16 JUNE 2020

Banco Montepio with a net income of €5.4Mn in the 1st quarter 2020, accelerates digital transition and starts the post-Covid-19 adjustment

Profitability and efficiency

- Positive consolidated net income of €5.4Mn, despite an impairment charge of €15.5Mn related to the adverse impact expected from the Covid-19 pandemic;
- Adaptation to the new context, starting an adjustment process that aims to accelerate the digital transition, adjust the service model and increase efficiency;
- Total operating income of €107.8Mn, increasing by 11.6%;
- Core operating income[1] increasing by 3.1% to €93.2Mn;
- Operating costs of €64.3Mn, reflecting the impact of the salaries update;
- Cost to income ratio[2] of 59.6%, evolving favorably when compared to 64.0% recorded in the first quarter of 2019.

[1] Core operating income: net interest income and commissions, excluding the impact of subordinated debt.
[2] Cost to income ratio: measured by the relation between operating costs and total operating income.

Asset quality

- NPE ratio (Non-performing exposures in relation to gross customer loans) stood at 12.1%, showing a favorable evolution when comparing to the ratio of the same period of 2019;
- Cost of risk of 1.0% with the NPE coverage improving to 53.5% and to 86.6%, if associated collaterals are to be considered.

Capital

- Total capital ratio reached 13.2%, benefiting from the reduction in risk-weighted assets (RWA) and from the positive net income of the first quarter of 2020 and penalized by exogenous factors related to foreign exchange and to the debt spreads increase.

Core business performs at a good pace

- Gross loans to customers of 12.4 billion euros, increasing 1.3% when compared to the end of 2019, reversing the trend recorded in previous quarters by benefiting from the corporate segment loan increase;
- Customer deposits reached 12.3 billion euros, with cash deposits representing 38% due to the evolution recorded in Retail customers.

Net income

On the first quarter 2020, **consolidated net income** reached €5.4Mn, compared to €6.5Mn in the same quarter of 2019. The net income recorded in the first three months of 2020 benefited from the performance of core business, reflected in the performance of net interest income and commissions, which promoted to offset the progress of operating costs and impairments and provisions.

In terms of **core operating income**, considering the income recorded in net interest income and commissions and excluding the impact of the subordinated debt issued, it is noteworthy the remarkable progress of 3.1% as a result of having increased from €90.4Mn in the first quarter of 2019 to €93.2Mn in the same period of 2020.

The **net interest income** amounted to €59.5Mn in the first three months of 2020, compared with €61.1Mn recorded in the same period of the previous year, revealing the unfavorable impacts from market interest rates, which remain historically low, and from subordinated debt issued in late 2018 and in the first quarter of 2019.

The favorable comparison of **net interest income** in the first three months of 2020 with the amount recorded in the same period of 2019, without considering the impact of subordinated debt issuances, resulted from the timely management of the pricing of retail and institutional clients' resources which, in both cases, decreased when comparing both periods under analysis.

In the first quarter of 2020, **net commissions** increased by 6.4%, rising from €28.3Mn in the first quarter of 2019 to €30.1Mn in the first three months of 2020, benefiting from the increase in income from commissions related to markets and to payment services, together with the reduction in costs incurred with commissions.

Results from financial operations amounted to €15.9Mn in the first quarter of 2020, comparing favorably with the negative amount of €1.3Mn recorded in the same period of 2019, and reflecting the impact of the gains obtained on the sale of sovereign and corporate debt in the first three months of 2020.

The **other operating results** recorded in the first three months of 2020 amounted to €1.2Mn, versus €7.1Mn in the same period of 2019, reflecting the unfavorable impact of the banking sector contributions accounting of €9.4Mn and the €5.1Mn increase in gains with the sale of properties received from foreclosures.

Operating costs increased from €61.8Mn in the first three months of 2019 to €64.3Mn in the first quarter of 2020, reflecting the impacts of salaries' updates and the investments made in technological renewal and modernization under the digital transformation context, despite the synergies obtained in the renegotiation of some contracts, in particular regarding costs of consultancy and real estate conservation and repair.

