REPORT AND ACCOUNTS

1ST HALF 2021

Banco Montepio

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This report is the English version of the document "Relatório e Contas 1º Semestre 2021" 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.

CONTENTS

PART I
MANAGEMENT REPORT

01 GOVERNING BODIES

GOVERNING BODIES

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter referred to as "CEMG" or "Banco Montepio") adopted 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 2021, 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
Directors	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
	Jorge Paulo Almeida e Silva Baião
	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

STATUTORY AUDITOR

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

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

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

As at 30 June 2021, 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
Vice-Chairman	Carlos Francisco Ferreira Alves
Members	Amadeu Ferreira de Paiva Manuel Ferreira Teixeira Rui Pedro Brás de Matos Heitor

REMUNERATIONS, NOMINATIONS AND ASSESSMENT COMMITTEE

Chairman	José da Cunha Nunes Pereira
Members	Amadeu Ferreira de Paiva Carlos Francisco Ferreira Alves
Alternate Members	Manuel Ferreira Teixeira Rui Pedro Brás de Matos Heitor

Corporate Governance, Ethics and Sustainability Committee

Chairman	Carlos Manuel Tavares da Silva
Members	Carlos Francisco Ferreira Alves
	José da Cunha Nunes Pereira
	Pedro Jorge Gouveia 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 that are reserved to the Board of Directors, under the terms of its Regulations.

As at 30 June 2021, the composition of the Executive Committee of Banco Montepio was as follows:

Executive Committee

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

02
1ST HALF OF 2021 IN SUMMARY

Banco Montepio

1ST HALF OF 2021 IN SUMMARY

HIGHLIGHTS

BUSINESS

- **Net loans increased in relation to 31 December, and likewise, in relation to the same period of 2020,** demonstrating **Banco Montepio's commitment to supporting families, companies and entities of the social economy** in this pandemic scenario.
- Contracting of **405 million euros** through **specific protocolled lines aimed at mitigating the consequences of Covid-19 support**, of which 364 million were used, with impressive use of the **social economy support line**.

RESULTS

- **Reduction of Operating costs by 4.4% excluding non-recurring costs** (-5.6% in Staff costs and -6.8% in General and administrative expenses), reflecting the delineated goal to improve efficiency.
- **Favourable evolution of net income** of -51.3 million euros recorded in the first half of 2020 **to stand at -33.0 million euros**, benefiting from the lower level of Impairments and provisions **(60.7 million euros)**, notwithstanding the **non-recurring costs (4.1 million euros) related to the adjustment programme in course and the reduction of non-strategic assets.**

ASSET QUALITY

- **Reduction of the Cost of credit risk to 0.9%,** compared to the 1.8% recorded in the first half of 2020, which incorporates the exceptional impact of the strengthening of Loan impairments induced by the consequences of the Covid-19 pandemic, in the context of the forward-looking component of IFRS 9.
- **The NPE[1] ratio declined to 9.3%,** showing an improvement of 1.1 p.p. in relation to 2020, accompanied by a **strengthening of the levels of coverage of NPE by impairments, standing at 57.7% and 95.9%**, if the associated collateral is considered.
- **Reduction of non-strategic assets** following the sale of the equity stakes held in the companies Monteiro Aranha, S.A. (10.31% of its share capital) and Almina Holding, S.A. (19.0% of the share capital).

CAPITAL AND LIQUIDITY

- **Common equity tier 1 (CET1) ratio of 11.4%** and **Total capital ratio of 13.6%** (phasing-in).
- Increase of the **liquidity coverage ratio (LCR)**[2] **to 261.0% and of the net stable funding ratio (NSFR) at the end of June 2021 to 120.6%,** significantly **above the defined regulatory levels**.

MORATORIA

- Faithful to its intended **social commitment**, Banco Montepio granted **35 thousand moratoria** amounting to 2.9 billion euros, creating a complementary support to liquidity management for economic agents to cope with the momentary adverse economic and financial circumstances.

