quality of employees who at their retirement date are in the service of Banco Montepio, or as employees who had been permanent employees of same and at their retirement date meet all the enforceability requirements defined in the pension plan.

The pension provided by the Pension Fund is that corresponding to the employee's level at retirement and respective seniority payments, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund ("Caixa 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 Pension 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 2020	**Dec 2019**
Financial assumptions		
Salary growth rate	0.75%	0.75%
Pension growth rate	0.50%	0.50%
Rate of return of Fund	1.70%	1.50%
Discount rate	1.70%	1.50%
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 year	TV 88/90 -3 year
Actuarial valuation method	UCP	UCP

The assumptions used in calculating the present value of the liabilities are in accordance with the requirements defined by IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices, for high-quality corporate bonds, and (ii) duration of the liabilities. As at 30 June 2020, the average duration of the pension liabilities of the employees is 19.3 years (31 December 2019: 19.6 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	Jun 2020	**Dec 2019**
Active	3 266	3 269
Retirees and survivors	1 314	1 310
	4 580	4 579

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

(Euro thousand)

	Jun 2020	Dec 2019
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(304 312)	(318 382)
Active	(438 803)	(453 150)
	(743 115)	(771 532)
Liabilities with healthcare benefits		
Pensioners	(22 047)	(22 821)
Active	(40 963)	(42 514)
	(63 010)	(65 335)
Liabilities with death benefits		
Pensioners	(1 860)	(1 909)
Active	(1 743)	(1 785)
	(3 603)	(3 694)
Total liabilities	(809 728)	(840 561)
Coverages		
Pension Fund value	798 243	826 051
Net assets/(liabilities) in the balance sheet	(11 485)	(14 510)
Accumulated actuarial remeasurements recognized in other comprehensive income	285 639	290 857

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

(Euro thousand)

	Jun 2020				Dec 2019			
	Pension benefits	Healthcare benefits	Death benefits	Total	Pension benefits	Healthcare benefits	Death benefits	Total
Liabilities at the beginning of the financial year	771 532	65 335	3 694	840 561	675 843	55 028	2 973	733 844
Recognized in net income/(loss) (note 11)								
Changes in liabilities				-				-
Current service cost	2 446	889	39	3 374	4 726	1 415	58	6 199
Interest cost	5 786	490	28	6 304	15 206	1 238	67	16 511
Early retirement, mutually agreed termination and others	50	-	-	50	344	-	-	344
Recognized in equities (Note 43)								
Actuarial gains/(losses)								
- Changes in assumptions	(27 127)	(2 677)	(178)	(29 982)	79 904	-	-	79 904
- Not related to changes in assumptions	703	(1 027)	20	(304)	15 408	7 654	596	23 658
Change in retirement age	-	-	-	-	-	-	-	-
Other								
Pensions paid by the Fund	(10 122)	-	-	(10 122)	(19 482)	-	-	(19 482)
Pensions paid by Banco Montepio	(1 340)	-	-	(1 340)	(2 764)	-	-	(2 764)
Participant contributions	1 187	-	-	1 187	2 347	-	-	2 347
Liabilities at the end of the financial year	743 115	63 010	3 603	809 728	771 532	65 335	3 694	840 561

The evolution of the Pension Fund's net asset value in the period ended 30 June 2020 and in financial year ended 31 December 2019 can be analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Value of the Fund at the beginning of the financial year	826 051	715 388
Recognized in net income/(loss) (note 11)		
Share of net interest	6 195	16 097
Recognized in equity (note 43)		
Financial deviations	(25 068)	26 701
Others		
Contributions from Banco Montepio	-	85 000
Participant Contributions	1 187	2 347
Pensions paid by the Fund	(10 122)	(19 482)
Value of the Fund at the end of the financial year	798 243	826 051

No additional contributions to the defined benefit plans are foreseen for the following financial year since it is expected that the Pension Fund's return will be sufficient to cover for the changes in the liabilities.

As at 30 June 2020, Banco Montepio participates in 98.67% (31 December 2019: 97.2%) in the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A..

As at 30 June 2020 and 31 December 2019, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	Jun 2020				Dec 2019			
	Assets of the Fund	**%**	**Quoted**	**Unquoted**	**Assets of the Fund**	**%**	**Quoted**	**Unquoted**
Variable-income securities								
Shares	42 853	5%	42 853	-	45 602	6%	45 602	-
Shares investment funds	109 577	14%	-	109 577	105 139	13%	-	105 139
Bonds	567 373	71%	503 143	64 230	523 449	63%	468 878	54 571
Real Estate	5 500	1%	-	5 500	5 420	1%	-	5 420
Real Estate investment funds	33 781	4%	202	33 579	34 252	4%	676	33 576
Venture capital funds	5 268	1%	-	5 268	5 562	1%	-	5 562
Loans and advances in banks and other	33 891	4%	-	33 891	106 627	13%	-	106 627
	798 243	100%	546 198	252 045	826 051	100%	515 156	310 895

The assets of the Pension Fund related to securities, real estate and loans and advances to banks that are Banco Montepio entities are analysed as follows:

(Euro thousand)

	Jun 2020	**Dec 2019**
Loans and advances in banks and other	33 891	106 627
Real Estate	5 500	5 420
Bonds	2 085	2 081
	41 476	114 128

The evolution of the remeasurements in the balance sheet are analysed as follows:

(Euro thousand)

	Jun 2020	**Dec 2019**
Actuarial gains/(losses) at the beginning of the financial year	290 857	213 996
Actuarial gains/(losses) in the financial year		
Changes in the discount rate	(29 982)	109 589
Payroll update	-	(29 685)
Deviation of the Pension Fund return	25 068	(26 701)
Other changes	(304)	23 658
Actuarial gains/(losses) recognized in other comprehensive income	285 639	290 857

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

(Euro thousand)

	Jun 2020	Jun 2019
Current service cost	3 374	3 096
Net interest income/(expense) on the liabilities coverage balance	109	207
Costs with early retirement, mutually agreed termination and other	50	81
Costs for the financial year	3 533	3 384

The evolution of net assets/(liabilities) in the balance sheet, in the period ended 30 June 2020 and financial year ended 31 December 2019, is analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
At the beginning of the financial year	(14 510)	(18 456)
Contributions by Banco Montepio	-	85 000
Current service cost	(3 374)	(6 199)
Net interest income/(expense) on the liabilities coverage balance	(109)	(414)
Actuarial gains/(losses)	30 286	(103 562)
Financial gains/(losses)	(25 068)	26 701
Pensions paid by Banco Montepio	1 340	2 764
Early retirement, mutually agreed termination and other	(50)	(344)
At the end of the financial year	(11 485)	(14 510)

The actuarial assumptions have a significant impact on the liabilities for pensions and other benefits. Thus, Banco Montepio performed a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the effect on the value of pension liabilities, which impact is analysed as follows:

(Euro thousand)

	Jun 2020		Dec 2019	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0,25% change)	(34 349)	36 651	(35 657)	38 047
Salary growth rate (0,25% change)	25 260	(23 362)	26 222	(24 252)
Pension growth rate (0,25% change)	32 085	(30 685)	33 307	(31 853)
SAMS contribution (0,25% change)	3 585	(3 586)	3 722	(3 722)
Future mortality (1 year change)	(24 857)	24 820	(25 804)	25 765

As at 30 June 2020, the cost associated with the end-of-career awards amounted to Euro 2,421 thousand (31 December 2019: Euro 1,989 thousand), in accordance with the accounting policy described in note 1 r) and as per note 39.

48 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 2020 and 31 December 2019, the amount of the funds for which Banco Montepio acts as depository bank is analysed as follows:

(Euro thousand)

	Jun 2020	Dec 2019
Securities investment funds	146 622	171 457
Real Estate investment funds	553 563	550 669
Pension funds	243 155	249 258
Bank and insurance	963	996
	944 303	972 380

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

49 Related parties

As defined in IAS 24, the companies detailed in note 55, the Pension Fund, the members of the Corporate Bodies and the key management personnel are considered related parties of Banco Montepio. In addition to the members of the Corporate Bodies and the key management personnel, their family and entities controlled by them or in which management they have significant influence are also considered related parties.

According to Portuguese law, namely under article no. 85 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 2020, the list of related parties considered by Banco Montepio is presented as follows:

Majority shareholder
Montepio Geral Associação Mutualista

Board of Directors
Chairman of the Board of Directors
Carlos Manuel Tavares da Silva (1)
Non-executive members
Manuel Ferreira Teixeira
Amadeu Ferreira de Paiva
Carlos Francisco Ferreira Alves (2)
José da Cunha Nunes Pereira (3)
Pedro Jorge Gouveia Alves
Rui Pedro Brás de Matos Heitor
Vítor Manuel do Carmo Martins
Executive Commitee
Chairman of the Executive Committe
Pedro Manuel Moreira Leitão (4)
Executive members
Dulce Maria Pereira Cardoso Mota Jorge Jacinto (5)
Helena Catarina Gomes Soares de Moura Costa Pina
José Carlos Sequeira Mateus
Leandro Rodrigues da Graça Silva
Nuno Cardoso Correia da Mota Pinto
Pedro Miguel Nunes Ventaneira
Audit Committe
Chairman of the Audit Committe
Manuel Ferreira Teixeira
Members
Amadeu Ferreira de Paiva
Carlos Francisco Ferreira Alves
José da Cunha Nunes Pereira
Vítor Manuel do Carmo Martins

Board of Directors of Other Related Parties
Aldina Antónia da Costa Romaneiro
Amândio Manuel Carrilho Coelho
António Manuel de Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
Carlos Vicente Morais Beato
Edite da Encarnação Paiva Baptista Cheira
Fernanda Maria da Costa Simões Brázia
Fernando Ferreira Santo
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco José Gonçalves Simões
Idália Maria Marques Salvador Serrão
Isabel Margarida Carvalho Simões Cidrais Guimarães
Isabel Maria Loureiro Alves Brito
Joana Cristina Veiga Carvalho Barbosa
João Andrade Lopes
João António Morais da Costa Pinto
João Carlos Carvalho das Neves
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
Joaquim Mariano Gargana Cabaço
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José António Truta Pinto Rabaça
José Luís Esparteiro da Silva Leitão
José Mendes Alfaia
Laura Catarina Simões Cardoso Duarte Teodósio
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Gabriel Moreira Maia de Almeida
Luís Paulo da Silva Mendes
Manuel Carlos Costa da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Dalila Correia Araújo Teixeira
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues

Board of Directors of Other Related Parties (cint.)
Maria Margarida Carrusca Pontes do Rosário Ribeiro de Andrade
Maria Rosa Almas Rodrigues
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
Rui Miguel Alves Eugénio de Sousa de Nápoles
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe
Vítor Manuel Lopes Marques Saraiva

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 Boavista Coelho
António José Miranda Lopes Coutinho
António Miguel Coelho Oliveira
Armando Jorge Pereira Oliveira Lopes
Armando José Lemos Cardoso
Bruno Manuel Ferro Espadanal Torres Magalhães
Carlos Alberto Figueiral Azevedo
Daniel Maximino Caçador
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Filipa Castro Costa
Filipe José Silva Rocha
Gabriel Fernando Sá Torres
Helder Ferreira Reis
Hélio Miguel Gomes Marques
Inês Maria Pinho Mourinho Oliveira Sousa Dargan
Jaquelina Maria Almeida Rodrigues Miguens
João Tiago Maia Barros Silva Teixeira
Joaquim António Canhoto Gonçalves Silva
Jorge Humberto Cruz Barros Jesus Luís
José Luís Dias Jesus
José Miguel Carneiro Mello
Luis Filipe Pereira Cruz Nunes
Luís Miguel Oliveira Melo Correia
Manuel Fernando Caixado Castanho
Maria Carmo Martins Ventura Calvão
Maria Eduarda Madureira Osório Botelho Fernandes
Maria Fernanda Infante Melo Costa Correia
Miguel Alexandre Teixeira Coelho
Mónica Susana Martins Ferreira Sousa Araújo
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Paulo Miguel Ferreira Trindade
Pedro Jorge Ponte Araújo
Pedro Miguel Soares Vieira
Pedro Nuno Coelho Pires
Ricardo Artur Silva Ribeiro
Rui Jorge Correia Pereira Santos
Rui Luís Magalhães Moura
Rui Sérgio Carvalho Santos Calheiros Gama
Sandra Maria Santos Gameiro Henriques Jesus Brito Pereira
Sanguini Shirish
Susana Cristina Costa Pinheiro
Tânia Carina Cardoso Madeira
Tiago Luís Marques Coelho Martins
Tiago Miguel Fidalgo Oliveira Coito
Vasco Francisco Coelho Almeida
Vítor António Santos Ventura
Vitor Fernando Santos Cunha

(1) Mr. Carlos Tavares was in office as Chairman of the Board of Directors and Chairman of the Executive Committee, cumulatively, on the terms authorized by the Bank of Portugal, until 11 February 2019, date as from which he took up office as Chairman of the Board of Directors.

(2) Mr. Carlos Ferreira Alves, elected at the Universal General Assembly of 30 October 2018, was authorized by the Bank of Portugal on 27 December 2018, having taken up office on 15 January 2019.

(3) Mr. José da Cunha Nunes Pereira, elected at the Universal General Assembly of 5 December 2019, was authorized by the Bank of Portugal on 16 March 2020, having taken up office on 1 April 2020.

(4) Mr. Pedro Manuel Moreira Leitão, elected at the Universal General Assembly of 5 December 2019, was authorized by the Bank of Portugal on 21 December 2019, having taken up office as Chairman of the Executive Committee on 9 January 2020.

(5) Ms. Dulce Mota, elected via a Unanimous Written Resolution on 23 November 2018 and authorized by the Bank of Portugal on 8 January 2019, having taken up office on 8 January 2019. In the quality of Executive Vice-chairman, she exercised the office of Chairman of the Executive Committee, as substitute, during the period between 11 February 2019 and 08 January 2020.

Other Related Parties

Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.
Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto
CESource, ACE
Clínica CUF Belém, S.A.
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior, S.A.
Finibanco Angola, S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
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.
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 - Sociedade Gestora de Organismos de Investimento Coletivo, 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 Organismos de Investimento Coletivo, S.A.
N Seguros, S.A.
Naviser - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
NovaCâmbios - Instituição de Pagamento, S.A.
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.
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.

Related parties resulting from the shareholding held in Finibanco Angola, SA:

Audiconta – Contabilistas e Peritos Contabilistas,Lda.
Banco de Negócios Internacional, S.A. (BNI)
Bifashion
Chamavo e Companhia
Cominder Comércio e Industria
Consar Gestão de Empreendimentos e Serviços
Fundação Mucusso
Gelcon Holding Company
Gesimet Industria Siderugica de Angola, S.A.
Grupo Gema
Himoinsa Angola
Medabil Angola
Novacal
Porto Seco da Mulemba
Shafaris
Vauco Automóveis e Equipamentos

As at 30 June 2020, the assets held by Banco Montepio in respect of related parties, represented or not by securities, included in the captions Deposits and loans to other credit institutions repayable on demand, Other loans and advances to other credit institutions, Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other assets, Guarantees and commitments assumed and Provisions for guarantees and other commitments assumed, are presented as follows:

(Euro thousands)

	Jun 2020									
Companies	Deposits from other credit institutions	Financial assets held at other credit institutions	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value throught other comprehensive income	Impairment of financial assets at fair value throught other comprehensive income	Other assets	Guarantees and commitments provided	Provisions for guarantees and commitments provided	Total
Board of Directors	-	-	639	-	-	-	-	-	-	639
Board of Directors of other	-	-	2 450	1	-	-	-	8	-	2 457
Other key management personnel	-	-	4 248	3	-	-	-	-	-	4 245
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	-	-	-	-	-	6	4 565	-	4 571
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-		32	-	-	32
CESource, ACE	-	-	-	-	-	-	49	-	-	49
Finibanco Angola, S.A.	22 832	-	-	-	-	-	117	40 839	-	63 788
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	2	2	-	-	13	-	-	13
Germont – Empreendimentos Imobiliários, S.A.	-	-	6 594	306	-	-	-	5 431	-	11 719
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	-	500	-	500
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	1	-	-	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	1 648	40	-	46	-	1 654
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	415	-	-	-	-	415
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	383 070	-	-	-	-	155	5 826	-	389 051
Montepio Geral Associação Mutualista	-	-	2	6	-	-	1 861	382	1	2 238
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	-	-	1	-	5	-	-	6
Montepio Gestão de Ativos Imobiliários, ACE	-	-	-	-	-	-	2 256	-	-	2 256
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	-	130 422	-	-	130 422
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	7 623	165	-	-	-	-	-	7 458
Montepio Investimento, S.A.	-	180 019	3	638	-	-	462	320 181	2	500 025
Montepio Valor - S.G.O.I.C., S.A.	-	-	-	-	-	-	102	-	-	102
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	555	49	-	-	-	1 554	3	2 057
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	200	-	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	150	-	150
Residências Montepio, Serviços de Saúde, S.A.	-	-	1 015	26	-	-	28	500	-	1 517
	22 832	563 089	23 132	1 197	2 064	40	135 508	380 182	6	1 125 564

As at 31 December 2019, assets held by Banco Montepio in respect of related parties, represented or not by securities, included in the captions Deposits and loans to with other credit institutions repayable on demand, Other loans and advances to other credit institutions, Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other assets, Guarantees and commitments assumed and Provisions for guarantees and other commitments assumed, are presented as follows:

(Euros thousand)

	Dec 2019									
Companies	Deposits from other credit institutions	Financial assets held at other credit institutions	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value throught other comprehensive income	Impairment of financial assets at fair value throught other comprehensive income	Other assets	Guarantees and commitments provided	Provisions for guarantees and commitments provided	Total
Board of Directors	-	-	664	-	-	-	-	-	-	664
Board of Directors of other	-	-	2 499	1	-	-	-	8	-	2 506
Other key management personnel	-	-	3 600	3	-	-	-	-	-	3 597
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	-	-	-	-	-	6	-	-	6
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-		41	-	-	41
CESource, ACE	-	-	-	-	-	-	49	-	-	49
Finibanco Angola, S.A.	22 659	-	-	-	-	-	119	56 873	17	79 634
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	-	13	-		14
Germont – Empreendimentos Imobiliários, S.A.	-	-	69	18	-	-	-	11 931	18	11 964
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	-	500	1	499
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	923	58	93	46	-	1 004
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	415	-	-	-	-	415
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	358 937	-	-	-	-	62	36 020	53	394 966
Montepio Geral Associação Mutualista	-	-	5	-	-	-	5 465	382	-	5 852
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	-	-	2	-	-	-	-	2
Montepio Gestão de Ativos Imobiliários, ACE	-	-	-	-	-		2 877	-	-	2 877
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	-	130 325	-	-	130 325
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	7 544	56	-	-	-	-	-	7 488
Montepio Investimento, S.A.	-	25 000	17	3	-	-	145	181	2	25 338
Montepio Valor - S.G.O.I.C., S.A.	-	-	-	-	-	-	48	-	-	48
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	968	17	-	-	-	1 354	10	2 295
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	200	-	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-		-	-	-	-	2 000	3	1 997
Residências Montepio, Serviços de Saúde, S.A.	-	-	646	5	-	-	9	500	1	1 149
	22 659	383 937	16 014	103	1 340	58	139 252	109 995	105	672 931