The **loan impairments** recorded in the first quarter of 2020 reached €30.4Mn, an increase when compared to the €18.5Mn recorded in the same period of 2019, to which contributed an impairment charge of €15.5Mn related to the adverse impact expected from the Covid-19 pandemic.

Other impairments and provisions, related to other financial assets, other assets and provisions, amounted to €6.0Mn in the first three months of 2020, compared to €4.1Mn recorded in the same period of 2019.

The total amount of **current and deferred taxes** recorded in the first three months of 2020 and 2019 was assessed taking into consideration the elements that contributed to the formation of the results and the relevant tax framework, namely in what regards to the constitution and reversal of temporary differences and the identification of permanent differences.

The contribution of **discontinuing operations** increased from €2.8Mn in the first quarter of 2019 to €3.5Mn in the same period of 2020, reflecting the good performance achieved by Finibanco Angola during the period under analysis.

Balance sheet

At the end of the first quarter of 2020, **total assets** amounted to €17,529Mn, compared to €18,229Mn recorded as of 31 March 2019, reflecting the loan portfolio and deposits from central banks decreases, as well as the increase in securities portfolio.

Net loans to customers stood at €11,597Mn on 31 March 2020, a growth of €132Mn when compared to the amount accounted at the end of 2019, reversing the downward trend recorded in previous quarters. In the first three months of 2020, loans granted to companies increased by €308Mn, embodying the ambition defined in the Transformation Plan to increase the volume of business with SMEs and "middle market" companies, through the Group's dedicated structures – Banco Empresas Montepio (BEM) and Banco Montepio's branch network - thus confirming the success of the strategy adopted.

The favorable evolution of loans to customers in the first quarter of 2020 was achieved in compliance with a prudent policy on undertaking credit risk, which, along with a set of measures that have been implemented in the credit monitoring and recovery scope, have contributed to the improvement of the loan portfolio quality indicators.

Regarding the **quality of the loan portfolio** (assessed by the weight of non-performing exposures (NPE) over gross loans), the NPE ratio stood at 12.1% at the end of the first quarter of 2020, compared with 12.2% on 31 December 2019.

The effort that has been accomplished aiming at adjusting the level of impairments to the risk of the loan portfolio, namely the one made in the first three months of 2020, including the reinforcement of the impairment charge accounted in the scope of the Covid-19 pandemic, altogether contributed to the increase of the NPE coverage by impairments.

The **NPE coverage by impairments** increased from 52.1% at the end of 2019 to 53.5% on 31 March 2020. However, if we also consider, in addition to the impairments, the related collaterals and financial guarantees, the NPE coverage increases to 86.6% on 31 March 2020.

Customers' deposits amounted to €12,300Mn on 31 March 2020, compared with €12,462Mn at the end of the first quarter of 2019, showing the decrease induced by some institutional clients, and the increase in the individuals and SMEs segments, in line with the Transformation Plan guidelines.

Despite interest rate benchmarks being at their lowest historically levels, **customers' deposits** benefited from the cautious price management, which, together with the increase in cash deposits, contributed favorably to the net interest income of the first quarter 2020.

Total equity changed from €1,452Mn at the end of 2019 to €1,410Mn on 31 March 2020, which, similarly to the performance that had already been recorded in 2019, include the impact of exogenous factors. In 2019, unfavorable actuarial deviations in the Pension Fund in the amount of €78Mn and negative foreign exchange reserves in the amount of €27Mn were recorded.

The negative impact of exogenous factors on the change in own funds recorded in the first quarter of 2020 is related with the performance of foreign exchange reserves (-€7Mn), reflecting the Kwanza's devaluation, and of fair value reserves (-€40Mn, net of tax), in this case reflecting the impacts of the increase in sovereign debt spreads and also the gains recorded in results from financial operations.