DIGITAL TRANSITION

- **Launch of APProva,** a new application for strong, autonomous authentication of the current digital channels, available in iOS and Android stores for free download, evincing **Banco Montepio's focus on innovation**, complying with its mission to provide the best service and simplify the life of its Customers.

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[1] NPE: non-performing exposures, as defined in the Glossary.
[2] LCR: liquidity coverage ratio, as defined in the Glossary.

SUMMARY OF INDICATORS

	Jun-20	Jun-20 Restated (g)	Dec-20	Jun-21	Y.o.Y. Change
ACTIVITY AND RESULTS (million euros)					
Total assets	17 882	17 882	17 941	19 460	8.8%
Loans to customers (gross)	12 417	12 451	12 357	12 318	(1.1%)
Customer deposits	12 422	12 384	12 502	12 623	1.9%
Net income	(51)	(51)	(81)	(33)	35.7%
SOLVENCY (a)					
Common equity tier 1 ratio	11.5%	11.5%	11.6%	11.4%	(0.1 p.p.)
Tier 1 ratio	11.5%	11.5%	11.6%	11.4%	(0.1 p.p.)
Total capital ratio	13.5%	13.5%	13.8%	13.6%	0.1 p.p.
Leverage ratio	6.3%	6.3%	6.0%	5.4%	(0.9 p.p.)
Risk weighted assets (million euros)	10 119	10 119	9 577	9 377	(7.3%)
LIQUIDITY RATIOS					
Liquidity coverage ratio (LCR)	224.4%	224.4%	200.7%	261.0%	36.6 p.p.
Net stable funding ratio (NSFR)	111.5%	111.5%	109.8%	120.6%	9.1 p.p.
LOAN TO DEPOSIT RATIOS					
Loans to customers (net) / Customer deposits (b)	93.0%	93.5%	92.6%	92.4%	(1.1 p.p.)
Loans to customers (net) / On-balance sheet customer resources (c)	84.0%	84.5%	83.9%	83.9%	(0.6 p.p.)
CREDIT QUALITY					
Cost of credit risk	1.8%	1.8%	1.5%	0.9%	(0.9 p.p.)
Ratio of loans and interest overdue by more than 90 days	5.7%	5.7%	5.1%	4.1%	(1.6 p.p.)
Coverage of loans and interest overdue by more than 90 days	122.9%	123.2%	124.4%	131.3%	8.1 p.p.
NPE ratio (Non-performing exposures (NPE) (d) / Gross customer loans)	11.9%	12.0%	10.4%	9.3%	(2.7 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	58.4%	58.2%	60.4%	57.7%	(0.5 p.p.)
NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	89.9%	90.0%	93.0%	95.9%	5.9 p.p.
Forborne exposures ratio (Forborne exposures (d) / Gross customer loans)	7.4%	7.4%	6.6%	5.9%	(1.5 p.p.)
PROFITABILITY AND EFFICIENCY					
Total operating income / Average total assets (b)	1.9%	2.0%	2.2%	1.7%	(0.3 p.p.)
Return on equity (gross) (Net income before income tax / Average total assets) (b)	(0.8%)	(0.8%)	(0.7%)	(0.3%)	0.5 p.p.
Return on assets (gross) (Net income before income tax / Average total equity) (b)	(10.5%)	(10.4%)	(8.8%)	(4.8%)	5.6 p.p.
Cost-to-income (Operating costs / Total operating income) (b)	75.5%	72.3%	74.0%	81.1%	8.8 p.p.
Cost-to-Income, excluding specific impacts (e)	73.9%	73.4%	72.5%	73.3%	(0.1 p.p.)
Staff costs / Total operating income (b)	46.7%	44.6%	48.1%	49.9%	5.3 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)					
Employees					
Group Banco Montepio	3 962	3 962	3 721	3 666	(296)
Banco Montepio	3 563	3 563	3 326	3 283	(280)
Branches					
Domestic network - Banco Montepio	335	335	298	278	(57)
Of which: Proximity Branches	7	7	7	7	0
Of which: BEM Corporate Centres	7	7	7	7	0
International Network	24	24	24	20	(4)
Finibanco Angola (f)	24	24	24	20	(4)
Representation Offices - Banco Montepio	5	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, Other operating results (Net gains arising from the sale of other financial assets and Other operating income), and the amount related to the increase in Personnel Costs and in General administrative expenses generated by the operational adjustment measures of 29.5 M€ in the 4th quarter of 2020 and 4.1 M€ in the 1st half of 2021.