As at 30 June 2020, Banco Montepio's liabilities in respect of related parties, included in the captions Deposits from other credit institutions, Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thousand)

	Jun 2020				
Companies	Deposits from other credit institutions	Deposits from customers	Debt securities issued and other subordinated debt	Other liabilities	Total
Board of Directors	-	1 669	-	-	1 669
Board of Directors of other	-	3 592	-	-	3 592
Other key management personnel	-	2 468	-	-	2 468
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	129 757	-	-	-	129 757
Bolsimo - Gestão de Activos, S.A.	-	6 634	-	-	6 634
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	19 398	-	-	19 398
Clínica CUF Belém, S.A.	-	29	-	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	9	-	-	9
Empresa Gestora de Imóveis da Rua do Prior S.A	-	178	-	-	178
Finibanco Angola, S.A.	27 651	-	-	4 300	31 951
Fundação Montepio Geral	-	913	-	-	913
Fundo de Pensões - Montepio Geral	-	44 981	2 100	-	47 081
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	1 361	-	-	1 361
Germont – Empreendimentos Imobiliários, S.A.	-	1 350	-	-	1 350
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	175	-	-	175
In Posterum, A.C.E.	-	93	-	-	93
Lusitania Vida, Companhia de Seguros, S.A.	-	11 294	-	-	11 294
Lusitania, Companhia de Seguros, S.A.	-	3 341	-	-	3 341
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	15 192	-	-	15 192
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	6 573	-	-	6 573
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	27 701	-	-	27 701
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	1 440	-	-	1 440
Montepio Geral Associação Mutualista	-	128 822	190 316	-	319 138
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	1 724	-	-	1 724
Montepio Gestão de Activos Imobiliários, ACE	-	2 745	-	-	2 745
Montepio Holding, S.G.P.S., S.A.	-	23 061	-	333	23 394
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	125	-	-	125
Montepio Investimento, S.A.	6 209	-	-	1 290	7 499
Montepio Residências para Estudantes, S.A.	-	565	-	-	565
Montepio Seguros, S.G.P.S., S.A.	-	1 228	-	-	1 228
Montepio Valor - S.G.O.I.C., S.A.	-	5 177	-	-	5 177
N Seguros, S.A.	-	599	-	-	599
NovaCâmbios - Instituição de Pagamento, S.A.	-	514	-	-	514
PEF - Fundo de Investimento Imobiliário Fechado	-	2 957	-	-	2 957
Polaris-Fundo de Investimento Imobiliário Fechado	-	223	-	-	223
Residências Montepio, Serviços de Saúde, S.A.	-	95	-	-	95
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	59	-	-	59
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 864	-	-	2 864
Sociedade Portuguesa de Administrações, S.A.	-	154	-	-	154
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	17 986	-	447	18 433
	163 617	337 289	192 416	6 370	699 692

As at 31 December 2019, Banco Montepio's liabilities in respect of related parties, included in the captions Deposits from other credit institutions, Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thousand)

	Dec 2019				
Companies	Deposits from other credit institutions	Deposits from customers	Debt securities issued and other subordinated debt	Other liabilities	Total
Board of Directors	-	1 881	-	-	1 881
Board of Directors of other	-	3 640	-	-	3 640
Other key management personnel	-	2 088	-	-	2 088
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	147 357	-	-	-	147 357
Bolsimo - Gestão de Activos, S.A.	-	358	-	-	358
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	50 152	-	-	50 152
Clínica CUF Belém, S.A.	-	29	-	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	2	-	-	2
Empresa Gestora de Imóveis da Rua do Prior S.A	-	113	-	-	113
Finibanco Angola, S.A.	27 072	-	-	-	27 072
Fundação Montepio Geral	-	918	-	-	918
Fundo de Pensões - Montepio Geral	-	87 682	2 100	-	89 782
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	327	-	-	327
Germont – Empreendimentos Imobiliários, S.A.	-	1 125	-	-	1 125
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	71	-	-	71
In Posterum, A.C.E.	-	100	-	-	100
Lusitania Vida, Companhia de Seguros, S.A.	-	19 297	-	-	19 297
Lusitania, Companhia de Seguros, S.A.	-	2 998	-	-	2 998
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	15 292	-	-	15 292
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	6 012	-	-	6 012
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	27 824	-	-	27 824
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	2 457	-	-	2 457
Montepio Geral Associação Mutualista	-	131 971	140 105	-	272 076
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	1 830	-	-	1 830
Montepio Gestão de Activos Imobiliários, ACE	-	2 388	-	-	2 388
Montepio Holding, S.G.P.S., S.A.	-	16 487	-	333	16 820
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	22	-	-	22
Montepio Investimento, S.A.	5 093	-	-	447	5 540
Montepio Residências para Estudantes, S.A.	-	526	-	-	526
Montepio Seguros, S.G.P.S., S.A.	-	1 021	-	-	1 021
Montepio Valor - S.G.O.I.C., S.A.	-	5 236	-	-	5 236
N Seguros, S.A.	-	327	-	-	327
NovaCâmbios - Instituição de Pagamento, S.A.	-	1 150	-	-	1 150
PEF - Fundo de Investimento Imobiliário Fechado	-	617	-	-	617
Polaris-Fundo de Investimento Imobiliário Fechado	-	71	-	-	71
Residências Montepio, Serviços de Saúde, S.A.	-	560	-	-	560
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	32	-	-	32
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 948	-	-	2 948
Sociedade Portuguesa de Administrações, S.A.	-	189	-	-	189
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	16 929	-	447	17 376
	179 522	404 670	142 205	1 227	727 624

As at 30 June 2020, Banco Montepio's income and expenses with related parties, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income/(expense), Staff costs, and General and administrative expenses, are analysed as follows:

(Euro thousand)

	Jun 2020					
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	Staff costs	General and administrative expenses
Board of Directors	-	3	2	1	-	-
Board of Directors of other	12	8	5	1	-	-
Other key management personnel	36	8	5	1	-	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	1 064	-	49	(36)	-
Bolsimo - Gestão de Ativos, S.A.	-	-	1	-	-	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	5	64	-	-	-
CESource, ACE	-	-	-	-	(288)	-
Finibanco Angola, S.A.	-	-	-	-	(69)	-
Fundação Montepio Geral	-	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	24	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	6	1 277	-	-	-
Germont – Empreendimentos Imobiliários, S.A.	299	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	24	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	11	2 665	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	10	3 568	13	-	-
Montepio Arrendamento - F.I.I. Fechado para Arrendamento Habitacional	-	-	30	1	-	-
Montepio Arrendamento II - F.I.I. Fechado para Arrendamento Habitacional	-	-	14	1	-	-
Montepio Arrendamento III - F.I.I. Fechado para Arrendamento Habitacional	-	-	52	1	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	1 411	-	7	94	(138)	-
Montepio Geral Associação Mutualista	8	7 368	644	3	(9 442)	1 102
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	1	5	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	(2 863)	1 477
Montepio Imóveis – Sociedade Imobiliária, S.A.	322	5	-	-	-	-
Montepio Investimento, S.A.	442	-	14	211	(388)	-
Montepio Residências para Estudantes, S.A.	-	2	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-		42	-	-	-
Montepio Valor - S.G.O.I.C., S.A.	-		144	86	(294)	-
NovaCâmbios - Instituição de Pagamento, S.A.	51	-	87	6	-	-
PEF - Fundo de Investimento Imobiliário Fechado	-	-	6	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	1	-	2	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	32	-	27	-	(56)	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	12	1	-	-	-
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	-	1	-	-	-
	2 638	8 527	8 665	468	(13 574)	2 579

The caption Other administrative expenses includes the amount of Euro 1,477 thousand (31 December 2019: Euro 1,534 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

As at 30 June 2019, Banco Montepio's income and expenses with related parties, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income/(expense), Staff costs, and General and administrative expenses, are analysed as follows:

(Euro thousand)

	Jun 2019					
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	Staff costs	General and administrative expenses
Board of Directors	-	1	-	-	-	-
Board of Directors of other	4	5	2	-	-	-
Other key management personnel	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)	-
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	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	5	2 010	-	-	-
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 Investimento, S.A.	-	-	3	-	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	(1 285)	1 534
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 Valor - S.G.O.I.C., 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	-	-	-	-
	2 767	6 920	6 906	271	(7 053)	4 215

Remuneration and social charges with the members of the Board of Directors (including members of the Audit Committee), and Other key management personnel are detailed in note 11.

In the period ended 30 June 2020 and financial year 2019, there were no transactions with Banco Montepio's Pension Fund.

50 Securitization of assets

As at 30 June 2020, there are six securitization 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 referred to in the accounting policy described in note 1 a).

We present next some additional details of these securitization operations.

As at 30 March 2007, Banco Montepio celebrated a mortgage loan securitization contract with Sagres – Sociedade de Titularização de Créditos, S.A. (Sagres), Pelican Mortgages no. 3. The total period of the operation is 47 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The sale was made at par, with the initial sale process costs representing 0.0165% of par.

As at 20 May 2008, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, *Pelican Mortgages* no. 4. The total period of the operation is 48 years, without a revolving period and with a fixed limit

(Aggregate Principal Amount Outstanding) of Euro 1,028,600 thousand. The sale was made at par, with the initial sale process costs representing 0.083% of par.

As at 9 December 2008, Montepio Investimento S.A. (at that date, Finibanco, S.A.) sold a mortgage loan portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus), in the amount of Euro 236,500 thousand (Aqua Mortgages no. 1). The total period of this operation is 55 years, with a revolving period of 2 years. It should be noted that Montepio Investimento disposed of this securitization portfolio to Banco Montepio in 2011.

As at 25 March 2009, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, Pelican Mortgages no. 5. The total period of the operation is 52 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The sale was made at par, with the initial sale process costs representing 0.0564% of par.

As at 5 March 2012, Banco Montepio celebrated a mortgage loan securitization contract with Sagres, Pelican Mortgages no. 6. The total period of the operation is 51 years, without a revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The sale was made at par, with the initial sale process costs representing 0.1083% of the Asset-Backed Notes.

As at 7 May 2014, Banco Montepio and Montepio Crédito celebrated with Tagus, a contract for the sale of consumer loans originated by same in the scope of a loan securitization contract (Pelican Finance no. 1). The total period of the operation is 14 years, with a revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand, of which 60.0% were constituted by Banco Montepio. The sale was made at par, with the initial sale process costs representing 0.1871% of the Asset-backed Notes.

The entity that guarantees the debt service (servicer) of the traditional securitization operations is Banco Montepio, assuming the collection of the loans sold and channelling the amounts received to the respective Credit Securitization Companies (Sociedades de Titularização de Créditos) (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Aqua Mortgages no. 1).

Banco Montepio does not hold any direct or indirect shareholding in the companies Tagus and Sagres.

The loans covered by the securitization operations referred above were not derecognized from the balance sheet as the Bank retained most of the risks and rewards associated with the securitized loans. If the Bank substantially transfers the risks and rewards associated with their holding, the securitization operations are derecognized.

As at 30 June 2020, the securitization operations realized by Banco Montepio are presented as follows:

(euro thousand)

Issue	Settlement date	Currency	Asset transferred	Loan and advances: Initial amount	Loan and advances: Current amount	Securities issued: Initial nominal amount	Securities issued: Current nominal amount	Securities issued: Third party amount*
Pelican Mortgages No. 3	march de 2007	euro	Mortgage loans	762 375	157 558	762 375	120 374	43 468
Pelican Mortgages No. 4	may de 2008	euro	Mortgage loans	1 028 600	472 448	1 028 600	504 019	-
Aqua Mortgage No. 1	December de 2008	euro	Mortgage loans	236 500	80 879	236 500	85 480	-
Pelican Mortgages No. 5	march de 2009	euro	Mortgage loans	1 027 500	473 922	1 027 500	501 367	-
Pelican Mortgages No. 6	February de 2012	euro	Mortgage loans	1 107 000	598 352	1 107 000	681 687	-
Pelican Finance No. 1	may de 2014	euro	Consumer loans	185 300	56 030	185 300	63 381	-
				4 347 275	1 839 189	4 347 275	1 956 308	43 468

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 30 June 2020, is presented as follows:

Non-derecognized securitization operations

	Pelican Mortgage n.º 3	*Pelican Mortgage n.º 4*	*Aqua Mortgage n.º 1*	*Pelican Mortgage n.º 5*	*Pelican Mortgage n.º 6*	*Pelican Finance n.º 1*	Total
Domestic loans and advances							
Retail							
Mortgage	156 416	470 979	79 445	472 031	589 524	-	1 768 395
Consumer loans and other	-	5	170	251	85	53 496	54 007
	156 416	470 984	79 615	472 282	589 609	53 496	1 822 402
Credit and overdue interest							
Less than 90 days	99	806	449	594	2 744	228	4 920
More than 90 days	1 043	658	815	1 046	5 999	2 306	11 867
	1 142	1 464	1 264	1 640	8 743	2 534	16 787
	157 558	472 448	80 879	473 922	598 352	56 030	1 839 189

As at 31 December 2019, the securitization operations realized by Banco Montepio are presented as follows:

(euro thousand)

Issue	Settlement date	Currency	Assets transferred	Loans and advances: Initial amount	Loans and advances: Current amount	Securities issued: Initial nominal amount	Securities issued: Current nominal amount	Securities issued: Third party amount *
Pelican Mortgages No. 3	march de 2007	euro	Mortgage loans	762 375	171 989	762 375	177 299	45 799
Pelican Mortgages No. 4	may de 2008	euro	Mortgage loans	1 028 600	495 966	1 028 600	528 439	-
Aqua Mortgage No. 1	December de 2008	euro	Mortgage loans	236 500	87 968	236 500	90 177	-
Pelican Mortgages No. 5	march de 2009	euro	Mortgage loans	1 027 500	499 050	1 027 500	524 377	-
Pelican Mortgages No. 6	February de 2012	euro	Mortgage loans	1 107 000	637 096	1 107 000	713 822	-
Pelican Finance No. 1	may de 2014	euro	Consumer loans	185 300	70 338	185 300	136 103	-
				4 347 275	1 962 407	4 347 275	2 170 217	45 799

* Includes nominal value, accrued interest and other adjustments.

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 31 December 2019, is presented as follows:

(euro thousand)

Non-derecognized securitization operations

	Pelican Mortgage n.º 3	***Pelican Mortgage n.º 4***	***Aqua Mortgage n.º 1***	***Pelican Mortgage n.º 5***	***Pelican Mortgage n.º 6***	***Pelican Finance n.º 1***	**Total**
Domestic loans and advances							
Retail							
Mortgage	170 787	494 581	86 852	497 884	629 539	-	1 879 643
Consumer loans and other	-	-	-	-	-	68 194	68 194
	170 787	494 581	86 852	497 884	629 539	68 194	1 947 837
Credit and overdue interest							
Less than 90 days	86	726	365	424	2 394	182	4 177
More than 90 days	1 116	659	751	742	5 163	1 962	10 393
	1 202	1 385	1 116	1 166	7 557	2 144	14 570
	171 989	495 966	87 968	499 050	637 096	70 338	1 962 407

As a form of financing, the securitization vehicles created (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Aqua Mortgages no. 1) issued bonds which nominal value is presented below, and which were fully subscribed by Banco Montepio in the case of Aqua Mortgages no. 1, Pelican Mortgages no. 4, Pelican Mortgages no. 5, Pelican Mortgages no. 6 and Pelican Finance no. 1) and partially, in the case of Pelican Mortgages no. 3.

In the case of the more senior notes, these are recorded as Other financial assets at amortized cost (note 26), while in the case of the residual notes these are recorded in the caption Financial assets at fair value through profit or loss (note 23), and, as at 30 June 2020, these are analysed as follows:

Issue	Bonds	Initial nominal amount	Current nominal amount	CEMG interest held (nominal amount)	Maturity date	*Rating* (initial)				*Rating* (current)			
		euro	euro	euro		*Fitch*	Moody's	S&P	DBRS	*Fitch*	Moody's	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	149 225 536	107 427 617	2054	AAA	Aaa	AAA	n.a.	BBB	A2	A	n.a.
	Class B	14 250 000	3 852 792	3 852 792	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	3 244 456	3 244 456	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	1 723 618	1 723 618	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	PIF	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	374 947 188	374 947 188	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AA
	Class B	55 500 000	33 191 729	33 191 729	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	35 882 951	35 882 951	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	14 951 229	14 951 229	2056	BBB	n.a.	n.a.	B+	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	16 446 352	16 446 352	2056	BB	n.a.	n.a.	B	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	61 827 998	61 827 998	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	20 152 375	20 152 375	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	330 130 967	330 130 967	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	115 624 129	115 624 129	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	16 305 967	16 305 967	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	16 305 967	16 305 967	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	326 487 168	326 487 168	2063	A	n.a.	A-	AA	A+	n.a.	A	AAH
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	72 419 692	33 866 289	2028	A	n.a.	n.a.	A	A+	n.a.	n.a.	AH
	Class B	91 100 000	44 285 361	20 714 518	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

As at 31 December 2019, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount	Current nominal amount	CEMG interest held (nominal amount)	Maturity date	*Rating* (initial)				*Rating* (current)			
		euro	euro	euro		*Fitch*	Moody's	S&P	DBRS	*Fitch*	Moody's	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	163 508 676	117 781 633	2054	AAA	Aaa	AAA	n.a.	BBB	A2	A	n.a.
	Class B	14 250 000	4 221 562	4 221 562	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BB-	n.a.
	Class C	12 000 000	3 555 000	3 555 000	2054	A	A3	A	n.a.	BB+	B2	B	n.a.
	Class D	6 375 000	1 888 594	1 888 594	2054	BBB	Baa3	BBB	n.a.	BB	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	PIF	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	394 205 764	394 205 764	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AAH
	Class B	55 500 000	34 896 571	34 896 571	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	37 726 022	37 726 022	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	15 719 176	15 719 176	2056	BBB	n.a.	n.a.	B+	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	17 291 094	17 291 094	2056	BB	n.a.	n.a.	B	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	65 596 503	65 596 503	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	21 080 228	21 080 228	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	346 010 604	346 010 604	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	121 185 768	121 185 768	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	17 090 301	17 090 301	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	17 090 301	17 090 301	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	358 622 246	358 622 246	2063	A	n.a.	A-	AA	A+	n.a.	AA	AAA
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	72 419 692	43 451 815	2028	A	n.a.	n.a.	A	A+	n.a.	n.a.	AH
	Class B	91 100 000	44 285 361	26 571 216	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

At each interest payment date, Tagus and Sagres have the possibility of partially redeeming the bonds, redemption which is realized sequentially and in function of the degree of subordination of the bonds.

51 Risk management

Objectives of the Risk Management Policy

Banco Montepio is exposed to several risks the most relevant of which in the financial component being credit, concentration, market, interest rate, banking portfolio market, foreign currency, liquidity, real estate and Pension Fund risks. Additionally, Banco Montepio is subject to other non-financial risks, namely operating, reputation, and strategy and business risks. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability as regards risk management measures established in due course. For all risks identified as material, Banco Montepio has implemented a process for the identification and review of same, being subject to regular monitoring and mitigation actions in order to reduce potential losses for Banco Montepio.