The positive net income achieved in the first quarter of 2020, which, including the non-controlling interests, totaled €6Mn, had a positive impact on shareholders' equity as of 31 March 2020.

Capital

The **total capital ratio** reached 13.2% on 31 March 2020, benefiting from the positive effect related with the positive consolidated net income of €5.4Mn in the first three months of 2020, with the fulfillment of the criteria provided for in article 26 of Regulation (EU) No. 575/2013 of 26 June, and with the favorable evolution of risk-weighted assets.

Risk-weighted assets (RWA) decreased by €54Mn at the end of the first quarter of 2020, compared to the amount recorded on 31 December 2019, as a result of the ongoing balance sheet management that materialized in the reduction of RWA related to credit and to market risk.

The capital ratios as of 31 March 2020 also include the exogenous adverse effects brought about by the Covid-19 pandemic that produced unfavorable impacts through the Kwanza devaluation and through the decrease of the fair value reserve in financial assets at fair value through other comprehensive income, in this case due to the increase in sovereign debt spreads, and also include the negative effect from the phasing-in of the adjustments determined in the transition to Basel III rules and to the implementation of IFRS 9.

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Key Indicators

	mar/19	mar/20	Change
ACTIVITY AND RESULTS (million euros)			
Total assets	18 230	17 529	(3.8%)
Loans to customers (gross)	12 881	12 401	(3.7%)
Customers' deposits	12 462	12 300	(1.3%)
Net income	6.5	5.4	(17.1%)
SOLVENCY (a)			
Common Equity Tier 1 ratio	13.5%	11.7%	(1.8 p.p.)
Total Capital ratio	15.0%	13.2%	(1.8 p.p.)
Risk weighted assets (EUR million)	10 699	10 245	(4.2%)
LIQUIDITY RATIOS			
Loans to customers (net) / Customers' deposits (b)	95.7%	94.3%	(1.4 p.p.)
Loans to customers (net) / On-balance sheet customers' resources (c)	88.8%	84.9%	(3.9 p.p.)
CREDIT QUALITY			
Cost of credit risk	0.6%	1.0%	0.4 p.p.
Non-performing exposures (NPE) (d) / Gross customer loans	14.3%	12.1%	(2.2 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	52.1%	53.5%	1.4 p.p.
NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	88.4%	86.6%	(1.8 p.p.)
PROFITABILITY AND EFFICIENCY			
Total operating income / Average total assets (b)	2.1%	2.5%	0.4 p.p.
Net income before income tax / Average total assets (b)	0.3%	0.2%	(0.1 p.p.)
Net income before income tax / Average total equity (b)	3.7%	2.7%	(1.0 p.p.)
Cost-to-income (Operating costs / Total operating income) (b)	64.0%	59.6%	(4.4 p.p.)
Cost-to-Income, excluding specific impacts (e)	68.1%	70.9%	2.8 p.p.
Staff costs / Total operating income (b)	39.1%	36.6%	(2.5 p.p.)
EMPLOYEES AND DISTRIBUTION NETWORK (Number)			
Employees			
Group Banco Montepio total	3 940	3 969	29
Banco Montepio	3 556	3 570	14
Branches			
Domestic network - Banco Montepio	325	328	3
International Network (f)	24	24	0
Representation Offices - Banco Montepio	5	5	0

(a) Pursuant to CRD IV / CRR (phasing-in). The ratios include the net income of the period.
(b) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.
(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued. Computed in accordance with the Financial Statements.
(d) EBA definition.
(e) Excludes results from financial operations and other operating results. (net gains arising from the sale of other financial assets and other operating income).
(f) Includes corporate centres.