(f) Includes corporate centres.

(g) Under the decisions taken by the Board of Directors of Banco Montepio, the subsidiaries Montepio Valor and Banco Montepio Geral Cabo Verde shifted to become classified as discontinued operations since the end of 2020 for accounting purposes, as stipulated by IFRS 5, with Finibanco Angola no longer meeting the requirements established in this standard to be considered a discontinued operation. Therefore, pursuant to the provisions in IFRS 5, Finibanco Angola started to be fully consolidated, line by line, in a retrospective manner, and the financial statements of the first half of 2020 were restated for purposes of comparability.

1ST HALF OF 2021 MILESTONES

- **Sale of the stake in Monteiro Aranha, S.A.**

  In March 2021, Banco Montepio sold its entire equity stake in Monteiro Aranha S.A., equivalent to approximately 10.31% of its share capital, reflected in a favourable impact of 3 basis points on the Banco Montepio's capital ratios at the end of 2020 (Common Equity Tier 1 ratio and Total Capital ratio), via the reduction of risk-weighted assets. The accomplishment of this operation materialises Banco Montepio's strategy of the ongoing reduction of non-strategic assets and constitutes one of the measures contained in the Funding and Capital Plan.

- **Sale of the stake in Almina Holding, S.A.**

  In June 2021, Banco Montepio sold its entire equity stake in Almina Holding S.A. (Almina), equivalent to 19.0% of Almina's share capital, complying with the strategic planning, in particular the component of deleveraging the balance sheet of non-banking activity. This sale had a positive impact on Banco Montepio's capital ratios, on a proforma basis at the end of the first quarter of 2021, of 7 basis points on the Common Equity Tier 1 ratio and 9 basis points on the Total Capital ratio, benefiting from the reduction of risk-weighted assets.

- **Launch of an online simulator of "Linhas Protocoladas para Empresas" (Protocolled Lines for Companies)**

  Banco Montepio was the first financial institution to create and launch simulators of "Linhas Protocoladas" (Protocolled Lines), directed at companies and institutions of the social sector, providing this online support for various "Linhas de Apoio à Economia COVID-19" (Covid-19 Economy Support Lines), representing yet another step in Banco Montepio's digital transformation process. This functionality enables Customers to test and compare financial plans, with the process of choice of the most suitable financial plan being made remotely and the application finalised at a Branch.

  Yet another online credit simulator for Protocolled Lines was included in May 2021, to support the marketing of the "Linha de Apoio à Economia COVID-19 - Médias e Grandes Empresas do Turismo" (Covid-19 Economy Support Line - Medium and Large Tourism Companies).

- **Launch of "App APProva" (APProva App), a new Strong Authentication system**

  The continuous strengthening of the security of Customer transactions is very important. For this reason, Banco Montepio adopted a new Strong Authentication system, the APProva app, an autonomous application and complementary to the Digital Channels and Means of Payment, that further reduces the risk of fraud in online transactions, making them more secure.

- **"Crédito Pessoal Online | Nova jornada" (Online Personal Credit | New journey)**

  The entire personal credit granting process is now online, multichannel, flexible and available at any time, for all Customers who have subscribed to the M24 service. Following the launch personal credit 100% online in 2019, a new journey was developed in May 2021 to enable any Customer to submit a Personal Credit application and obtain a decision in a fast and online manner.