The control and the efficient management of risk play a key role in the balanced and sustained development of Banco Montepio. In addition to contributing to the optimization of the profitability/risk binomial of the various lines of business, they also ensure the maintenance of an adequate risk profile in terms of solvency and liquidity.

The monitoring of these risks is centralized in the Risk Department, the unit responsible for the risk management function of Banco Montepio, which regularly informs the Board of Directors of the evolution of the risk profile of the institution and, if necessary, proposes risk exposure mitigation/reduction actions.

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 it's monitoring.

Banco Montepio's risk management policy is designed to ensure an adequate relationship, at all times, between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, assuming particular importance in this scope the monitoring and control of the main types of financial and non-financial risks – credit, market, liquidity, real estate and operating – to which Banco Montepio's business is subject.

Credit risk

Credit risk is associated with the level of uncertainty of the expected returns, due to the inability of the borrower (and of the guarantor, if any), or the issuer of a security or counterparty of a contract to comply with the obligations arising for same.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, supported by several tools aiding the credit decision process. The quantification of credit risk is also supported by the model used to calculate impairment losses.

The fundamental principle of credit risk analysis is independence from the business decisions. In this analysis, instruments are used, and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modelling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in the credit decision process. Indeed, the decision process concerning the credit portfolio operations is based on a set of policies, relying on scoring models for the retail portfolios and rating models for the non-retail segment.

In the credit risk scope, and as regards analytical methodologies, the risk control techniques and models are based on econometric modelling, based on the Institution's experience in the granting of various types of credit and, whenever possible, also in credit recovery.

Credit decisions are dependent on risk ratings and compliance with various rules governing the financial capacity and behaviour of the applicants.

There are scoring models for the admission of individuals to the retail portfolios, namely for mortgage loans, individual loans and credit cards.

Self-employed Individuals ("Empresários em nome individual" – "ENI") and Micro businesses are considered retail, being therefore subject to the respective scoring models.

There are also behavioural scoring models for retail portfolios, which are used to monitor the credit portfolio as well as to evaluate new credit proposals, being coupled with software-based scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large companies, distinguished by activity sectors, such as the tertiary sector, or by ageing of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, with this scale being composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents/ record of arrears in the financial system, and class 19 to default, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to derogate the response of scoring systems, internal ratings and internal price lists, but only by higher decision levels, in accordance with the established principles of delegation of responsibilities. Rejection situations are defined in order to minimize the risk of adverse selection, with risk classes for rejection having been defined.

Intervention limits are also defined for the different decisions, by operation amount and global customer exposure, type of operation/collateral and assigned risk class. In this context, higher hierarchical positions must approve operations with higher exposures. The levels and limits are approved by the Board of Directors, and the highest decision level corresponds to the Board of Directors. At the intermediate levels, the collegial intervention of at least two persons is compulsory, one belonging to the commercial network and the other to the Credit Analysis Department, a body independent of the commercial structure. The Risk Department is the unit responsible for the development of the credit risk models (scoring and rating), and for the monitoring of Banco Montepio's risk control, on a global basis.

Within the scope of credit risk monitoring, internal reports are prepared with the main risk indicators of the credit portfolios and metrics on the use of the rating/scoring models. In terms of preventive monitoring, an alert system is in place for indicators of credit risk deterioration (Early Warning Signs).

With respect to credit impairment, IFRS 9 establishes the need to recognize Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected credit loss at one year, or the expected credit loss until the maturity of the financial instrument (ECL lifetime).

Financial assets are classified into stages, based on the evolution of their credit risk:

- *Stage* 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since their initial recognition and which are not in default;
- *Stage* 2: Financial assets with a significant increase in credit risk since their initial recognition, based on the criteria set out in internal regulations as to the recognition of a significant increase in credit risk or other financial assets (namely, Amounts due for collection, Other debtors, Other receivables or Other assets). It should be noted that credit restructured due to financial difficulties is considered a driver of significant increase in credit risk and, therefore, the restructured credit portfolio is included in *Stage* 2;
- *Stage* 3: Financial assets in default, based on default indicators which are defined in internal regulations in respect of default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purpose of the requirements in force.

The measurement of the expected losses (ECL) for the segment through collective analysis 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, considering prospective information at one year (for contracts belonging to S*tage* 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 which consider forward-looking information for a time horizon of 3 years and the historic PD for the remaining years; and

- ✓ PD=100% for all S*tage* 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, namely, the economic-financial viability of same, the 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, with the impairment value corresponding 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 original interest rates of each operation.

For the financial assets of individually significant counterparties/customers classified in stages 1 and 2, the expected loss (ECL) is attributed according to the collective analysis methodology, given that individually no impairment level is observed.

The information presented next is related to Banco Montepio's exposure to credit risk, where the most relevant caption in terms of exposure, as well as in terms of the associated risk, is loans and advances to customers. It should be noted that the portfolio of financial assets at fair value through other comprehensive income is essentially composed of public debt securities of the European Union.

The information contained in the tables presented excludes the balance sheet component of entities subject to the application of IFRS 5, which correspond to the subsidiary in Angola and which is recorded under the caption Non-current assets held for sale - discontinued operations.

The criteria for the determination of impairment of individually significant loans

All customers or economic groups that meet the following conditions are subject to individual analysis:

6. Economic Groups with a global exposure amount ≥ €0.5 millions in which at least one of the participants is the holder of operations classified as stage 3, with customers with an exposure amount ≥ €0.1 million being selected;
7. Customers holding stage 2 operations with an exposure amount ≥ €1.0 million and customers with an exposure amount ≥ €1.0 million that are part of the same Economic Group;
8. Customers holding stage 1 operations with an exposure amount ≥ €2.5 million;
9. Customers corresponding to Shareholding Management Companies (SGPS) and/or Customers holding loans under Project Finance with an exposure amount ≥ €1.0 million;
10. Other customers when duly justified.

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 individual analysis is the responsibility of the Specialized Credit Analysis Department and in the evaluation of impairment losses the following factors are, essentially, considered:

- Total exposure of each customer and/or economic group, internal rating of the customer and/or economic group, the staging associated with each operation 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 of the customers and/or guarantors;
- Expectation regarding the credit 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 due by the customer.

For the determination of the expected cash flows different recovery strategies are used, which may include the going concern method, and the gone concern method:

- In case of the continuity of operations (going concern) a critical analysis is done of the companies' business plans or other elements available for analysis, which should include information on past events, current conditions and projected future economic conditions (forward-looking scenarios), with these being representative of the current and future economic-financial situation of the customer. For the calculation of the impairment of these customers, the annually projected cash flows, after adjustment of the initially estimated assumptions and the application of haircuts, if necessary, and considering deviations of the real figures from those initially projected, are discounted at the original effective interest rate of the operations;
- In the case of the cessation of the activity (gone concern) the settlement through collaterals, if these exist, is assumed, with an exhaustive analysis being made of same, namely regarding the value of mortgage/pledge, valuation amount, valuation date and need for the application of haircuts, according to the ageing of the valuation or other factors, the deadline for the foreclosure/execution, and the deadline for the sale, as well as the associated maintenance and selling costs. For the calculation of the impairment of these customers, the annually projected cash flows, after adjustments, are discounted at the original effective interest rate;
- For each recovery strategy, the respective excepted credit loss is calculated, considering different forward-looking scenarios, weighted by the respective probability of occurrence;
- For specific cases it is possible to use strategies that combine with either the going concern or the gone concern methods.

Banco Montepio's credit risk exposure can be analysed as follows:

(euro thousand)

	Jun 2020	Dec 2019
Deposits at credit institutions repayable on demand	70 532	51 993
Loans and advances to credit institutions	702 076	532 033
Loans and advances to customers	10 852 725	10 921 170
Financial assets held for trading	31 994	28 688
Financial assets at fair value through profit or loss	113 098	114 976
Financial assets at fair value through other compensative income	1 047 282	1 702 206
Hedging derivatives	15 259	11 148
Other financial assets at amortized cost	3 486 912	2 793 157
Other assets	733 608	739 766
Guarantees and standby letters provided	475 942	489 009
Irrevocable credit lines	1 023 498	616 472
	18 552 926	18 000 618

The analysis of the main credit risk exposures by sector of activity, for the 1st half of 2020, can be analysed as follows:

Activity	Jun 2020 Deposits at others credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatory at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortized cost		Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry, and fishing	-	-	-	76 714	5 410	-	-	-	-	-	-	-	726	5 331	364
Extractive industries	-	-	-	12 273	691	-	-	-	-	-	-	-	1 386	2 251	27
Manufacturing industries	-	-	-	915 334	94 438	494	1 463	-	-	-	-	-	19 471	119 912	1 348
Electricity generation and distribution, gas steam and air conditioning	-	-	-	61 437	7 546	1 391	-	-	-	-	-	-	1 033	12 717	35
Water supply	-	-	-	69 638	2 057	-	-	-	-	-	-	-	2 093	4 700	11
Construction	-	-	-	700 360	226 693	299	384			-	-	-	92 078	108 039	3 169
Wholesale and retail trade	-	-	-	815 962	98 142	-	219	5 003	16	-	-	-	48 939	148 143	6 225
Transport and storage	-	-	-	282 979	37 472	-	9	-	-	-	-	-	6 408	16 587	642
Accommodation and catering activities	-	-	-	478 096	19 928	-	-	-		-	-	-	9 099	18 399	1 682
Information and Communication	-	-	-	38 064	3 081	-	-	-	-	15 259	-	-	1 323	22 568	130
Financial and insurance activities	70 532	708 646	6 570	621 463	86 721	4 265	-	3 480	530	-		-	225 168	370 685	869
Real estate activities	-	-	-	746 628	113 325	-	82	-	-	-	-	-	22 316	105 276	1 890
Consulting, scientific, technical and similar	-	-	-	260 260	22 714	-	-	-	-	-	-	-	19 980	33 238	254
Administrative and supporting service activities	-	-	-	76 621	8 926	-	85	-	-	-	-	-	5 483	18 482	228
Public administration and defence, compulsory social security	-	-	-	43 460	304	25 545	1 801	1 040 702	3 569	-	1 707 508	3 741	105	324	15
Education	-	-	-	59 838	3 608	-	-	-	-	-	-	-	251	5 064	31
Human Health Services and Social action activities	-	-	-	205 273	8 750	-	-	-	-	-	-	-	3 549	14 631	259
Artistic activities, shows and recreational	-	-	-	57 407	9 241	-	-	-	-	-	-	-	9 647	7 151	143
Other services	-	-	-	57 902	6 253	-	139	-	-	-	-	-	3 499	9 934	58
Retail															
Mortgage Loans	-	-	-	5 689 468	63 665	-	108 916	2 217	5	-	1 783 145	-	-	-	-
Others	-	-	-	428 764	26 251	-	-	-	-	-	-	-	3 388	66	992
	70 532	**708 646**	**6 570**	**11 697 941**	**845 216**	**31 994**	**113 098**	**1 051 402**	**4 120**	**15 259**	**3 490 653**	**3 741**	**475 942**	**1 023 498**	**18 372**

The analysis of the mains credit risk exposures by sector of activity, for financial year 2019, can be analysed as follows:

Activity	Dec 2019 Deposits at others credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatory at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortized cost		Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry, and fishing	-	-	-	75 615	4 512	-	-	-	-	-	-	-	856	3 845	168
Extractive industries	-	-	-	12 662	567	-	-	-	-	-	-	-	1 382	1 479	101
Manufacturing industries	-	-	-	892 658	83 433	-	1 621	75 811	59	-	-	-	20 161	94 182	816
Electricity generation and distribution, gas steam and air conditioning	-	-	-	48 199	6 698	-	-	56 044	71	-	-	-	1 032	13 107	27
Water supply	-	-	-	74 328	1 552	-	-	-	-	-	-	-	1 857	2 434	54
Construction	-	-	-	693 807	228 192	-	398	2 090	2	-	-	-	95 664	96 644	6 516
Wholesale and retail trade	-	-	-	802 978	91 278	-	275	5 593	10	-	-	-	59 826	113 900	4 111
Transport and storage	-	-	-	272 667	32 183	-	15	-	-	-	-	-	6 502	16 372	557
Accommodation and catering activities	-	-	-	426 939	12 651	-	1	1 207	2	-	-	-	8 722	15 317	219
Information and Communication	-	-	-	44 344	3 014	-	-	11 403	9	11 148	-	-	1 553	24 045	59
Financial and insurance activities	51 993	533 662	1 629	556 895	63 058	16 895	109 661	104 849	122	-		-	217 899	81 269	171
Real estate activities	-	-	-	740 985	102 978	-	71	-	-	-	-	-	22 147	85 657	1 334
Consulting, scientific, technical and similar	-	-	-	275 536	15 746	-	-	-	-	-	-	-	22 060	26 092	354
Administrative and supporting service activities	-	-	-	79 092	7 962	-	100	-	-	-	-	-	6 433	11 399	304
Public administration and defence, compulsory social security	-	-	-	45 605	506	11 793	2 694	1 423 532		-	900 895	1 750	76	-	-
Education	-	-	-	57 802	3 203	-	-	-	-	-	-	-	290	2 513	17
Human Health Services and Social action activities	-	-	-	196 962	5 653	-	-	-	-	-	-	-	3 202	5 094	204
Artistic activities, shows and recreational	-	-	-	53 295	8 599	-	-	-	-	-	-	-	6 677	6 311	63
Other services	-	-	-	60 453	2 438	-	140	19 585	54	-	-	-	2 592	870	28
Retail													-		-
Mortgage Loans	-	-	-	5 817 064	58 975	-	-	2 426	5	-	1 894 012	-	-	-	-
Others	-	-	-	456 161	29 679	-	-	-	-	-	-	-	10 080	15 942	353
	51 993	**533 662**	**1 629**	**11 684 047**	**762 877**	**28 688**	**114 976**	**1 702 540**	**334**	**11 148**	**2 794 907**	**1 750**	**489 009**	**616 472**	**15 456**

As regards credit risk, the portfolio of financial assets is dominated by bonds of sovereign issuers, essentially the Portuguese Republic.

In terms of credit quality, an increase in the average level of the counterparties was observed, due to the improved rating of the Portuguese sovereign debt.

Banco Montepio's total credit portfolio, in addition to Loans and advances to customers includes the guarantees and standby letters provided and the documentary credits in the aggregate amount of Euro

475,942 thousand (31 December 2019: Euro 489,009 thousand) and the irrevocable credit facilities amounting to Euro 1,023,498 thousand (31 December 2019: Euro 616,472 thousand), is presented as follows:

(euro thousand)

	Jun 2020			Dec 2019		
Stage impacts	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Collective analysis	**8 557 556**	**243 834**	**8 313 722**	**8 317 526**	**227 495**	**8 090 031**
Stage 1	6 798 136	16 935	6 781 201	6 611 801	9 532	6 602 269
Stage 2	1 418 186	62 042	1 356 144	1 359 932	44 441	1 315 491
Stage 3	341 234	164 857	176 377	345 793	173 522	172 271
Individual analysis	**4 639 825**	**619 754**	**4 020 071**	**4 472 002**	**550 836**	***3 921 166***
	13 197 381	**863 588**	**12 333 793**	**12 789 528**	**778 331**	**12 011 197**

As at 30 June 2020 and 31 December 2019, the detail of the application of stages to other financial assets is presented as follows:

(euro thousand)

	Jun 2020			Dec 2019		
Stage impacts	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Amortized cost	**3 490 653**	**3 741**	**3 486 912**	**2 794 907**	**1 750**	**2 793 157**
Stage 1	3 490 653	3 741	3 486 912	2 794 907	1 750	2 793 157
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Fair value	**1 051 402**	**4 120**	**1 702 812**	**1 702 541**	**5 279**	**1 697 262**
Stage 1	1 048 874	3 722	1 700 682	1 700 692	5 216	1 695 476
Stage 2	2 528	398	2 130	1 849	63	1 786
Stage 3	-	-	-	-	-	-
Loans and advances to other institutions	**708 646**	**6 570**	**702 076**	**533 662**	**1 629**	**532 033**
Stage 1	221 558	995	220 563	529 662	1 590	528 072
Stage 2	487 088	5 575	481 513	4 000	39	3 961
Stage 3	-	-	-	-	-	-
	5 250 701	**14 431**	**5 891 800**	**5 031 110**	**8 658**	**5 022 452**

As at 30 June 2020 and 31 December 2019, the detail of the loans and advances subject to collective analysis, structured by segment and by stage, is as follows:

Segment	Jun 2020			Dec 2019		
	Book value	Impairment	Net value	Book value	Impairment	Net value
Retail	**6 098 334**	**87 889**	**6 010 445**	**6 240 655**	**86 251**	**6 154 404**
Mortgage loans	*5 681 230*	*62 883*	*5 618 347*	*5 797 810*	*58 607*	*5 739 203*
Stage 1	4 709 870	1 523	4 708 347	4 871 521	554	4 870 967
Stage 2	847 332	17 396	829 936	800 703	12 811	787 892
Stage 3	124 028	43 964	80 064	125 586	45 242	80 344
Consumer credit	*367 672*	*22 474*	*345 198*	*384 685*	*24 386*	*360 299*
Stage 1	245 250	559	244 691	257 688	688	257 000
Stage 2	93 380	6 140	87 240	93 121	4 571	88 550
Stage 3	29 042	15 775	13 267	33 876	19 127	14 749
Credit cards	*49 432*	*2 532*	*46 900*	*58 160*	*3 258*	*54 902*
Stage 1	27 191	301	26 890	32 442	244	32 198
Stage 2	18 658	530	18 128	22 222	1 187	21 035
Stage 3	3 583	1 701	1 882	3 496	1 827	1 669
Corporate	**2 459 222**	**155 945**	**2 303 277**	**2 076 871**	**141 244**	**1 935 627**
Non Construction	*2 201 580*	*138 577*	*2 063 003*	*1 880 254*	*123 629*	*1 756 625*
Stage 1	1 633 770	13 359	1 620 411	1 323 084	7 323	1 315 761
Stage 2	416 582	34 690	381 892	405 018	23 964	381 054
Stage 3	151 228	90 528	60 700	152 152	92 342	59 810
Construction	*257 642*	*17 368*	*240 274*	*196 617*	*17 615*	*179 002*
Stage 1	182 055	1 194	180 861	127 066	723	126 343
Stage 2	42 234	3 286	38 948	38 868	1 908	36 960
Stage 3	33 353	12 888	20 465	30 683	14 984	15 699
	8 557 556	**243 834**	**8 313 722**	**8 317 526**	**227 495**	**8 090 031**

As at 30 June 2020 and 31 December 2019, impairment is detailed as follows:

(euro thousand)

	Jun 2020						
	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	4 619 928	617 727	2 459 221	155 945	7 079 149	773 672	6 305 477
Mortgage loans	8 238	782	5 681 230	62 883	5 689 468	63 665	5 625 803
Other loans	11 659	1 245	417 105	25 006	428 764	26 251	402 513
	4 639 825	619 754	8 557 556	243 834	13 197 381	863 588	12 333 793

	Dec 2019						
	Impairment calculated on na individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 439 433	548 434	2 076 870	141 244	6 516 303	689 678	5 826 625
Mortgage loans	19 253	369	5 797 810	58 606	5 817 063	58 975	5 758 088
Other loans	13 317	2 033	442 845	27 645	456 162	29 678	426 484
	4 472 003	550 836	8 317 525	227 495	12 789 528	778 331	12 011 197

As at 30 June 2020 and 31 December 2019, the fair value analysis of collaterals associated with Banco Montepio's total credit portfolio, is as follows:

(euro thousand)

Fair value of collaterals	Jun 2020	Dec 2019
Individual analysis		
Securities and other financial assets	*84 794*	*122 499*
Real estate - Mortgage loans	*12 931*	*36 443*
Real estate - Construction and CRE	*2 329 882*	*2 527 130*
Other real estate	*1 718 319*	*1 712 523*
Other guarantees	*586 567*	*737 593*
Collective analysis - Stage 1		
Securities and other financial assets	*199 131*	*190 368*
Real estate - Mortgage loans	*10 463 320*	*10 661 548*
Real estate - Construction and CRE	*355 688*	*262 048*
Other real estate	*779 382*	*746 673*
Other guarantees	*65 733*	*42 678*
Collective analysis - Stage 2		
Securities and other financial assets	*42 086*	*37 797*
Real estate - Mortgage loans	*1 650 203*	*1 531 454*
Real estate - Construction and CRE	*128 742*	*135 142*
Other real estate	*341 685*	*287 287*
Other guarantees	*15 434*	*8 963*
Collective analysis - Stage 3		
Securities and other financial assets	*4 013*	*3 326*
Real estate - Mortgage loans	*176 400*	*171 902*
Real estate - Construction and CRE	*69 431*	*62 372*
Other real estate	*68 102*	*76 618*
Other guarantees	*3 909*	*1 968*
	19 095 752	**19 356 332**

Banco Montepio uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revaluated based on the market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility. Most of the real collaterals are revalued at least once a year.