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Consolidated Income Statement

(million euro)	Mar-19	Mar-20	Change €	Change %
Interest and similar income	83.2	75.2	-8.0	-9.6%
Interest and similar expense	22.1	15.7	-6.4	-28.8%
NET INTEREST INCOME	**61.1**	**59.5**	**-1.6**	**-2.7%**
Dividends from equity instruments	1.3	1.0	-0.3	-21.0%
Net fee and commission income	28.3	30.1	1.8	6.4%
Net gains/(losses) from financial operations	-1.3	15.9	17.2	>100%
Other operating income/(expenses)	7.1	1.2	-5.9	-82.6%
TOTAL OPERATING INCOME	**96.6**	**107.8**	**11.2**	**11.6%**
Staff Costs	37.8	39.4	1.7	4.4%
General and administrative expenses	16.0	16.4	0.4	2.3%
Depreciation and amortization	8.0	8.5	0.4	5.4%
OPERATING COSTS	**61.8**	**64.3**	**2.5**	**4.0%**
Loan impairments	18.5	30.4	11.9	64.4%
Other impairments and provisions	4.1	6.0	1.9	46.6%
Other financial assets impairments	1.5	3.9	2.3	>100%
Other assets impairments	0.8	3.1	2.3	>100%
Provisions net of reversals and annulments	1.8	-0.9	-2.7	<-100%
Share of profit of associates under the equity method	-0.5	-0.2	0.3	64.4%
EARNINGS BEFORE TAX AND NON-CONTROLLING INTERESTS	**11.6**	**6.9**	**-4.7**	**-40.6%**
Tax	7.4	4.3	-3.1	-41.8%
Non-controlling interests	0.6	0.7	0.1	21.9%
Profit/(loss) from discontinuing operations	2.8	3.5	0.6	22.5%
NET INCOME	**6.5**	**5.4**	**-1.1**	**-17.1%**

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Consolidated Balance Sheet

(million euro)	Dec-19	Mar-20	Change €	Change %
Cash and deposits at central banks	1 004	705	-298	-29.7%
Loans and advances to credit institutions repayable on demand	29	39	10	32.8%
Other loans and advances to credit institutions	276	266	-9	-3.4%
Loans and advances to customers	11 465	11 597	132	1.2%
Financial assets held for trading	36	50	14	39.1%
Financial assets at fair value through profit or loss (FVPL)	385	376	-8	-2.2%
Financial assets at fair value through other comprehensive income (FVOCI)	1 860	1 396	-463	-24.9%
Hedging derivatives	11	13	2	19.3%
Other financial assets at amortised cost	899	1 304	405	45.0%
Investments in associates	4	4	0	-3.1%
Non-current assets held for sale - Discontinuing operations	217	191	-25	-11.7%
Investment properties	145	138	-7	-4.5%
Property and equipment	248	245	-3	-1.3%
Intangible assets	34	35	1	2.7%
Current tax assets	15	12	-3	-21.0%
Deferred tax assets	435	440	6	1.3%
Other Assets	678	716	37	5.5%
TOTAL NET ASSETS	**17 740**	**17 529**	**-212**	**-1.2%**
Deposits from central banks	1 291	1 332	41	3.1%
Deposits from other financial institutions	522	530	8	1.6%
Deposits from customers	12 525	12 300	-224	-1.8%
Debt securities issued	1 390	1 352	-38	-2.8%
Financial liabilities held for trading	13	14	1	7.1%
Hedging derivatives	1	1	0	5.7%
Non-current liabilities held for sale – Discontinuing operations	134	108	-26	-19.4%
Provisions	32	31	-1	-3.0%
Current tax liabilities	2	2	0	10.8%
Other subordinated debt	158	161	4	2.3%
Other liabilities	221	287	66	30.1%
TOTAL LIABILITIES	**16 288**	**16 118**	**-170**	**-1.0%**
Share Capital	2 420	2 420	0	0.0%
Other equity instruments	6	6	0	0.0%
Reserves and retained earnings	-1 008	-1 033	-25	2.5%
Consolidated net profit/ (loss) for the period attributable to the shareholders	22	5	-16	-75.0%
Non-controlling interests	12	11	0	-2.5%
TOTAL EQUITY	**1 452**	**1 410**	**-42**	**-2.9%**
TOTAL LIABILITIES AND EQUITY	**17 740**	**17 529**	**-212**	**-1.2%**