- **Customer Instructions with Qualified Electronic Signature**

  With a view to the continuous improvement of processes and digital transformation in progress at Banco Montepio, since April 2021 instructions can be accepted from Customers with Qualified Electronic Signature of the Citizen Card or Digital Mobile Key (CMD).

- **Action Plan for Sustainability**

  Banco Montepio continues focused on working the different dimensions of sustainability in order to integrate Environmental, Social and Governance (ESG) factors in its various areas of action. In the first half of 2021, special note should be made of the provision of treasury and financing solutions to Social and Solidarity Economy Entities, the social investment in the context of the "Projetos de Impacto" (Impact Projects) (a joint initiative of Banco Montepio and Santa Casa da Misericórdia de Lisboa (SCML)) and the launch of a mortgage loan campaign with benefits for housing with energy certificate A or A+.

- **Participation in the debate on sustainable finance**

  "O Pilar Social das Finanças Sustentáveis" (The Social Pillar of Sustainable Finance) was the topic of the conference promoted by the "Associação Portuguesa de Ética Empresarial" (Portuguese Association of Business Ethics) held in May 2021, which was attended by the Chairman of the Executive Committee of Banco Montepio and other renowned speakers in the areas of finance, investment, regulation and sustainability. At a time when ESG criteria are increasingly important in the framework of financing and investment policies, the aphorism was the development of the Social Pillar, a component that nests at the origin of Banco Montepio, and that is one of the major priorities of the European Commission. Sustainable finance could mean a greater and more important contribution to rebalance societies.

- **"Banca de Ideias" (Ideas Pool)**

  "Banca de Ideias" (Ideas Pool) is a new in-house competition of Banco Montepio, directed at all Employees who want to present ideas that could be particularly beneficial to the organisation. This project was designed to give a voice to all who wish to contribute with suggestions and ideas, and foster creativity and innovation at the Bank.

- **Inception of performance of duties of new members of the Governing Bodies**

  In conformity with the authorisation granted by Banco de Portugal, Jorge Paulo Almeida e Silva Baião took office at the beginning of 2021 as Director and Member of the Executive Committee of the Board of Directors of Banco Montepio for the remaining period of the term of office 2018-2021, with his co-optation having been approved at the Board of Directors' meeting of 18 February 2021 and ratified at the General Meeting of 29 June 2021.

- **Annual General Meeting**

  Banco Montepio held the ordinary general meeting of shareholders on 29 June 2021, with the following decisions having been taken:

  1. Report and Accounts of the Financial Year of 2020 – Approved unanimously.
  2. Allocation of results for the financial year of 2020 – Approved unanimously.
  3. General appraisal of the company's management and supervision – Approved unanimously.
  4. Ratification of the co-optation of the Director Jorge Paulo Almeida e Silva Baião – Approved unanimously.
  5. Assessment report of the Remuneration Policies and procedures adopted by Banco Montepio and Banco Montepio Group – Approved unanimously.
  6. Annual review of the Remuneration Policy of Members of the Management and Supervisory Bodies (MOAF) – Approved unanimously.
  7. Annual review of the Policy of Selection and Evaluation of the Adequacy of the Members of the Management and Supervisory Body and Key Function Holders – Approved unanimously.
  8. Constitution of a special reserve and constitution of conversion rights relative to the financial year of recoverability of the deferred tax assets, reported as at 31 December 2020 – Approved unanimously.

03
THE BANCO MONTEPIO GROUP

THE BANCO MONTEPIO GROUP

WHO WE ARE

Banco Montepio, 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, is the oldest financial institution of Portugal.

It 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, as well as for Customers of the business sector and for institutions of the social economy and social entrepreneurs.

Throughout the more than 177 years of its existence, Banco Montepio has consistently supported families, small and medium-sized enterprises, companies and the community. It has actively supported successive generations of Portuguese at extremely critical times, including wars, crises and revolutions.

Loyal to the reason for its existence, it has always been able to innovate, grow and expand, consistently guided by the ideals of commitment to the past, present and future of Portugal.