Banco Montepio's total loans and advances portfolio, by segment, and respective impairment, constituted as at 30 June 2020 and 31 December 2019, is presented as follows:

(euro thousand)

Segment	Jun 2020 Total exposure	Jun 2020 Total impairment	Dec 2019 Total exposure	Dec 2019 Total impairment
Corporate	4 997 909	391 468	4 495 439	317 926
Construction and CRE	2 081 240	382 204	2 020 864	371 751
Mortgage loans	5 689 468	63 665	5 817 064	58 975
Other loans	428 764	26 251	456 161	29 679
	13 197 381	863 588	12 789 528	778 331

The loans and advances portfolio, by segment and by production year, as at 30 June 2020, is presented as follows:

	Corporate			Construction and CRE			Mortgage 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	585	32 789	1 815	791	140 510	66 887	45 239	1 372 816	16 016	21 417	7 126	399
2005	197	15 367	1 409	196	44 077	27 717	11 026	539 665	7 169	5 471	3 386	240
2006	272	26 073	2 239	229	75 376	41 898	13 440	668 939	12 051	14 437	13 199	1 868
2007	403	27 301	1 518	321	63 416	22 902	13 711	678 147	11 698	40 777	17 041	1 882
2008	1 645	35 610	4 406	580	32 221	5 560	7 138	355 382	5 446	64 388	18 596	901
2009	2 376	63 976	3 630	779	65 328	25 196	3 899	218 667	2 644	51 020	17 275	1 904
2010	2 176	94 800	12 404	512	46 502	15 535	3 942	247 621	2 369	36 597	9 813	971
2011	2 537	96 071	6 294	621	29 066	10 706	1 495	90 933	740	30 139	9 290	1 814
2012	2 889	99 153	12 856	477	33 219	10 716	926	57 643	525	21 576	6 898	1 048
2013	5 437	283 741	48 900	804	78 945	18 001	1 192	73 399	462	21 417	14 106	1 980
2014	7 371	439 560	42 050	2 219	155 663	27 630	1 407	90 558	410	25 262	28 500	2 276
2015	7 908	374 887	79 209	1 429	78 010	13 917	1 673	111 830	365	23 137	31 336	1 799
2016	10 023	615 653	47 358	2 158	211 253	33 483	2 349	177 937	834	36 277	46 444	3 170
2017	10 999	435 076	37 015	1 942	308 150	22 258	3 197	257 957	960	26 221	41 984	2 231
2018	11 649	471 219	35 446	2 780	195 499	23 990	3 360	278 924	849	36 556	56 857	1 871
2019	11 631	664 527	34 856	2 411	313 042	11 071	3 935	329 970	936	27 771	70 809	1 528
2020	11 944	1 222 106	20 064	1 993	210 963	4 736	1 701	139 080	191	10 882	36 104	369
	90 042	4 997 909	391 469	20 242	2 081 240	382 203	119 630	5 689 468	63 665	493 345	428 764	26 251

The loans and advances portfolio, by segment and by production year, as at 31 December 2019, is presented as follows:

	Corporate			Construction and CRE			Mortgage loans			Other loans		
Production year	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment
2004 and previous	638	40 384	2 291	17 529	145 550	65 659	2 844	1 462 216	15 655	3 316	8 542	802
2005	237	16 562	1 879	800	44 167	27 596	3 185	566 009	7 256	3 458	3 765	233
2006	286	32 177	2 646	196	77 427	41 556	47 065	699 349	11 525	3 985	13 943	1 781
2007	458	30 528	1 603	240	68 315	23 943	11 402	709 168	11 000	22 350	19 071	1 610
2008	2 260	45 129	4 659	338	32 005	5 431	13 803	369 071	4 987	5 615	22 534	1 297
2009	2 415	72 277	3 158	607	68 077	24 815	14 110	227 726	2 303	14 745	20 115	2 152
2010	2 318	105 128	12 033	793	48 834	15 472	7 306	259 472	2 246	41 923	11 704	1 288
2011	2 876	102 917	6 518	551	30 529	10 250	3 991	95 133	555	66 428	11 610	2 832
2012	3 708	107 309	12 604	663	40 865	12 313	4 091	60 519	732	52 599	8 316	1 329
2013	6 092	334 025	45 408	526	81 881	16 923	1 528	78 021	366	37 664	17 177	2 644
2014	8 668	457 129	33 251	899	161 646	25 753	957	96 059	320	31 187	33 602	4 178
2015	9 832	419 153	61 309	2 697	87 263	12 380	1 240	119 604	225	22 564	37 106	2 785
2016	11 262	650 352	42 653	1 612	226 239	31 065	1 458	189 204	474	22 438	54 945	2 616
2017	12 691	481 757	29 510	2 414	340 929	26 266	1 753	270 372	479	26 691	49 130	1 874
2018	12 733	514 355	30 076	2 174	208 460	23 280	2 441	286 857	394	24 818	65 686	1 455
2019	17 529	1 086 258	28 329	2 844	358 676	9 050	3 316	328 285	459	38 265	78 915	802
	94 003	4 495 440	317 927	34 883	2 020 863	371 752	120 490	5 817 065	58 976	418 046	456 161	29 678

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 30 June 2020 and 31 December 2019, is analysed as follows:

(euro thousand)

	Jun 2020									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 085 384	269 204	1 534 543	348 524	8 238	782	11 659	1 245	4 639 824	619 755
Collective	1 912 525	122 264	546 697	33 680	5 681 230	62 883	417 105	25 006	8 557 557	243 833
	4 997 909	391 468	2 081 240	382 204	5 689 468	63 665	428 764	26 251	13 197 381	863 588

(euro thousand)

	Dec 2019									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 854 048	207 288	1 585 385	341 145	19 253	369	13 315	2 034	4 472 001	550 836
Collective	1 641 391	110 639	435 479	30 605	5 797 810	58 606	442 845	27 645	8 317 525	227 495
	4 495 439	317 927	2 020 864	371 750	5 817 063	58 975	456 160	29 679	12 789 526	778 331

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for companies, as at 30 June 2020 and 31 December 2019, is analysed as follows:

(euro thousand)

	Jun 2020											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	642 916	212 494	538 826	53 775	291 020	56 252	725 797	107 947	2 421 369	187 259	4 619 928	617 727
Collective	257 642	17 368	531 903	42 728	712 480	45 765	148 361	7 268	808 835	42 816	2 459 221	155 945
	900 558	229 862	1 070 729	96 503	1 003 500	102 017	874 158	115 215	3 230 204	230 075	7 079 149	773 672

(euro thousand)

	Dec 2019											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	692 074	217 122	567 481	44 999	322 395	50 224	735 366	99 863	2 122 116	136 225	4 439 432	548 433
Collective	196 616	17 615	455 380	39 922	645 964	42 803	113 719	4 454	665 191	36 449	2 076 870	141 243
	888 690	234 737	1 022 861	84 921	968 359	93 027	849 085	104 317	2 787 307	172 674	6 516 302	689 676

The gross exposure of performing and non-performing loans and advances, as at 30 June 2020 and 31 December 2019, is analysed as follows:

(euro thousand)

	Jun 2020												
	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 impairment	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	5 238 403	-	-	34 800	34 800	34 800	-	10 646	-	4 824	-	613	-
Other balance sheet credit exposures (b)	12 668 894	42 382	95 455	1 415 671	1 411 068	1 414 326	807 206	122 422	6 323	721 755	426 017	458 247	326 376
Off-balance sheet exposures (c)	2 277 710	1 302	10 936	108 327	108 324	108 327	679	10 659	147	7 712	-	-	-

(a) Includes debt instruments of the financial asset available for sale and commercial paper and bonds recognised under loans and advances to customers.
(b) Includes loans and advances to customers, cash and deposits at central banks and other loans and advances to credit institutions and foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, guarantees and documentary credit provided.

(euro thousand)

	Dec 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 impairment	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	3 061 932	-	-	34 800	34 800	34 800	-	10 149	-	4 824	-	613	-
Other balance sheet credit exposures (b)	12 625 640	49 603	93 077	1 423 811	1 423 811	1 422 465	763 675	97 068	3 580	659 492	360 408	512 325	333 323
Off-balance sheet exposures (c)	1 800 033	1 366	1 185	119 657	119 657	119 657	915	3 151	6	12 305	76	-	-

(a) Includes debt instruments of the financial asset available for sale and commercial paper and bonds recognised 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 2020, is presented as follows:

(euro thousand)

	Construction and CRE				Mortgage			
	Real estate		Other collateral		Real estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	2 770	339 645	872	52 428	94 663	11 986 285	300	8 992
>= 0,5 M€ and <1M€	192	136 546	32	19 345	392	244 434	1	500
>= 1 M€ and <5M€	222	498 602	27	55 029	41	60 018	-	-
>= 5 M€ and <10M€	32	232 192	6	42 430	-	12 116	-	-
>= 10 M€ and <20M€	24	324 365	-	-	2	-	-	-
>= 20 M€ and <50M€	10	345 282	1	46 000	-	-	-	-
>= 50M€	6	1 007 112	-	-	-	-	-	-
	3 256	2 883 744	938	215 232	95 098	12 302 853	301	9 492

The fair value of the collateral underlying the loans and advances portfolio of the Corporate, Construction and Commercial Real Estate ("CRE"), and Mortgage segments, as at 31 December 2019, is presented as follows:

(euro thousand)

	Construction and CRE				**Mortgage**			
	Real estate		**Other collateral**		**Real estate**		**Other collateral**	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	2 846	347 438	876	54 147	96 251	12 081 943	302	9 246
>= 0,5 M€ and <1M€	197	138 938	34	20 627	383	239 340	1	500
>= 1 M€ and <5M€	202	438 191	22	42 894	45	67 948	-	-
>= 5 M€ and <10M€	33	237 283	6	42 930	-	12 116	-	-
>= 10 M€ and <20M€	26	347 346	-	-	2	-	-	-
>= 20 M€ and <50M€	12	391 331	1	46 000	-	-	-	-
>= 50M€	6	1 086 164	-	-	-	-	-	-
			939	206 598				
	3 322	2 986 691	939	206 598	96 681	12 401 347	303	9 746

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE, and Mortgage segments, as at 30 June 2020 and 31 December 2019, is presented as follows:

(euro thousand)

	Jun 2020			**Dec 2019**		
Segment/Ratio	No. Of real estate	Total exposure	Impairment	No. Of real estate	Total exposure	Impairment
Corporate						
Without real estate (*)	-	3 943 792	292 631	-	3 451 197	236 027
< 60%	1 830	362 508	37 988	1 905	355 682	36 587
>= 60% and < 80%	788	436 646	31 200	809	454 664	25 404
>= 80% and < 100%	1 787	248 485	27 934	1 848	227 040	18 407
>= 100%	16	6 479	1 714	16	6 856	1 503
Construction and CRE						
Without real estate (*)	-	929 312	151 340	-	880 254	152 201
< 60%	1 388	555 030	117 733	1 445	545 719	116 723
>= 60% and < 80%	723	353 456	53 791	762	336 625	48 031
>= 80% e < 100%	986	199 505	27 319	961	215 195	25 054
>= 100%	159	43 936	32 023	154	43 069	29 741
Mortgage						
Without real estate (*)	-	446 438	12 737	-	462 680	11 917
< 60%	62 341	2 495 656	13 668	62 696	2 507 217	11 750
>= 60% and < 80%	24 612	2 009 255	13 779	25 020	2 039 924	11 419
>= 80% and < 100%	7 657	696 590	14 016	8 436	760 932	13 688
>= 100%	488	41 528	9 465	529	46 311	10 201

(*) 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 2020 and 31 December 2019, are presented as follows:

(euro thousand)

	Jun 2020		
Assets	No. Of real estate	Fair value	Book value
Land	**1 683**	**330 032**	**300 590**
Urban	1 440	279 922	253 546
Rural	243	50 110	47 044
Buildings under construction	**494**	**69 296**	**62 888**
Commercial	56	4 288	4 119
Housing	328	64 180	57 985
Other	110	828	784
Constructed buildings	**1 559**	**203 031**	**179 263**
Commercial	586	94 424	84 371
Housing	597	103 863	90 777
Other	376	4 744	4 115
Other			
	3 736	602 359	542 741

(euro thousand)

	Dec 2019		
Assets	No. Of real estate	Fair value	Book value
Land	**1 733**	**341 852**	**309 066**
Urban	1 488	290 580	261 094
Rural	245	51 272	47 972
Buildings under construction	**464**	**69 162**	**63 195**
Commercial	59	4 312	4 087
Housing	310	64 105	58 409
Other	95	745	699
Constructed buildings	**1 703**	**215 642**	**191 407**
Commercial	600	98 190	87 643
Housing	697	112 385	99 363
Other	406	5 067	4 401
Other			
	3 900	626 656	563 668

The time elapsed since the receipt in recovery/execution of real estate, as at 30 June 2020 and 31 December 2019, is presented as follows:

(euro thousand)

	Jun 2020				
Elapsed time since recovery/execution	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
Land	**6 377**	**18 251**	**101 173**	**174 789**	**300 590**
Urban	6 370	14 755	87 794	144 627	253 546
Rural	7	3 496	13 379	30 162	47 044
Buildings under construction	**5 403**	**14 706**	**11 100**	**31 679**	**62 888**
Commercial	450	20	1 770	1 879	4 119
Housing	4 770	14 624	9 298	29 293	57 985
Other	183	62	32	507	784
Constructed buildings	**11 212**	**17 933**	**41 499**	**108 619**	**179 263**
Commercial	3 777	9 628	24 987	45 979	84 371
Housing	7 335	7 950	14 430	61 062	90 777
Other	100	355	2 082	1 578	4 115
Other	-	-	-	-	-
	22 992	50 890	153 772	315 087	542 741

	Dec 2019				
Elapsed time since recovery/execution	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
Land	**8 182**	**78 311**	**47 964**	**174 609**	**309 066**
Urban	6 541	70 651	35 731	148 171	261 094
Rural	1 641	7 660	12 233	26 438	47 972
Buildings under construction	**2 195**	**19 562**	**13 637**	**27 801**	**63 195**
Commercial	356	427	1 035	2 269	4 087
Housing	1 770	19 045	12 570	25 024	58 409
Other	69	90	32	508	699
Constructed buildings	**16 713**	**24 602**	**55 828**	**94 264**	**191 407**
Commercial	3 200	12 438	29 086	42 919	87 643
Housing	13 072	11 811	24 508	49 972	99 363
Other	441	353	2 234	1 373	4 401
Other					-
	27 090	122 475	117 429	296 674	563 668

Concentration risk

The concentration risk results from the existence of common or correlated risk factors between different entities or portfolios. The deterioration of any of these factors may have a simultaneous negative impact on the credit quality of each of the counterparties or on the results of each class of assets and liabilities. In a concentration scenario, the loss effects on a small number of exposures may be disproportionate, confirming the importance of managing this risk in the maintenance of adequate solvability levels. At Banco Montepio, concentration risk monitoring focuses mainly on credit concentration, investment portfolio, financing, interest rate and operating risks.

Credit concentration risk is the most important risk for Banco Montepio and, as such, there are several procedures related to its identification, measurement and management. In order to control the concentration risk of the exposure to a customer/group of customers that are related, maximum exposure limits were set for the aggregate positions of the credit and investment portfolios.

In order to reduce concentration risk, Banco Montepio seeks to diversify its activity areas and income sources, as well as its exposures and funding sources.

The concentration risk management is carried out in a centralized manner, with regular monitoring of the concentration indices by the Risk Department. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the level of individual concentration and the degree of diversification of the quality of the corporate portfolio are regularly monitored by the Risk Department. Maximum exposure limits are established per customer/group of customers related to each other, activity sectors, as well as limits for the concentration of the largest depositors.

Market risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and/or prices of the different financial instruments that compose it, considering both the existing correlations between them and the respective volatilities.

Banco Montepio regularly calculates its “VaR” both for its own trading portfolio as well as for that of the financial assets at fair value through other comprehensive income, with same being determined based on a 10-day horizon and a 99% confidence level, using the historical simulation method. The types of risk considered in this methodology are the interest rate, exchange rate, price, spread and commodities’ risks.

Banco Montepio's investment portfolio is mainly concentrated on bonds, and as at 30 June 2020 this represented 79.1% (31 December 2019: 76.8%) of the total portfolio, (excluding notes held of own securitizations not derecognized) with the dominant position being held by bonds of sovereign issuers, essentially the Portuguese Republic.

Regarding credit derivatives, Banco Montepio held no position in these instruments as at 30 June 2020 and 31 December 2019.

Regarding the credit quality of debt securities, circa 91% of the portfolio is investment grade (31 December 2019: 87.1%). Of note are the Portuguese and Italian sovereign bonds with a rating of BBB- and that represent 76.1% (31 December 2019: 51.1%) of the bond portfolio. Concerning the composition of the portfolio, one verifies an increase in the exposure to sovereign debt, namely of the Portuguese, Spanish and Italian sovereign debt, as well as a decrease in Greek sovereign debt.