With a legacy of almost two centuries of service to the community, Banco Montepio takes its place in the building of a fairer and more sustained society, committed to governing its action according to the highest standards and conduct of respect for the principles of sustainable development, as reflected 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 series of equity stakes in entities that provide banking and financial services, and contribute with their earnings to the mutualist goals, thus providing a comprehensive and diversified range of products to the Customers.

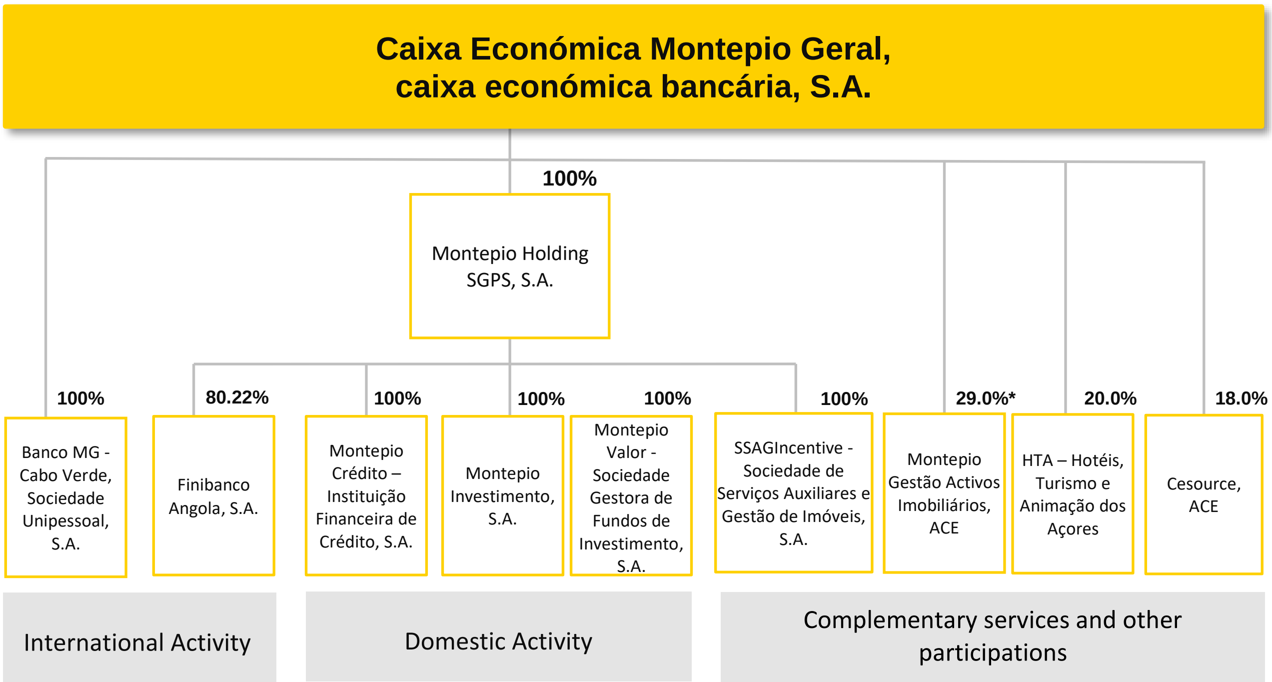
The Banco Montepio Group is a diversified banking and financial group, aligned with its mutualist nature and purpose, which lends it unique features and an unrivalled position in its activity sector and in Portuguese society.

As at 30 June 2021, the Banco Montepio Group was composed of the following entities:

- 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.; Cesource, ACE; and NAVISER – Transportes Marítimos Internacionais, S.A. (under winding-up and liquidation procedures since 20 July 2018).