The distribution of the bond portfolio, recognized in the captions Financial assets held for trading, Financial assets at fair value through other comprehensive income (excluding notes of own securitizations held) and Other financial assets at amortized cost, is presented as follows:

(euro thousand)

Rating	Jun 2020		Dec 2019		Change	
	Amount	%	Amount	%	Amount	%
AAA	4 286	0.2	8 036	0.3	(3 750)	(46.7)
AA+	1 351	0.1	934	-	417	44.6
AA	-	-	7 824	0.3	(7 824)	(100.0)
AA-	-	-	21 085	0.8	(21 085)	(100.0)
A+	1 176	-	17 830	0.7	(16 654)	(93.4)
A	-	-	30 935	1.2	(30 935)	(100.0)
A-	398	-	34 087	1.3	(33 689)	(98.8)
BBB+	392 946	14.1	278 695	10.7	114 251	41.0
BBB	17 326	0.6	88 065	3.4	(70 739)	(80.3)
BBB-	2 113 457	76.1	1 785 186	68.4	328 271	18.4
BB+	183	-	20 571	0.8	(20 388)	(99.1)
BB	-	-	21 228	0.8	(21 228)	(100.0)
B+	239 419	8.6	257 294	9.9	(17 875)	(6.9)
NR	8 734	0.3	36 430	1.4	(27 696)	(76.0)
Total	2 779 276	100.0	2 608 200	100.0	171 076	6.6

The position in bonds (excluding notes held of own securitizations not derecognized) recognized in the portfolio of Financial assets at fair value through other comprehensive income stood at Euro 1,047,282 thousand (31 December 2019: Euro 1,697,262 thousand), the position in Other financial assets at amortized cost stood at Euro 1,703,767 thousand (31 December 2019: Euro 899,145 thousand), and the position in Financial assets held for trading stood at Euro 28,227 thousand (31 December 2019: Euro 11,793 thousand).

Regarding the trading portfolio, as at 30 June 2020 and in financial year 2019, the main VaR indicators are as follows:

(euro thousand)

	Jun 2020	Average	Minimum	Maximum	Dec 2019
Market VaR	1 354	1 040	99	2 236	244
Interest rate risk	186	242	15	416	167
Exchange risk	209	215	103	192	142
Price risk	800	636	98	1 183	94
Spread risk	642	573	237	1 023	80
Diversification effect	*(483)*	*(626)*	*(354)*	*(578)*	*(239)*

Bank portfolio's interest rate risk

The assessment of interest rate risk originated by banking portfolio operations is performed by a sensitivity analysis to the risk, on a consolidated basis for the Banco Montepio entities (including the subsidiary recognized in discontinued operations).

Interest rate risk is measured according to the impact on net interest income, economic value and own funds caused by changes in market interest rates. The main risk factors arise from lags in maturities for the resetting of rates and/or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indices with the same repricing period (basis risk) and the options associated with instruments that enable different decisions being taken by the players/participants depending on the level of rates contracted and those practiced at the moment (option risk).

Based on the financial characteristics of each contract, a projection of the expected cash flows is made, according to the rate reset dates and eventual behavioural assumptions.

The aggregation, for each currency analysed, of the expected cash flows in each of the time intervals allows one to determine the interest rate gaps by repricing period.

The following tables present the interest rate gaps, by residual maturity, in the 1st half of 2020 and financial year 2019:

(euro thousand)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
30 June 2020					
Assets					
Debt securities	550 488	325 684	292 685	967 086	901 705
Loans and advances	7 492 728	3 095 690	908 270	721 230	275 641
Others	206 906	32 579	-	-	37 248
Off-balance sheet	1 200	6 672	-	763 307	-
Total	8 251 321	3 460 624	1 200 955	2 451 623	1 214 595
Liabilities					
Debt securities issued	6 425	57 305	3 073	1 415 844	20 305
Deposits with defined maturity	2 627 656	1 299 171	2 431 990	1 129 239	-
Others	287 397	392	504 678	1 380 570	36 413
Off-balance sheet	750 009	9	17	137	1 371
Total	3 671 487	1 356 877	2 939 758	3 925 790	58 089
GAP (Assets - Liabilities)	4 579 834	2 103 747	(1 738 803)	(1 474 166)	1 156 505
31 December 2019					
Assets					
Debt securities	383 988	170 829	353 173	1 126 482	775 881
Loans and advances	6 839 860	2 764 522	918 095	536 188	65 131
Others	36 446	-	-	-	28 788
Off-balance sheet	4 758	-	6 672	763 307	-
Total	7 265 052	2 935 351	1 277 941	2 425 977	869 801
Liabilities					
Debt securities issued	9 914	1 455	57 407	1 368 142	23 365
Deposits with defined maturity	2 926 815	1 466 586	1 941 863	1 473 824	-
Others	159 034	443 112	393 890	706 239	29 803
Off-balance sheet	753 376	-	17	137	1 388
Total	3 849 140	1 911 153	2 393 178	3 548 343	54 556
GAP (Assets - Liabilities)	3 415 912	1 024 198	(1 115 237)	(1 122 366)	815 244

The following table present the interest rate gaps, during the 1st half of 2020 and financial year 2019:

(euro thousand)

	Jun 2020				Dec 2019			
	June	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate GAP	4 627 117	4 070 188	4 627 117	3 513 259	3 017 751	3 081 390	3 227 752	2 998 667

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 2020, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a change in the economic value expected from the banking portfolio in the negative amount of Euro 37,451 thousand (31 December 2019: negative amount of Euro 25,558 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 2020 and financial year 2019, as well as the respective average balances and interest for the period and financial year:

	Jun 2020			Dec 2019		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest assets generators						
Deposits at central banks and OIC	816 575	0,69	2 852	1 125 358	0,50	5 701
Loans and advances to OIC	628 674	0,53	1 693	495 866	0,79	3 960
Loans and advances to customers	11 675 815	2,01	118 498	12 111 230	2,13	261 318
Other assets at fair value	4 630 815	0,24	5 633	4 558 411	0,44	20 247
Securities portfolio	4 499	0,40	9	15 866	0,88	141
Other (Includes derivatives)	-	-	8 773	-	-	14 731
	17 756 378	**1,53**	**137 458**	**18 306 731**	**1,65**	**306 098**
Interest liabilities generators						
Deposits from ECB	1 443 076	0,04	289	1 384 894	0,24	3 324
Deposits from OIC	714 698	0,49	1 769	1 277 968	0,79	10 199
Deposits from customers	12 386 461	0,16	10 325	12 653 766	0,26	33 165
Senior debt	3 124 993	0,85	13 383	3 050 432	1,10	33 961
Subordinated debt	165 040	8,98	7 494	131 622	8,84	11 803
Other (includes derivatives)	-	-	7 560	-	-	11 736
	17 834 268	**0,45**	**40 820**	**18 498 682**	**0,56**	**104 188**
Net interest income		**1,08**	**96 638**		**1,09**	**201 910**

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 2020 and 31 December 2019, is analysed as follows:

	Jun 2020							
	Euro	**US Dollar**	**Sterling Pound**	**Canadian dollar**	**Swiss Franc**	**Brazilian real**	**Other foreign currencies**	**Total**
Assets by currency								
Cash and deposits at central banks	898 992	9 516	1 740	1 256	2 565	-	686	914 755
Loans and advances to credit institutions repayable on demand	32 247	32 254	528	2 228	1 052	-	2 223	70 532
Loans and advances to credit institutions	677 700	24 376	-	-	-	-	-	702 076
Loans and advances to customers	10 766 361	86 349	15	-	-	-	-	10 852 725
Financial assets held for trading	31 853	5 408	3	-	77	-	-	37 341
Other financial assets at fair value through profit or loss	610 716	-	-	-	-	-	-	610 716
Other financial assets at fair value through other comprehensive income	1 140 948	-	-	-	-	29 751	-	1 170 699
Hedging derivatives	15 259	-	-	-	-	-	-	15 259
Other financial assets at amortized cost	3 486 912	-	-	-	-	-	-	3 486 912
Repurchase agreement assets	341 008	-	-	-	-	-	-	341 008
Other tangible assets	233 765	-	-	-	-	-	-	233 765
Intangible assets	32 125	-	-	-	-	-	-	32 125
Current tax assets	9 509	-	-	-	-	-	-	9 509
Deferred tax assets	488 852	-	-	-	-	-	-	488 852
Other assets	703 025	37 085	60	-	-	-	1 149	741 319
Total assets	19 469 272	194 988	2 346	3 484	3 694	29 751	4 058	19 707 593
Liabilities by currency								
Deposits from central banks	1 636 639	-	-	-	-	-	-	1 636 639
Deposits from other credit institutions	623 782	49 271	3 672	22 140	35	-	32	698 932
Deposits from customers	12 275 671	113 977	8 318	15 308	3 245	-	4 103	12 420 622
Debt securities issued	1 226 912	-	-	-	-	-	-	1 226 912
Financial liabilities related to transferred assets	1 815 450	-	-	-	-	-	-	1 815 450
Financial liabilities held for trading	11 355	-	-	-	-	-	-	11 355
Hedging derivatives	799	-	-	-	-	-	-	799
Provisions	32 602	-	-	-	-	-	-	32 602
Current tax liabilities	1 544	-	-	-	-	-	-	1 544
Deferred tax liabilities	211 164	-	-	-	-	-	-	211 164
Other liabilities	231 051	475	625	668	234	-	1 651	234 704
Total liabilities	18 066 969	163 723	12 615	38 116	3 514	-	5 786	18 290 723
Exchange forward transactions		(47 302)	8 268	34 586	(141)	(27 815)	3 888	
Exchange gap		(16 037)	(2 001)	(46)	39	1 936	2 160	
Stress Test		3 207	400	9	(8)	(387)	(432)	

(euro thousand)

	Dec 2019							
	Euro	**US Dollar**	**Sterling Pound**	**Canadian dollar**	**Swiss Franc**	**Brazilian real**	**Other foreign currencies**	**Total**
Assets by currency								
Cash and deposits at central banks	989 938	8 130	1 081	1 133	2 939	-	427	1 003 648
Loans and advances to credit institutions repayable on demand	25 352	24 667	337	517	852	-	268	51 993
Loans and advances to credit institutions	498 833	33 200	-	-	-	-	-	532 033
Loans and advances to customers	10 834 969	86 193	8	-	-	-	-	10 921 170
Financial assets held for trading	20 965	8 939	-	-	-	-	-	29 904
Other financial assets at fair value through profit or loss	654 438	-	-	-	-	-	-	654 438
Other financial assets at fair value through other comprehensive income	1 790 772	-	-	-	-	42 669	-	1 833 441
Hedging derivatives	11 148	-	-	-	-	-	-	11 148
Other financial assets at amortized cost	2 793 157	-	-	-	-	-	-	2 793 157
Repurchase agreement assets	341 008	-	-	-	-	-	-	341 008
Other tangible assets	240 302	-	-	-	-	-	-	240 302
Intangible assets	31 822	-	-	-	-	-	-	31 822
Current tax assets	9 823	-	-	-	-	-	-	9 823
Deferred tax assets	462 295	-	-	-	-	-	-	462 295
Other assets	714 718	30 322	72	-	-	-	212	745 324
Total assets	19 419 540	191 451	1 498	1 650	3 791	42 669	907	19 661 506
Liabilities by currency								
Deposits from central banks	1 291 033	-	-	-	-	-	-	1 291 033
Deposits from other credit institutions	609 173	65 089	3 983	23 387	16	-	26	701 674
Deposits from customers	12 407 678	90 576	8 433	14 781	2 514	-	3 564	12 527 546
Debt securities issued	1 263 261	-	-	-	-	-	-	1 263 261
Financial liabilities related to transferred assets	1 939 462	-	-	-	-	-	-	1 939 462
Financial liabilities held for trading	11 098	-	-	-	-	-	-	11 098
Hedging derivatives	547	-	-	-	-	-	-	547
Provisions	30 268	-	-	-	-	-	-	30 268
Current tax liabilities	1 056	-	-	-	-	-	-	1 056
Deferred tax liabilities	157 847	-	-	-	-	-	-	157 847
Other liabilities	223 059	469	4	134	738	-	15	224 419
Total liabilities	17 934 482	156 134	12 420	38 302	3 268	-	3 605	18 148 211
Exchange forward transactions		(50 635)	11 095	37 265	(2 441)	-	2 598	
Exchange gap		(15 318)	173	613	(1 918)	42 669	(100)	

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.

Banco Montepio realized a Non-Deliverable Forward (NDF) with a nominal value of 170 million Brazilian Reais, in the scope of its foreign currency management.

Liquidity risk

Liquidity risk reflects Banco Montepio's inability to meet its obligations at due date, without incurring in significant losses arising from a deterioration in financing conditions (financing risk) and/or the sale of its assets at values lower than market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined, as well as other internal metrics for which internal limits are defined. This control is reinforced with the monthly execution of stress tests, to characterize the risk profile of Banco Montepio and ensure that it fulfils its obligations in a liquidity crisis scenario. The calculation of the LCR prudential ratio is performed monthly.

As at 30 June 2020, the LCR amount was 218.4% (31 December 2019: 175.1%).

As at 30 June 2020, Banco Montepio's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 636 639	-	-	-	-	1 636 639
Deposits from other credit institutions	698 932	-	229 747	60 062	58 768	350 355
Deposits from customers	12 420 622	-	6 549 890	953 891	2 144 533	2 772 308
Debit securities issued	1 226 912	-	101	4 970	3 008	1 218 833
Financial liabilities related to transferred assets	1 815 450	-	-	-	-	1 815 450
Financial Liabilities held for sale	11 355	-	187			11 168
Other subordinated debt	211 164	-	-	-	4 841	206 323
Other liabilities	234 704	234 704	-	-	-	-
Total Liabilities	**18 255 778**	**234 704**	**6 779 925**	**1 018 923**	**2 211 150**	**8 011 076**

As at 31 December 2019, Banco Montepio's financing structure was as follows:

(milhares de euros)

Liabilities	Total	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 291 033	-	443 600	-	-	847 433
Deposits from other credit institutions	701 674	-	226 686	65 615	4 788	404 585
Deposits from customers	12 527 546	-	5 380 704	2 253 405	1 641 840	3 251 597
Debit securities issued	1 263 261	-	9 393	4 129	1 525	1 248 214
Financial liabilities related to transferred assets	1 939 462	-	-	-	-	1 939 462
Financial Liabilities held for sale	11 098	-	17	34	6	11 041
Other subordinated debt	157 847	-	-	-	7 847	150 000
Other liabilities	224 419	224 419	-	-	-	-
Total Liabilities	**18 116 340**	**224 419**	**6 060 400**	**2 323 183**	**1 656 006**	**7 852 332**

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 2020 and 31 December 2019, on the assets and related collaterals:

(euro thousand)

Assets	Jun 2020			
	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**
Assets from the reporting institution	3 220 896		16 486 697	
Equity instruments	-	-	626 383	626 383
Debt securities	586 245	506 762	4 664 915	4 181 416
Other assets	-		2 005 334	

(euro thousand)

Assets	Dec 2019			
	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**
Assets from the reporting institution	1 730 525	-	17 930 982	-
Equity instruments	-	-	676 858	676 858
Debt securities	617 449	535 399	4 444 975	4 076 474
Other assets	-	-	2 053 145	-

(euro thousand)

Collateral received	Jun 2020	Dec 2019
	Fair value of encumbered collateral received or own debt securities issued	
Assets from the reporting institutions	22 550	25 857
Equity instruments	-	-
Debt securities	22 550	25 857
Other collateral received	-	-
Own securities issued that are not *own covered bonds or ABS*	-	-

(euro thousand)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2020	Dec 2019
	Carrying amount of selected financial liabilities	
Associated liabilities, contingent liabilities and securities borrowed	1 820 620	1 762 182
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	3 215 422	1 729 824

The encumbered assets are mostly related to Banco Montepio's funding operations, namely of the ECB, of repo operations, of the issuance of covered bonds and of securitization programs. The type of assets used as collateral for securitization programs and for the issuance of covered bonds, whether those placed outside the Group, or those used to reinforce the collateral pool with the ECB, are constituted by customers' loans contracts. Repo transactions in the money market are collateralized, essentially, by covered bonds and securitization programs, of which Banco Montepio is the originator, and by securitized credit operations.

The amounts presented in the previous tables correspond to the position as at 30 June 2020 and 31 December 2019 and reflect the high level of collateralization of the wholesale funding of Banco Montepio. The buffer of eligible assets for funding from the ECB, after haircuts, uncommitted and available for use in new operations amounts, as at 30 June 2020, to Euro 2,386,120 thousand (31 December 2019: Euro 2,310,134 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB), as at 30 June 2020, amounts to Euro 4,022,796 thousand (31 December 2019: Euro 3,608,247 thousand) with a usage of Euro 1,659,441 thousand (31 December 2019: Euro 1,308,333 thousand):

(euro thousand)

	Jun 2020	Dec 2019
Total eligible collateral	**4 645 745**	**4 136 099**
Total collateral in the pool	4 022 796	3 608 247
Collateral outside the pool	622 949	527 852
Used collateral	**2 259 625**	**1 825 965**
Collateral used for ECB	1 659 441	1 308 333
Collateral committed to other financing operations	600 184	517 632
Collateral available for ECB	**2 363 355**	**2 299 914**
Total available collateral	**2 386 120**	**2 310 134**

Note: collateral amount considers the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on Banco Montepio's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from the exposure in real estate assets, whether from the foreclosure of properties or judicial auction in the scope of credit recovery processes or from investment units in real estate funds held in the securities' portfolio. These exposures are monitored through scenario analyses that attempt to estimate the potential impacts of changes in the real estate markets in the portfolios of these real estate assets and make available the information elements necessary for the definition of the real estate risk management policy.

As at 30 June 2020 and 31 December 2019, the exposure to real estate and investment units in real estate funds presented the following values:

(euro thousand)

	Jun 2020	Dec 2019
Real estate received as loan guarantee	542 741	563 667
Real estate investment fund units	438 618	474 315
	981 359	1 037 982
Stress test	(98 136)	(103 798)

Stress test results correspond to the estimated impact on equity (before taxes) of a negative 10% variation in the values of real estate and investment units in real estate funds.

Operating Risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

Banco Montepio has the approval of the Bank of Portugal to use the standard method to quantify its own capital requirements for operating risk, supported on the existence of an operating risk management system based on the identification, assessment, monitoring, measurement, mitigation and reporting of this type of risk.

The Risk Department exercises the corporate function of operating risk management of Banco Montepio which is supported by the existence of participants in different organic units that ensure the proper implementation of the operating risk management.

The operating risk profile assessment for new products, processes and systems and its consequent monitoring, on a regular basis, has allowed the early identification and mitigation of potential risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the assessment of the exposure to operating risk and the preparation of periodic reports on the Institution's operating risk profile. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. A report is prepared annually, which includes the analysis of all aspects and instruments inherent to the operating risk management cycle.

As regards mitigation measures, action plans are suggested for the most significant risks, identified based on the operating risk management tools previously mentioned.

In addition, Banco Montepio has implemented a business continuity management process, supported by a set of assessment, design, implementation and monitoring activities, integrated in a cycle of continuous improvement.

In the context of the COVID-19 pandemic, the Business Continuity Plan was activated, with the measures foreseen for the crisis situation having been taken, with the objective of ensuring that the critical processes are carried out without disruption, or that the impact on these is not significant, which, to date, has been successfully achieved.

As provided for in the Business Continuity Plan, the Crisis Management Office was also activated, which is responsible for crisis management, for the management and execution of the Operational Continuity Plans and for the coordination of the business recovery teams and the return to normality.

Pension Fund Risk

The Pension Fund risk results from the potential devaluation of the Fund's asset portfolio or the decrease in the respective expected returns, as well as the increase in the Fund's liabilities as a result of the evolution of the different actuarial assumptions. In such scenarios, Banco Montepio will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular analysis and monitoring of Banco Montepio's Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the market value of the Pension Fund's portfolio and the associated risk indicators.

The Risk Department monitors the effect of possible measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has strengthened control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows for the monitoring of the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on the VaR calculation, with a confidence level of 99.5% for a one-year time horizon. Since VaR does not totally guarantee that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose of calculating the impact of several extreme scenarios on the value of the portfolio.

The assessment of the liquidity level of the share-based and bond-based components of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days for their liquidation, considering the assets in the portfolio. This test consists of verifying the liquidity of the share-based segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond-based segment, the cash receipts (positive cash flows) resulting from bond coupon (interest) payments and amortizations or possible call option exercises are calculated for one month. All these tests allow for the assessment of the degree of liquidity in the short term and to monitor or act in the event of a possible shortage of liquidity, in a timely manner.

Other Risks

With regard to other risks – reputation, compliance, strategy and business risks - these are also monitored by the Board of Directors, with the risks being controlled and corrective measures being taken based on the results obtained compared with the objectives/limits established, of note being, namely, the monitoring and control of deviations from the approved strategic plan and budget.

Hedging Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees, and financial collateral are relevant, as well as the provision of personal credit protection, namely of guarantees.

In terms of the direct reduction of the exposure value, credit operations collateralized by financial collateral are considered, namely, term deposits and securities. In financial collaterals, the market and foreign exchange risks of the assets involved are considered, and, when applicable, the value of the collateral is adjusted.

Regarding real mortgage guarantees, Banco Montepio has defined valuation and revaluation models to be applied to properties that may or already constitute real collateral for credit operations. The asset valuations are carried out by independent expert appraisers, and the management of the valuations and inspections is centralized in a unit that is independent of the commercial area. In accordance with (EU) Regulation no. 575/2013 (CRR), the requirements for the verification and revaluation of the assets' value, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation amount by an expert appraiser are assured.

For credit guarantees, the principle of the substitution of the customer's risk by that of the protection provider is applied, provided that the risk of the latter is not inferior to that of the prior.

Banco Montepio does not usually use on-balance sheet and off-balance sheet offsetting processes, nor does it hold credit derivatives on positions in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures with financial products with a symmetric risk to decrease the total risk of the exposures or the partial or total sale of exposures to reduce exposure or cancel it completely.

Regarding the banking portfolio, interest rate and foreign exchange risk mitigation techniques correspond to the negotiation of hedging operations with derivatives and the closure of exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of Banco Montepio are determined in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (CRR), adopted by the European Parliament and by the Council, Notice no. 10/2017 of the Bank of Portugal and Regulation (EU) no. 2020/873 of the European Parliament and Council, which introduced some amendments to the CRR is response to the COVID-19 pandemic. 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. As regards the fair value reserves, within the scope of Regulation (EU) no. 2020/873, Banco Montepio adhered to the possibility of applying the prudential filters to the fair value reserves associated with sovereign debt. 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. With the revision of Regulation (EU) no. 575/2013, of 27 June 2019, the applicable amount of insufficient coverage for non-productive exposures is now deducted if said exposures originated after 26 April 2019.

- *Level 1 Own Funds or Tier 1 (T1):* includes capital equivalent instruments, which conditions are in accordance with article 52 of Regulation (EU) no. 575/2013 of the European Union and that have been approved by the Bank of Portugal. Non-controlling interests relating to additional own funds' minimum requirements of the institutions in which Banco Montepio does not hold full ownership are also eligible if they exist. The eventual shareholdings of T1 capital of financial institutions subject to deduction are deducted from this capital.

- *Level 2 Own Funds or Tier 2 (T2):* includes capital equivalent instruments, which conditions are in accordance with article 63 of Regulation (EU) no. 575/2013 of the European Union and that have been approved by the Bank of Portugal. Non-controlling interests relating to the own fund's minimum requirements of the institutions in which Banco Montepio does not hold full ownership are also eligible if they exist. The eventual shareholdings of T2 capital of financial institutions subject to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels of own funds previously referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating and market risk requirements, reference is made to the weighting of 250.0% of deferred tax assets arising from timing differences that depend on future profitability and financial shareholdings that are within the limit established for non-deduction from CET1. With respect to deferred tax assets arising from timing differences that do not depend on future profitability, these are subject to a 100.0% weighting for capital requirement purposes. The CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phase-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period.

With the entry into force of Regulation (EU) no. 2020/873 of the European Parliament and Council, the dynamic component of the transitional plan applied to the IFRS 9 impacts (Regulation (EU) no. 2017/2395) was revised, with the introduction of an additional plan regarding the impacts of increased IFRS 9 impairment occurring after 01/01/2020 in Stages 1 and 2. These increases are subject to a transitional plan to derecognize these impacts in 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024. Regarding the transitional plan applicable to impairment increases in Stages 1 and 2 between 01/01/2018 and 31/12/2019, Banco Montepio has no impacts subject to this plan.

As referred, in 2020 the effects of Basel III's new regulation related to deferred tax assets that do not depend on future profitability (even if not very significant), as well as the effects resulting from the adoption of IFRS 9 are still being gradually introduced. This process is designated Phase-in. The full assumption of the new regulation, without considering transitory plans, is designated Full Implementation. The phase-in process is currently underway, and it is on this basis that an entity verifies that it has own funds for an amount not below the own funds' minimum requirements, thus certifying the adequacy of its capital. This relation is reflected in the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (ratio corresponding to the respective capital level as a percentage of the amount corresponding to 12.5 times the own funds' requirements).

For these ratios, regulatory minimums are indicated by CRD IV/CRR of 4.5% for CET1, 6.0% for Tier 1 and 8.0% for Total Capital. However, on these regulatory minimums are applied reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions), the value of which is defined by the Bank of Portugal. For 2020, the Bank of Portugal defined a 0% Counter-Cyclical Reserve. Regarding the Conservation Reserve, its value is 2.5%. Pursuant to these provisions, as at 30 June 2020, the Common Equity Tier 1, Tier 1 and Total regulatory ratios were 7.0%, 8.5% and 10.5%, respectively.

However, as a result of the COVID-19 virus pandemic, in line with the decision taken by the ECB for significant institutions, the Bank of Portugal allows the less significant credit institutions subject to its supervision to operate, on a temporary basis, with a level lower than the combined capital reserve (OCR), considering that capital reserves were designed to allow credit institutions to resist especially adverse situations. As a result, the minimum regulatory ratios as at 30 June 2020 for Common Equity Tier 1, Tier 1 and Total were 4.5%, 6.0% and 8.0%, respectively.

The summary of the calculation of Banco Montepio's capital requirements as at 30 June 2020 and 31 December 2019, under phase-in, is presented as follows:

(euro thousand)

	Jun 2020	Dec 2019
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(1 002 704)	(913 028)
Other regulatory adjustments	(530 224)	(509 402)
	887 072	997 570
Capital *Tier 1*	887 072	997 570
Capital *Tier 2*		
Subordinated loans	206 323	156 323
Regulatory adjustments	-	-
	206 323	156 323
Total own funds	1 093 395	1 153 893
Own funds requirements		
Credit risk	643 799	669 064
Market risk	2 306	4 264
Operating risk	50 710	50 710
Other requirements	40 867	43 910
	737 682	767 948
Prudential Ratios		
Common Equity Tier 1 Ratio	9,62%	10,39%
Tier 1 Ratio	9,62%	10,39%
Total Capital Ratio	11,86%	12,02%

It should be noted that the ratios, as at 30 June 2020 and 31 December 2019, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 30.

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 phase-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. If Banco Montepio did not apply this transitional plan, as well as the recent transitional plan defined in Regulation (EU) no. 2020/873, to the impacts arising from the adoption of IRFS 9, Banco Montepio's prudential ratios as at 30 June 2020 and 31 December 2019 would be:

(euro thousand)

	Jun 2020	Dec 2019
Capital Common Equity Tier 1	742 123	870 043
Capital Tier 1	742 123	870 043
Total own funds	948 446	1 026 366
Own funds requirements	725 502	755 897
Prudential ratios		
Common Equity Tier 1 Ratio	8.18%	9.21%
Tier 1 Ratio	8.18%	9.21%
Total Capital Ratio	10.46%	10.86%

If only the transitional plan applied to the initial impacts of the adoption of IFRS 9 was considered, and the transitional plan applicable to the increase in Stages 1 and 2 impairment after 1 January 2020 was not considered, the prudential ratios of Banco Montepio as at 30 June 2020 would be:

(euro thousand)

	Jun 2020
Capital Common Equity Tier 1	846 443
Capital Tier 1	846 443
Total own funds	1 052 766
Own funds requirements	734 262
Prudential ratios	
Common Equity Tier 1 Ratio	9.22%
Tier 1 Ratio	9.22%
Total Capital Ratio	11.47%

52 Recently issued accounting policies

IFRS Disclosures - New standards as of 30 June 2020:

1. Impact of the adoption of new standards and amendments to the standards that became effective on 1 January 2020:

a) **IFRS 3** (amendment), 'Definition of a business'. This amendment is a revision of the definition of a business for the purpose of accounting for business combinations. The new definition requires an acquisition to include an input and a substantial process that together generate outputs. Outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of cost reductions and other economic benefits to shareholders. Concentration tests are now allowed to determine whether a transaction involves the acquisition of an asset or a business.

b) **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Interest rate benchmark reform'. These amendments are part of the first phase of the IASB's 'IBOR reform' project and allow exemptions related to the reform for benchmark interest rates. The exemptions refer to hedge accounting, in terms of: i) risk components; ii) 'highly likely' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for adopters of IAS 39); and v) recycling of the cash flow hedge reserve, with the objective being that the reform of the benchmark interest rates does not determine the cessation of hedge accounting. However, any ineffectiveness of the coverage determined must continue to be recognized in the income statement.

c) **IAS 1 and IAS 8** (amendment), 'Definition of material'. This amendment introduces a modification to the concept of "material" and clarifies that the mention of unclear information refers to situations which effects are similar to omitting or distorting such information, and the entity should assess materiality considering the financial statements as a whole. Clarifications are also made as to the meaning of "main users of financial statements", these being defined as 'current and future investors, financiers and creditors' that depend on the financial statements to obtain a significant part of the information they need.

d) **Conceptual framework,** 'Amendments in referencing to other IFRS'. As a result of the publication of the new Conceptual Framework, the IASB introduced changes in the text of several standards and interpretations, namely: 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 expense/income, in addition to some of the characteristics of financial information. These amendments are retrospectively applicable, unless impracticable.

These changes had no material impact on the financial statements of Banco Montepio.

2. Standards (new and amended) published, the application of which is mandatory for annual periods beginning on or after 1 June 2020, but which the European Union has not yet endorsed:

a) **IFRS 16** (amendment), 'Leases – Rent concessions related to COVID-19' (effective for annual periods beginning on or after 1 June 2020). This amendment is still subject to endorsement by the European Union. This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether the rent concessions granted by lessors under COVID-19 qualify as "modifications" when three criteria are cumulatively met: i) the change in the lease payments results in a revised remuneration for the lease that is substantially equal to, or less than, the remuneration immediately prior to the change; ii) any reduction in lease payments only affects payments due on or until 30 June 2021; and iii) there are no significant changes to other lease terms and conditions. Lessees opting for the application of this exemption, account for the change in rental payments as variable lease rentals in the period(s) in which the event or condition leading to the payment reduction occurs. This amendment is applied retrospectively with the impacts being reflected as an adjustment to retained earnings (or another equity component, as appropriate) at the beginning of the annual reporting period in which the lessee applies the amendment for the first time.

b) **IAS 1** (amendment), 'Presentation of financial statements - classification of liabilities' (effective for annual periods beginning on or after 1 June 2022). This amendment is still subject to endorsement by the European Union. This amendment seeks to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity must defer their payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but it should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as non-compliance of a "covenant". This amendment also includes a new definition of the "settlement" of a liability. This amendment is retrospectively applicable.

c) **IFRS 3** (amendment), 'References to the Conceptual Framework' (effective for annual periods beginning on or after 1 June 2022). This amendment is still subject to endorsement by the European Union. This amendment updates the references to the Conceptual Framework in the text of IFRS 3, with no changes having been made to the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be adopted regarding liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus included in a business combination. This amendment is prospectively applicable.

d) **IAS 16** (amendment), 'Proceeds before intended use' (effective for annual periods beginning on or after 1 June 2022). This amendment is still subject to endorsement by the European Union. Changes the accounting treatment given to the consideration obtained from the sale of products that result from the production in the testing phase of the tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. This amendment is of retrospective application, without restatement of comparatives.

e) **IAS 37** (amendment), 'Onerous contracts - costs of complying with a contract' (effective for annual periods beginning on or after 1 June 2022). This amendment is still subject to endorsement by the European Union. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to direct labour and materials and the allocation of other directly related expenses, such as the allocation of depreciation expenses of tangible assets used to carry out the contract can be considered. This amendment should be applied to contracts that, at the beginning of the first annual reporting period in which the amendment is applied, still include contractual obligations to be satisfied, with no need to restate the comparatives.

f) **Improvements to the 2018 - 2020 standards** (to be applied to annual periods beginning on or after 1 January 2022). These amendments are still subject to endorsement by the European Union. This improvement cycle amends the following standards: IFRS 1, IFRS 9, IFRS 16 and IAS 41.

IFRS 1, 'Subsidiary as a first-time adopter of IFRS'. This improvement clarifies that, when the subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements, the measurement of the cumulative translation differences of all foreign operations can be made at the amounts that would be recorded in the consolidated financial statements, based on the transition date of the parent company to IFRS.

IFRS 9, 'Derecognition of liabilities - costs incurred to be included in the 10% variation test'. This improvement clarifies that under the derecognition tests carried out on renegotiated liabilities, the borrower must determine the net amount between fees paid and fees received considering only the fees paid or received between the borrower and the financier, including fees paid or received, by any one of the entities on behalf of the other.

IFRS 16, 'Rent concessions'. This improvement refers to the amendment to Illustrative Example 13 that accompanies IFRS 16, to eliminate inconsistency in the accounting treatment of rent concessions, attributed by the lessor.

IAS 41, 'Taxation and measurement of fair value'. This improvement eliminates the requirement to exclude tax cash flows when measuring the fair value of biological assets, ensuring consistency with the IFRS 13 - 'Fair value' principles.

g) **IFRS 17** (new), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). 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 characteristics. IFRS 17 is based on the current measurement of technical liabilities, which are reassessed at each reporting date. The current measurement can be made by applying the complete ("building block approach") or simplified ("premium allocation approach") model. The complete model is based on discounted cash flow scenarios weighted by the probability of occurrence and adjusted for risk, plus a contractual service margin, which represents the estimated future profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin unless it becomes negative. IFRS 17 is retrospectively applied with some exemptions on the transition date.

h) **IFRS 17** (amendment), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. This amendment includes specific changes in eight areas of IFRS 17, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the Statement of Financial Position; vii) recognition and measurement of the Income Statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and streamline its implementation.

Banco Montepio does not anticipate any significant impact on the application of this amendment to its consolidated financial statements.

53 Transfer of assets

Banco Montepio carried out several financial asset sale operations, namely loans and advances to customers, to funds specialized in the recovery of loans. These funds take responsibility for the management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of same.

The financial assets sold under these operations are derecognized from the balance sheet of Banco Montepio, since the operations result in the transfer to the funds of a substantial portion of the risks and rewards associated with the assets as well as the control of same.

The funds specialized in the recovery of credit that acquired financial assets from Banco Montepio are closed funds, in respect of which the holders have no possibility of requesting the redemption of their investment units throughout the useful life of same.

These investment units are held by several banks in the market that ceded the loans, in percentages that vary throughout the useful life of the funds, but it is ensured that each bank, separately, does not hold units representative of more than 50% of the capital of the funds.

The funds have a specific management structure (General Partner), fully independent from the seller banks, and that is selected on the date of the incorporation of the funds.

The management structure of the fund has as main responsibilities to:

- Define the objective of the fund; and
- Manage the fund on an exclusive basis, determining the objectives and investment policy and the conduct of the management and business of the fund.

The management structure is remunerated through management commissions charged to the funds.

Generally, these funds, in which Banco Montepio holds minority positions, incorporate companies under Portuguese law in order to acquire the loans from the banks, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds, fully subscribed by the funds that hold the share capital of the companies, matches the fair value of the asset transferred, determined in accordance with a negotiation process based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company holding the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the transfer value of the loans to the Portuguese-law companies.

These junior bonds, when subscribed by Banco Montepio, grant the right to a contingent positive value if the value of the assets transferred exceeds the nominal value of the senior bonds plus their related interest.

However, considering that these junior bonds reflect a valuation difference of the assets transferred, based on valuations performed by independent entities and a negotiation process between the parties, the junior bonds are fully provided against.

Therefore, following the asset sale operations carried out, Banco Montepio subscribed:

- Investment units of the funds, in which the cash flows that will allow their recovery arise mainly from a broad set of assets transferred by the various participant banks (where Banco Montepio has a clear minority interest). These securities are booked in the portfolio of financial assets at fair value through other comprehensive income and are accounted for at fair value based on the quotation value, as disclosed by the funds and audited at each year end;
- Junior bonds (with a higher subordination level), issued by the Portuguese-law companies controlled by the funds, which are fully provided against because they reflect the best estimate of the impairment of the financial assets transferred.

In this context, of not holding control but maintaining some exposure to certain risks and rewards, Banco Montepio, in accordance with IFRS 9 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the operation, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence over the funds or the companies holding the assets, Banco Montepio derecognized the assets transferred and recognized the assets received in return as follows:

(euro thousand)

	Jun 2020			Dec 2019		
	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
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 2020 and 31 December 2019, the assets received under these operations are as follows:

(euro thousand)

	Jun 2020	Dec 2019
	Senior securities	
Fundo Vega, FCR	26 176	27 824
Fundo de Reestruturação Empresarial, FCR	7 547	7 567
	33 723	35 391

Although the subordinated securities are fully provided against, Banco Montepio also has an indirect exposure to the financial assets transferred, in the scope of the minority investment in the pool of all the assets transferred by other financial institutions, through the shares and investment units in the funds acquired in the scope of the operations (designated in the table as senior bonds).

54 Contingencies

Resolution Fund

The Resolution Fund is a legal person governed by public law with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the Legal Framework of Credit Institutions and Financial Companies (“RGICSF “) and by its regulations and its mission is to provide financial support for the resolution measures implemented by the Bank of Portugal, in its quality as national resolution authority, and to perform all other functions conferred by law in the implementation of such measures.

As with the majority of the financial institutions operating in Portugal, Banco Montepio is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by the Bank of Portugal based, among others, on the amount of its liabilities. As at 30 June 2020, the periodic contribution made by Banco Montepio amounted to Euro 4,263 thousand (30 June 2019: Euro 4,156 thousand), based on a contribution rate of 0.060%.

Resolution measure applied to Banco Espírito Santo, S.A. (BES)

As part of its responsibility while supervisory and resolution authority of the Portuguese financial sector, the Bank of Portugal, on 3 August 2014, decided to apply to Banco Espírito Santo, S.A. (“BES”) a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its activity to a transition bank called Novo Banco, S.A. (“Novo Banco”), created especially for this purpose.

To realize the share capital of Novo Banco, the Resolution Fund, while sole shareholder, provided Euro 4,900 million, of which Euro 365 million corresponding to its own financial resources. A loan was granted by a bank syndicate to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution weighted according to several factors, including their size. The remaining amount (Euro 3,900 million) came from a repayable loan granted by the Portuguese State.

Following the implementation of the referred resolution measure, on 7 July 2016, the Resolution Fund stated that it would review and evaluate the steps to be taken following the publication of the report on the results of the independent valuation exercise, carried out to estimate the level of credit recovery for each class of lenders in the hypothetical scenario of a normal insolvency process of BES as at 3 August 2014. Under the applicable law, if it turns out that lenders which credits have not been transferred to Novo Banco assume a greater loss than they would hypothetically have had BES entered into a liquidation process immediately prior to the application of the resolution, these lenders are entitled to receive the difference from the Resolution Fund.

On 31 March 2017, the Bank of Portugal announced that it had selected Lone Star Fund for the purchase of Novo Banco, which was concluded on 17 October 2017, through the injection by the new shareholder of Euro 750 million, which will be followed by a new capital injection of Euro 250 million, to be completed within the period of three years. With this operation, Novo Banco’s status as transition bank ceased, with Lone Star Fund now holding 75% of the share capital of Novo Banco and the Resolution Fund the remaining 25%, albeit without the corresponding voting rights.

On 26 February 2018, the European Commission released the non-confidential version of the State aid approval decision underlying the sale process of Novo Banco, which includes a contingent capitalization mechanism whereby the Resolution Fund may be called upon to carry out capital injections if certain conditions materialize related to the performance of a restricted set of assets of Novo Banco and the evolution of the bank's capital levels.

This mechanism is triggered annually, based on the annual accounts of Novo Banco certified by the respective auditor, with the possibility of intra-annual assessments being foreseen, but only in the event of non-compliance, by Novo Banco, with the prudential requirements. For the purpose of this mechanism, the differences in the valuation of assets (positive or negative) are considered in relation to their book value, net of impairments, recorded as at 30 June 2016 (circa Euro 7.9 thousand million according to the information provided by Novo Banco). Hence, economic losses or gains resulting from, for example, the sale of assets or the restructuring of loans, but also the impairment, or its reversal, recorded by Novo Banco, in accordance with the accounting standards, as well as the costs of financing associated with the maintenance of the assets in the balance sheet of Novo Banco, are considered.

Under the referred mechanism, 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 were used. 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.

On 6 May 2019, the Resolution Fund made the payment of Euro 1,149 million to Novo Banco with reference to the accounts of 2018, having used its own resources, resulting from contributions due, directly and indirectly, by the banking sector, and resorted to a loan from the State in the amount of Euro 850 million, which corresponds to the maximum annual financing limit agreed between the Resolution Fund and the State in October 2017.

In May 2020, the Resolution Fund made the payment of Euro 1,035 million to Novo Banco with reference to the accounts of 2019, which resulted from the execution of the agreements celebrated in 2017, in connection with the sale of 75% of the Resolution Fund's shareholding in Novo Banco, complying with all the procedures and limits defined therein, and resorted to a loan from the State in the amount of Euro 850 million.

This mechanism is valid until 31 December 2025 (and may be extended until 31 December 2026) and is limited to an absolute maximum of Euro 3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of the Bank of Portugal deliberated, on 19 December 2015, to declare that Banif – Banco Internacional do Funchal, S.A. ("Banif") was "at risk or in a situation of insolvency" and to start the urgent resolution of the institution through the mode of the partial or total disposal of its activity, and which materialized, on 20 December 2015, with the disposal of the rights and obligations, representing assets, liabilities, off-balance sheet items and assets under management of Banif to Banco Santander Totta S.A. ("Santander Totta") for Euro 150 million.

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. ("Oitante"), created specifically for this purpose, which has as sole shareholder the Resolution Fund. Oitante issued debt securities in the amount of Euro 746 million, with a guarantee being provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved public support estimated at Euro 2,255 million that aimed to cover future contingencies and that was financed in Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

On 21 July 2016, the Resolution Fund made a payment to the State, amounting to Euro 163,120 thousand, as an early partial repayment of the resolution measure applied to Banif, bringing the outstanding amount down from Euro 489 million to Euro 353 million.

As of this date, the conclusions of the independent assessment exercise to estimate the level of credit recovery for each class of lender in the hypothetical scenario of the normal insolvency process of Banif as at 20 December 2015 are not yet known. As noted above for BES, if lenders are found to assume a greater loss than they hypothetically would have had Banif entered into a liquidation process immediately prior to the application of the resolution measure, those creditors are entitled to receive the difference from the Resolution Fund.

Liabilities and funding of the Resolution Fund

Following the resolution measures applied to BES and Banif and the sale agreement of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities resulting from:

- the effects of the application of the principle that no creditor of an institution under resolution may assume a greater loss than it would have assumed had that institution entered into liquidation;
- the negative effects arising from the resolution process resulting in additional liabilities or contingencies for Novo Banco, which must be neutralized by the Resolution Fund;
- legal proceedings against the Resolution Fund;
- the guarantee provided to the bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- the contingent capitalization mechanism associated with the sale process of Novo Banco to Lone Star.

In order to preserve the financial stability through the promotion of conditions that provide predictability and stability to the contributory effort to the Resolution Fund, the Portuguese Government has agreed with the European Commission to change the conditions of the financing provided by the Portuguese State and the participating banks to the Resolution Fund. To this end, an amendment to the Resolution Fund's financing agreements have been formalized, introducing a number of changes to the repayment plans, remuneration rates, and other terms and conditions associated with these loans, to adjust them to the Resolution Fund's ability to fully meet its obligations on the basis of its regular revenues, i.e. without the need for any charges to be made to the participating banks for special contributions or any other type of extraordinary contribution.

According to the Resolution Fund's announcement of 31 March 2017, the revision of the conditions of the financing granted by the Portuguese State and the participating banks was aimed at ensuring the sustainability and financial equilibrium of the Resolution Fund, based on a stable, predictable and affordable burden for the banking sector. Based on this revision, the Resolution Fund considered that the full payment of its liabilities as well as their respective remuneration was ensured, without the need for special contributions or any other extraordinary contributions from the banking sector.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the Portuguese State and by a bank syndicate, in which the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Minister of Finance, these 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 on these financial statements.

Competition Authority

Last 9 September 2019, Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio) was notified of the final decision of the Competition Authority on the administrative process PRC-2012/9 ("Decision"), in which it concluded that more than ten banking institutions operating in Portugal, among them Banco Montepio, participated in a concerted practice of restrictive competition, of the exchange of sensitive commercial information, in breach of article 9 of Law no. 19/2012, of 8 May and article 101 of the Treaty on the Functioning of the European Union, having applied on Banco Montepio a fine of Euro 13 million.

The decision is subject to appeal to the Court of Competition, Regulation and Supervision by all parties concerned, including Banco Montepio. The lodging of an appeal determines the suspension of the obligation to pay the fine until the decision has become final or the provision of a guarantee, in an amount to be set by the Court, which decision is awaited. In like manner to many other institutions targeted that have publicly announced this intention, Banco Montepio challenged this Decision on 21 October 2019. In the light of all the relevant circumstances, it is considered that there is a serious and significant likelihood that the administrative fine will not become effective in light of the legal remedies that come to be lodged against the Decision.

We are not aware, to date, of any claim for damages related to the Decision or to the related facts. In the light of all the relevant circumstances, it is considered that the chances of success of any legal actions brought against Banco Montepio based on the Decision would be reduced.

Bank of Portugal

As at 31 December 2019, the Bank has been the subject of several administrative offense processes instituted by the Bank of Portugal, for alleged practices and infractions in regulatory matters that are applicable to the Bank, in a maximum global amount of possible fines that amounts to approximately Euro 30 million.

The evolution of these processes is regularly monitored by the Bank's Board of Directors, with technical-legal intervention under the responsibility of its Legal Department and, in certain cases, by law firms.

For some of these processes, the Bank of Portugal issued decisions in the scope of summary proceedings, whereby it proposed a single fine of substantially less than the amount of the potential maximum fine. Other processes are still in a preliminary phase, with the evidence requested by the defendants still not having been produced, which significantly limits the risk analysis; even so, it is considered that the Bank has serious and reasonable lines of defence, whether in terms of factual support, or in terms of the legal framework, with regard to most of the infractions attributed to it.

Thus, the Board of Directors admits as possible that the Bank's lines of defence may be successful, in whole or in part, in relation to many of the infractions that are attributed to it, even though the respective risk of conviction still exists, in relation to some of the imputed infractions, but not exceeding, however, the amount of provisions recognized by the Bank as at 30 June 2020.

55 Subsidiaries and associated companies of Banco Montepio

As at 30 June 2020 and 31 December 2019, the companies directly or indirectly held by Banco Montepio are as follows:

					Group		Bank
Subsidiary	**Head office**	**Share capital**	**Currency**	**Activity**	**% of control**	**% of effective part**	**% of direct part**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verde escudo	Banking	100.00%	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Porto	175 000 000	euro	Managements of shareholding	100.00%	100.00%	100.00%

(euros)

Subsidiary	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	10 000 000	Accommodation, 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 2020, Banco Montepio held investment units in investment funds as follows:

Subsidiary	Establishment year	Aquisition 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

56 NPL Disclosures

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non-Performing Loans) ratio greater than 5% must publish a set of information related to NPE (Non-Performing Exposures), restructured loans and assets received vas payment in kind, according to a standardized format, as follows:

(Euro thousand)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	Of Non-performing restructured exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Loans and advances								
Other financial corporations	-	35 928	35 928	35 928	-	(6 522)	-	-
Non-financial corporations	57 004	690 386	690 386	690 386	(5 305)	(388 778)	1 058	1 058
Households	38 451	80 893	80 893	80 893	(1 018)	(30 717)	31	31
	95 455	**807 207**	**807 207**	**807 207**	**(6 323)**	**(426 017)**	**1 089**	**1 089**

Credit quality of performing and non-performing exposures by past due days

(Euro thousand)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past due or are past due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which defaulted
Loans and advances	**11 253 223**	**11 210 840**	**42 382**	**1 415 671**	**414 622**	**105 096**	**100 544**	**158 087**	**298 715**	**252 198**	**86 408**	**1 411 068**
Central banks	805 884	805 884	-	-	-	-	-	-	-	-	-	-
General governments	114 794	114 794	-	-	-	-	-	-	-	-	-	-
Credit institutions	748 319	748 319	-	-	-	-	-	-	-	-	-	-
Other financial corporations	37 489	37 489	-	58 663	33 441	13	22 689	2 505	8	-	7	58 663
Non-financial corporations	3 365 191	3 348 711	16 480	1 158 832	303 415	88 348	60 475	135 964	262 567	231 641	76 421	1 155 475
of which SMEs	2 943 163	2 926 683	16 480	1 025 324	266 358	45 577	56 642	126 533	222 477	231 317	76 420	1 021 967
Households	6 181 546	6 155 643	25 902	198 176	77 766	16 735	17 380	19 618	36 140	20 557	9 980	196 930
Debt securities	**5 203 603**	**5 203 603**	**-**	**34 800**	**-**	**-**	**1 800**	**33 000**	**-**	**-**	**-**	**34 800**
Central banks	-	-	-	-	-	-	-	-	-	-	-	
General governments	2 731 861	2 731 861	-	-	-	-	-	-	-	-	-	
Other financial corporations	1 910 550	1 910 550	-	-	-	-	-	-	-	-	-	
Non-financial corporations	561 192	561 192	-	34 800	-	-	1 800	33 000	-	-	-	34 800
Off-balance-sheet exposures	**2 169 383**			**108 327**								**108 324**
General governments	25 867			-								-
Credit institutions	542 595			-								-
Other financial corporations	51 402			7								7
Non-financial corporations	1 143 632			103 622								103 620
Households	405 887			4 698								4 698
	18 626 209	**16 414 443**	**42 382**	**1 558 798**	**414 622**	**105 096**	**102 344**	**191 087**	**298 715**	**252 198**	**86 408**	**1 554 192**

Performing and non-performing exposures and related provisions

(Euro thousand)

	Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 3		Of which stage 2	Of which stage 3		Of which stage 3		
Loans and advances	11 253 223	8 907 805	2 342 582	1 415 671	1 415 671	(122 422)	(29 071)	(93 351)	(721 755)	(721 755)	7 882 852	458 247
Central banks	805 884	783 052	22 832	-	-	-	-	-	-	-	-	-
General governments	114 794	107 613	5 380	-	-	(320)	(165)	(155)	-	-	2 669	-
Credit institutions	748 319	261 231	487 089	-	-	(6 570)	(995)	(5 575)	-	-	-	-
Other financial corporations	37 489	34 249	3 240	58 663	58 663	(357)	(150)	(207)	(7 907)	(7 907)	19 627	50 728
Non-financial corporations	3 365 191	2 594 458	769 697	1 158 832	1 158 832	(81 103)	(24 555)	(56 548)	(637 366)	(637 366)	2 066 953	306 649
Of which SMEs	2 943 163	2 208 092	734 034	1 025 324	1 025 324	(75 635)	(21 062)	(54 573)	(560 561)	(560 561)	1 919 222	269 448
Households	6 181 546	5 127 202	1 054 344	198 176	198 176	(34 072)	(3 206)	(30 866)	(76 482)	(76 482)	5 793 603	100 870
Debt securities	5 203 603	5 088 663	6 025	34 800	34 800	(10 646)	(9 946)	(700)	(4 824)	(4 824)	-	-
General governments	2 731 861	2 731 861	-	-	-	(7 297)	(7 297)	-	-	-	-	-
Other financial corporations	1 910 550	1 799 110	2 525	-	-	(586)	(188)	(398)	-	-	-	-
Non-financial corporations	561 192	557 692	3 500	34 800	34 800	(2 763)	(2 461)	(302)	(4 824)	(4 824)	-	-
Off-balance-sheet exposures	2 169 383	1 607 070	562 313	108 327	108 327	10 660	4 521	6 138	7 712	7 712	-	-
General governments	25 867	25 820	48	-	-	1	1	-	-	-	-	-
Credit institutions	542 595	386 439	156 155	-	-	683	617	65	-	-	-	-
Other financial corporations	51 402	36 597	14 805	7	7	167	47	120	-	-	-	-
Non-financial corporations	1 143 632	947 586	196 046	103 622	103 622	8 321	3 496	4 825	7 712	7 712	-	-
Households	405 887	210 628	195 259	4 698	4 698	1 488	360	1 128	-	-	-	-
	18 626 209	**15 603 538**	**2 910 920**	**1 558 798**	**1 558 798**	**(122 408)**	**(34 496)**	**(87 913)**	**(718 867)**	**(718 867)**	**7 882 852**	**458 247**

Guarantees obtained by ownership taking and executions processes

(Euro thousand)

	Guarantees obtained by ownership taking	
	Value at initial recognition	Accumulated negative chages
Other, except for Tangible Assets		
Housing Real Estate	232 273	(56 167)
Commercial Real Estate	1 582 333	(243 289)
Other, except Tangible Assets	37 954	(20 567)
	1 852 560	**(320 023)**

57 Exposures and impacts resulting from COVID-19 measures taken

Following the recommendations of the European Banking Authority, and in accordance with Instruction no. 19/2020 on the reporting and dissemination of information on exposures subject to measures applied in response to the COVID-19 crisis as per the EBA guidelines (EBA/GL/2020/07), we present below the following details regarding moratoria and loans granted under the new public guarantee plans:

Information about the loans and advances subject to legislative and non-legislative moratoriums

(Euro thousand)

	Gross carrying amount/nominal amount						Accumulated impairments, accumulated negative fair value changes resulting from credit risk and provisions						Gross carrying amount/nominal amount
		Performing exposures		Non-performing exposures				Performing exposures		Non-performing exposures			
			Of which: exposures subject to forbearance		Of which: exposures subject to forbearance	Of which: Reduced probability of payment but not past due or are past due <= 90 days			Of which: exposures subject to forbearance		Of which: exposures subject to forbearance	Of which: Reduced probability of payment but not past due or are past due <= 90 days	Contributions to non-performing exposures
Loans and advances subject to moratorium	3 026 292	2 803 100	682	223 191	18 708	5 615	(148 490)	(62 643)	(56)	(39 663)	(1 002)	(1 002)	32 897
Oh which: Retail	1 207 570	1 162 944	596	44 626	8 836	1 246	(29 231)	(15 935)	(51)	(13 296)	-	-	14 487
Oh which: Backed by Housing Real Estate	1 207 465	1 162 944	596	44 521	8 753	1 246	(29 125)	(15 935)	(51)	(13 190)	-	-	14 487
Of which: Non-financial corporations	1 815 613	1 637 053	86	178 560	9 872	4 369	(119 108)	(46 560)	(6)	(72 549)	(1 002)	-	18 404
Of Which: SMEs	1 529 898	1 422 209	86	107 689	8 244	4 369	(84 930)	(43 407)	(6)	(41 523)	-	-	18 404
of Which: Backed by Commercial Real Estate	1 055 848	108 090	-	947 757	1 627	-	(15 870)	(1 274)	-	(14 596)	-	-	18 404

Breakdown of loans and advances subject to legislative and non-legislative moratoriums by residual term of the moratoriums

(Euro thousand)

	Number of Debtors	Gross carrying amount/nominal amount							
			Of which: legislative moratoriums	Of which: expired	Residual term of the moratoriums				
					<= 3 months	>3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was requested	34 072	3 026 292							
Loans and advances for which moratorium was accepted	34 072	3 026 292	2 852 052	-	32 042	2 957 092	1 504	33 899	1 754
Of which: Retail		1 207 570	1 033 331	-	7 576	1 164 197	1 504	33 607	686
Of which: Backed by Housing Real Estate		1 207 465	1 033 318	-	7 576	1 164 092	1 504	33 607	686
Of which: Non-financial corporations		1 815 613	1 815 613	-	24 466	1 789 787	-	292	1 068
Of which: SMEs		1 529 898	1 529 898	-	23 968	1 505 418	-	292	221
Oh which: Backed by commercial Real Estate		1 055 848	1 055 848	-	3 059	1 052 788	-	-	-

Banco Montepio's activity in the 1st half of 2020 was marked by the impact of the COVID-19 pandemic with cross-sectional effects that were still felt at the end of the 1st quarter of 2020 in the financial markets, subsequently materializing also in the real economy, with historical declines in economic activity and with a greater impact in the second quarter of 2020 due to the lockdown period. In this context, Banco Montepio recorded Euro 109.4 million of loan impairment, of which Euro 39.5 million are estimated to result from the increased credit risk motivated by the COVID-19 pandemic. In addition, it is also important to highlight other impacts arising from COVID-19, namely:

- The granting of loan moratoria, with Banco Montepio granting 34,072 moratoria between 27 March and 30 June 2020, in the total amount of Euro 3 thousand million, with an impact on liquidity through the lower amount of repayments of credit instalments;

- The significant reduction in transactionality and the legislative measures imposed on payments, with an impact on banking income through lower commissions;

- The worsening of the negative foreign exchange reserves in the 1st half of 2020 in Euro 12 million, of which Euro 7 million in the 1st quarter and Euro 4.8 million in the second quarter of 2020, essentially due to the exposure to the Kwanza in the scope of Finibanco Angola's activity.

The short- and medium-term prospects point to unfavourable impacts associated with COVID-19, which magnitude is still uncertain, namely in terms of the commercial business, capital and liquidity, profitability, credit quality and the reduction of non-productive assets:

- With regard to the commercial business, more specifically at the level of the credit granted: the publication of DL 10-J/2020 - Legal moratorium, as well as the signature of the private moratoria of the APB and ASFAC, will have a direct impact on the level of liquidity, due to the lower repayment of credit instalments. The Group has comfortable levels of liquidity, embodied in an LCR ratio of around 224% at the end of the 1st half of 2020.

- With regard to the capital and liquidity components, in line with the decision taken by the ECB for significant institutions, the Bank of Portugal has authorized the less significant credit institutions subject to its supervision, which includes Banco Montepio, to operate temporarily, with a level lower than the own funds recommendation (Pillar 2 Guidance) and the combined own funds reserve, and with liquidity levels below the LCR ratio requirement. The ECB has committed to let banks operate below P2G and the conservation reserves at least until the end of 2022, without triggering any supervisory measures, referring that the calendar for the reestablishment shall be realized on a case-by-case basis according to the individual situation of each bank, and after the stress test exercise results are known. It is not required of the banks to reinstate the capital buffers until the peak of capital deterioration is attained.

- In terms of liquidity, the ECB's announcement of the adoption of a set of easing measures with positive impacts at the level of the liquidity buffers in the financial system should also be highlighted, with these being aimed at mitigating the negative effects of the pandemic on the financial situation of the Eurosystem's monetary policy counterparties, namely by reducing the haircuts applicable to marketable and non-marketable assets pledged as collateral, by increasing the concentration limit on unsecured debt instruments issued by credit institutions, by relaxing the rules on mobilization of individual credit rights, by relaxing the rules for the mobilization of credit rights' portfolios, as well as through the acceptance of guarantees from public entities and of public debt securities. These measures have an additional positive impact on the liquidity position of the Group.

- As for the banking product, unfavourable impacts have already been felt at the level of commissioning, namely in the income resulting from transactionality, considering the legal measures imposed and the abrupt reduction in economic activity during the state of emergency, which pace of recovery is difficult to predict. However, there has already been a recovery in the level of commissions after the end of the lockdown period to levels close to, but still below, those observed in the first months of the year.

- In terms of the cost of risk, due to the incorporation of new more serious macroeconomic scenarios, and the lower capacity of borrowers to meet their debt service, despite ongoing government and sectoral initiatives, as well as a downward pressure on real estate prices.

- At the level of the deleveraging of non-core assets, implying the need to revisit the non-productive credit reduction plan, as well as the plan to reduce exposure to real estate risk. The ECB authorized banks under its supervision to submit new plans at the end of March 2021, date on which the moratoria were due to end.

58 Subsequent events

The Bank analyses events occurring after the balance sheet date, i.e. the favourable and unfavourable events that occur between the balance sheet date and the date on which the financial statements are authorized for issue. Consequently, two types of events can be identified:

- Those that provide proof of conditions that existed at the balance sheet date (adjusting events);

- Those that are indicative of conditions that arose after the balance sheet date (non-adjusting events occurring after the balance sheet date).

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

On 8 September 2020, the rating agency Moody's published the revision of the rating attributed to the Angolan State's public debt from B3 to Caa1. The rating agencies Fitch and Standard & Poor's (S&P) had already carried out this rating revision in the 1st quarter of this year. Considering the parameters disclosed in Moody's study published in 2019, as required by Directive no. 13/DSB/DRO, of 27 December 2019 of the BNA, which served as the basis for the preparation of the financial statements for the Bank on 30 June 2020, it is estimated that this downgrade of the rating of Angolan State debt held by the Bank has a negative impact on the results of the subsidiary Finibanco Angola of approximately Kwanza 3 thousand million (Euro: approximately 5 million). To date, it has not yet been possible to ascertain the potential impacts at the level of the customer loan portfolio, namely through financial collaterals and counterparties with Angolan State risk.

Banco Montepio is in the process of implementing a restructuring plan that aims to accelerate the digital transition, adjust the service model, and increase the efficiency of Banco Montepio. In this context, the plan focuses mainly on operational adjustment, maximizing the complementary margin and simplifying the Group and the Offer.

TRANSLATION NOTE

These Financial Statements and Notes to the Financial Statements are a free translation from the original version in the Portuguese language. In the event of misrepresentations or discrepancies the original version shall prevail.

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE BOARD OF DIRECTORS

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE BOARD OF DIRECTORS

This declaration is issued under the terms of paragraph c) of no. 1 of article 246 of the Securities Code approved by Decree-Law no. 486/99, of 13 November, and republished by Law no. 35/2018.

It is the responsibility of the Board of Directors to prepare the management report and the financial statements, presenting, in a true and appropriate manner, the financial position of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio), the result of operations as well as the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system to prevent and detect any errors or irregularities.

We confirm, to the best of our knowledge and belief, that:

- All individual and consolidated financial information contained in the accounting documents, with reference to 30 June 2020, was prepared in accordance with the applicable accounting standards, giving a true and appropriate image of the assets and liabilities, the financial situation and the results of Banco Montepio and the companies included in the consolidation perimeter;
- The management report truly exposes the evolution of the business, the performance and the position of the Institution and the companies included in the consolidation perimeter, and contains a description of the main risks and uncertainties they face.

BOARD OF DIRECTORS

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

Lisbon, 24 September 2020

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 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 turbulence periods).	**MR** – Business Segments, page 40
2.	Description of strategies and objectives (including those specifically related to the undertaking of securitisation operations and operations with structured products).	**MR** – Business Segments, page 40
3.	Description of the importance of the activities developed and their contribution to the business (including in quantitative terms).	**MR** – Business Segments, page 40, Financial analysis, page 62 **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 40, Financial analysis, page 62, Risk Management, page 89 **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 89 **FSNO** – Risk Management (NOTA 55)
7.	Description of risk management practices (including, in particular, liquidity risk) of relevance to the activities, description of any identified weaknesses and corrective measures that have been adopted.	**MR** – Risk Management, page 89 **FSNO** – Risk Management (NOTA 55)
III.	**Impact of the period of financial turbulence on net income**	
8.	Qualitative and quantitative description of net income, with emphasis on losses (when applicable) and impact of write-downs on net income.	**MR** – Financial analysis, page 62

		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 62, Risk Management, page 89 **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 62
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 62 **FSNO** – Financial Statements, page 113
12.	Breakdown of write-downs between realised and unrealised amounts.	**MR** – Financial analysis, page 62 **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 89 **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 62 **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 89 **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 89 **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 62 **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 (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 89 **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 5 October 2015, the European Securities and Markets Authority published a set of guidelines – ESMA/2015/1415 – addressing the disclosure of information by entities, other than States, whose securities are admitted to trading on a regulated market and to which is required the disclosure of information as set out by the Transparency Directive 2004/109/EC of the European Parliament and of the Council.

These guidelines are mandatory for issuers as of 3 July 2016, and aim to promote transparency and clarify the usefulness of the indicators used by the issuers to measure their performance - Alternative Performance Measures (APM), contributing to improve the comparability, credibility and understanding of the APM presented.

This chapter serves the purpose of complying with ESMA guidelines on Alternative Performance Measures regarding to the first half of 2020 financial reporting, with references to the various chapters of this Report.

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS (PAGE 68, 69, 72, 73)

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 114, (notes 23, 25, 27, 24)

Components and calculus

(thousand euros)

		Jun-19	Dec-19	Jun-20
(a)	Financial assets held for trading	47 766	35 905	43 955
(b)	Financial assets at fair value through other comprehensive income	1848 006	1859 691	1199 387
(c)	Other financial assets at amortised cost	913 225	899 145	1703 767
(d)	Financial assets at fair value through profit or loss*	437 396	384 675	371469
(e)	Securities portfolio and other financial assets (a+b+c+d)	3 246 393	3 179 416	3 318 578
(f)	Total net assets	18 694 600	17 740 142	17 882 093
	% Securities portfolio and other financial assets (e / f)	17.4%	17.9%	18.6%

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

OTHER INVESTMENTS (PAGE 69)

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 114, (notes 19, 20, 21, 22, 23, 25, 27, 24)

Components and calculus

(thousand euros)

		Jun19	Dec-19	Jun-20
(a)	Total net assets	18 694 600	17 740 142	17 882 093
(b)	Cash and deposits at central banks and loans and advances to credit institutions	1709 922	1308 692	1249 803
(c)	Net loans to customers	11660 223	11464 542	11554 304
(d)	Financial assets held for trading	47 766	35 905	43 955
(e)	Financial assets at fair value through other comprehensive income	1848 006	1859 691	1199 387
(f)	Other financial assets at amortised cost	913 225	899 145	1703 767
(g)	Financial assets at fair value through profit or loss	437 396	384 675	371469
(h)	Other investments (a - b - c - d - e - f - g)	2 078 062	1787 492	1759 408
	% of Other investments (h / a)	11.1%	10.1%	9.8%

DEBT ISSUED (PAGE 68, 75, 77)

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 114, (notes 38, 40)

Components and calculus

(thousand euros)

		Jun-19	Dec-19	Jun-20
(a)	Debt securities issued	960 618	1389 980	1327 340
(b)	Other subordinated debt	154 552	157 847	211 164
(c)	Debt issued (a+b)	1115 170	1547 827	1538 504
(d)	Total liabilities	17 171 418	16 288 154	16 523 344
	% of Debt issued (c / d)	6.5%	9.5%	9.3%

COMPLEMENTARY RESOURCES (PAGE 75)

Definition	Total liabilities excluding 'Central bank resources and OCI, 'Customer resources', 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Assess the relative weight of this item compared to Customer resources and Issued debt from a funding structure perspective.
Reference to FSNO	Page 114, (notes 35, 36, 37, 38, 40)

Components and calculus

(thousand euros)

	Jun-19	Dec-19	Jun-20
(a) Total liabilities	17 171 418	16 288 154	16 523 344
(b) Central bank resources and OCI	2 692 664	1 813 194	2 172 027
(c) Customer resources	12 680 242	12 524 697	12 421 589
(d) Debt securities issued	960 618	1 389 980	1 327 340
(e) Other subordinated debt	154 552	157 847	211 164
(f) Complementary resources (a - b - c - d - e)	683 342	402 436	391 224
% of Complementary resources (f / a)	**4.0%**	**2.5%**	**2.4%**

OFF-BALANCE SHEET RESOURCES (PAGE 76, 77)

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

	Jun-19	Dec-19	Jun-20
(a) Securities investment funds	158 609	182 078	156 217
(b) Real estate investment funds	329 836	385 468	394 713
(c) Pension funds	237 478	249 258	243 155
(d) Capitalization Insurance	6 239	996	963
Off-balance sheet resources (a + b + c + d)	**732 162**	**817 800**	**795 048**

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME (PAGE 79)

Definition	Results arising from interest received on loans granted to customers and interest paid on customer 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-19	Dec-19	Jun-20
(a) Interest received from loans to customers	143 374	279 642	128 914
(b) Interest paid on customer deposits	19 636	34 751	11 026
Commercial net interest income (a - b)	**123 738**	**244 891**	**117 888**

OPERATING COSTS (PAGE 79, 84, 85)

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 115, (notes 11, 12, 13)

Components and calculus

(thousand euros)

	Jun-19	Dec-19	Jun-20
(a) Staff costs	77 854	157 567	78 819
(b) General and administrative expenses	31206	65 489	32 503
(c) Depreciation and amortisation	16 379	31243	16 176
Operating costs (a + b + c)	**125 439**	**254 299**	**127 498**

RESULTS FROM THE COMMERCIAL ACTIVITY (PAGE 79)

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 115, (notes 3, 5, 11, 12, 13)

Components and calculus

(thousand euros)

	Jun-19	Dec-19	Jun-20
(a) Commercial net banking income	123 738	244 891	117 888
(b) Net commissions	57 689	121 540	56 127
(c) Operating costs	125 439	254 299	127 498
Results from the commercial activity (a + b - c)	**55 988**	**112 132**	**46 517**

RATIOS

LTD RATIO: NET LOANS TO CUSTOMERS / ON-BALANCE SHEET CUSTOMER RESOURCES (PAGE 10, 65, 66)

Definition	Percentage of net loans to customers funded by the total amount of on-balance sheet resources from customers.
Relevance	Assess the leverage degree of the banking activity through the relationship between funds raised with customers and loans granted to customers.
Reference to FSNO	Page 114, (notes 22, 37, 38)

Components and calculus

(thousand euros)

	Jun-19	Dec-19	Jun-20
(a) Net loans to customers	11 660 223	11 464 542	11 554 304
(b) Customer resources	12 680 242	12 524 697	12 421 589
(c) Debt securities issued	960 618	1 389 980	1 327 340
Net loans to customers / On-balance sheet customer resources (a / (b + c))	**85.5%**	**82.4%**	**84.0%**

EFFICIENCY RATIO: COST TO INCOME, WITHOUT SPECIFIC IMPACTS (PAGE 10, 84, 85)

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 115, (notes 6, 7, 8, 9, 10, 11, 12, 13)

Components and calculus

(thousand euros)

	Jun-19	Dec-19	Jun-20
(a) Total operating income	182 228	429 483	168 855
(b) Results from financial operations (i + ii + iii)	(372)	49 873	7 173
(i) Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	2 260	8 510	(11 931)
(ii) Net gains / (losses) from financial assets at fair value through other comprehensive income	(2 902)	42 269	18 836
(iii) Net gains / (losses) from foreign exchange differences	270	(906)	268
(c) Other income (i + ii)	(1 350)	13 628	(10 843)
(i) Net gains / (losses) arising from the sale of other financial assets	16 714	22 932	9 146
(ii) Other operating income / (expenses)	(18 064)	(9 304)	(19 989)
(d) Operating costs	125 439	254 299	127 498
Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	**68.2%**	**69.5%**	**73.9%**

COST OF CREDIT RISK (PAGE 10, 85, 99)

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-19	Dec-19	Jun-20
(a) Loan impairments (annualized[1])	84 697	120 313	219 363
(b) Average gross loans to customers[2]	12 834 021	12 569 759	12 327 936
Cost of credit risk (a / b)	0.7%	1.0%	1.8%

1) Annualized values considering the total number of days elapsed and total days of the year.
2) Average balance for period (Jun-19: 365 days / Dec-19: 365 days / Jun-20: 365 days).

RATIO OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS (PAGE 10,98, 99)

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-19	Dec-19	Jun-20
(a) Loans and interest overdue by more than 90 days	862 843	684 549	701631
(b) Gross loans to customers	12 578 096	12 239 465	12 416 934
Ratio of loans and interest overdue by more than 90 days (a / b)	6.9%	5.6%	5.7%

COVERAGE OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS BY IMPAIRMENT FOR BALANCE SHEET (PAGE 10, 98, 99)

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-19	Dec-19	Jun-20
(a) Impairment for balance sheet loans	917 873	774 923	862 630
(b) Loans and interest overdue by more than 90 days	862 843	684 549	701 631
Coverage of loans and interest overdue by more than 90 days (a / b)	106.4%	113.2%	122.9%

Non-performing exposures / Gross loans to customers (Page 10, 71, 98, 99)

Definition	Ratio that measures the quality 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-19	Dec-19	Jun-20
(a) Stock of Non-performing exposures	1 848 601	1 488 355	1 477 134
(b) Gross loans to customers	12 578 096	12 239 465	12 416 934
Non-performing exposures / Gross loans to customers (a / b)	**14.7%**	**12.2%**	**11.9%**

Coverage of Non-performing exposures by Impairment for balance sheet loans (Page 10, 71, 98, 99)

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-19	Dec-19	Jun-20
(a) Impairment for balance sheet loans	917 873	774 923	862 630
(b) Stock of Non-performing exposures	1 848 601	1 488 355	1 477 134
Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**49.7%**	**52.1%**	**58.4%**

COVERAGE OF NON-PERFORMING EXPOSURES BY IMPAIRMENT FOR BALANCE SHEET LOANS AND ASSOCIATED COLLATERALS AND FINANCIAL GUARANTEES (PAGE 10, 71, 98, 99)

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-19	Dec-19	Jun-20
(a) Impairment for balance sheet loans	917 873	774 923	862 630
(b) Associated collaterals and financial guarantees	614 594	522 910	465 069
(c) Stock of Non-performing exposures	1848 601	1488 355	1477 134
Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees ((a + b) / c)	82.9%	87.2%	89.9%

FORBORNE EXPOSURES / GROSS CUSTOMER LOANS (PAGE 10, 99)

Definition	Ratio that measures the quality 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-19	Dec-19	Jun-20
(a) Stock of Forborne exposures	941698	867 782	914 163
(b) Gross loans to customers	12 578 096	12 239 465	12 416 934
Forborne exposures / Gross loans to customers (a / b)	7.5%	7.1%	7.4%

EXTERNAL AUDITOR'S 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. (“Group”, “Banco Montepio” or “Bank”), which comprise the interim condensed consolidated balance sheet as at 30 June 2020 (which shows total assets of Euros 17.882.093 thousand and total shareholder's equity of Euros 1.358.749 thousand, including non-controlling interests of Euros 10.718 thousand and a negative net profit of Euros 51.291 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 interim condensed consolidated financial statements.

Management’s responsibility

The Management is responsible for the preparation of the interim 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 interim 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 interim 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 interim 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 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

Emphasis

We draw attention to notes 14 and 62 attached to the consolidated financial statements, which disclose relevant information about the impacts arising from the COVID-19 pandemic recognized in the Bank's consolidated financial statements on 30 June 2020, as well as on the inherent uncertainties on the future performance of the economy and, consequently, on the evolution of the Bank's business. As mentioned in note 1 aa), in the preparation of the aforementioned consolidated financial statements, the Bank's Board of Directors made a set of judgments and estimates based on assumptions that are based on the best information available about the events that have occurred to date. However, actual results may differ from the estimates made and the future evolution of this pandemic may require a review of these judgments, estimates and assumptions currently made by the Board of Directors. Our conclusion is not modified in relation to this matter.

30 September 2020

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

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" or "Bank"), which comprise the interim condensed individual balance sheet as at 30 June 2020 (which shows total assets of Euros 19.707.593 thousand and total shareholder's equity of Euros 1.416.870 thousand, including a negative net profit of Euros 65.961 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 interim condensed financial statements.

Management's responsibility

The Management is responsible for the preparation of the interim 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 interim condensed 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 interim condensed 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 interim condensed 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 financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements of Caixa Económica Montepio Geral, caixa económica bancária, S.A. as at 30 June 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

Emphasis

We draw attention to notes 14 and 57 attached to the financial statements, which disclose relevant information on the impacts arising from the COVID-19 pandemic recognized in the Bank's financial statements on June 30, 2020, as well as on the inherent uncertainties about the future performance of the economy and, consequently, on the evolution of the Bank's business. As mentioned in note 1 z), in the preparation of the aforementioned financial statements, the Bank's Board of Directors made a set of judgments and estimates based on assumptions that are based on the best information available on the events that have occurred to date. However, actual results may differ from the estimates made and the future evolution of the pandemic may require a review of these judgments, estimates and assumptions currently made by the Board of Directors. Our conclusion is not modified in relation to this matter.

30 September 2020

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

José Manuel Henriques Bernardo, R.O.C.

(This is a translation, not to be signed)

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