**CEMG 26.0%, Montepio Investimento 1.0%, Montepio Valor 1.5%* and *SSAGIncentive 0.5%.* (% of equity stake)

Under the strategic redefinition of its international subsidiaries, and with a view to refocusing the approach to the African market, Banco Montepio continues to take measures aimed at the deconsolidation of Finibanco Angola, S.A. which, as at 30 June 2021, the Group controlled and held an effective stake of 80.22%. On the other hand, considering the new legal framework of Cape Verde and having weighed up all the relevant strategic options, the Board of Directors of Banco Montepio decided not to promote the changes required to adapt its subsidiary Banco Montepio Geral Cabo Verde to a bank with general authorisation, having approved the development of the procedural initiatives stipulated in the Law for its voluntary dissolution and orderly liquidation.

In the domestic market, with a view to the Group's simplification, the Board of Directors determined the sale of its stake in Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.

Considering the decisions taken by the Board of Directors, likewise, aimed at simplifying the Group's corporate structure, in addition to the provisions in IFRS 5, the activities developed by the subsidiaries Banco MG - Cabo Verde, Sociedade Unipessoal, S.A. and Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. were deemed to be discontinued operations and the activities developed by Finibanco Angola are henceforth fully recorded in the income account and balance sheet, notwithstanding the commitment referred to above. Accordingly, in the financial statements, the earnings of the subsidiaries Banco Montepio Geral Cabo Verde and Montepio Valor are now stated in an income account heading of "Income of discontinued operations" and, in the balance sheet under the headings of "Non-current assets held for sale – Discontinued operations" and "Non-current liabilities held for sale – Discontinued operations".

As at 30 June 2021, Banco Montepio Group's consolidation perimeter includes other entities consolidated by the full method, namely: Montepio Arrendamento I and II – Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional (FIIAH); Valor Arrendamento – Fundo de Investimento Imobiliário Fechado; 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 2021

Banco Montepio once again received, in 2021 and for the 12th time, the stamp of Superbrands®, an independent international organisation dedicated to the identification and promotion of brands of Excellent Brands in 89 countries. The selection criteria, which combine a Consumer study and the independent opinion of the Superbrands Council, enable identifying the brands that are distinguished from their competitors in each market. This recognition reflects what the Customers, as consumers of the products and services, think about Banco Montepio and their degree of satisfaction with the brand, whose mention is spontaneous, with value given to the importance of being Top of Mind and five key attributes: proximity, trustworthiness, affinity, satisfaction and brand awareness. These criteria enable pinpointing the Brands that the consumers consider unique, trustworthy, the ones they identify with and satisfy them, and consider best known.

PROTECTION AND REINFORCEMENT OF BRAND REPUTATION

The Banco Montepio brand preserved a strong image in the first half of 2021. The Overall Image indicator - which measures the brand association to image attributes such as: Values, Reputation and Relevance - remained at 60%, in line with 2020, according to the Brand Score study, carried out by the consulting firm Scopen. This means that Banco Montepio has 60% of promoter Customers, who appraise the brand in a very positive way.

Two indicators contribute positively: reputation, which assesses values such as trustworthiness, solidity, governance, ethics and transparency; and relevance, which measures the brand’s importance in its sector, its contribution to society and support to social causes or sustainability projects. These indicators are part of the net worth of the Banco Montepio brand, which has strengthened its action, in particular in the context of the Covid-19 pandemic, by launching products and services that meet the needs of its targets, and investment in citizenship and sustainability projects.

Banco Montepio also improved the brand’s valuation, having reached a Brand Impact of 33%, corresponding to a rise of 5 p.p. in relation to 2020, thus maintaining its trajectory of positive growth. By improving its overall image, the brand increases its impact on the business, as it contributes more actively to retaining the loyalty and attraction of new Customers, who showed strong growth in the first half of 2021. The good performance of Banco Montepio’s communication in this period led to a 23.6% upswing in the brand's valuation.

CAMPAIGNS

"Ninguém estava à espera disto" (No-one was expecting this) campaign

According to the data of the Brand Score study – which assesses the efficacy of brand communication – the "Ninguém estava à espera disto" (No-one was expecting this) campaign obtained the best result ever in recall of the Bank's campaigns, having won three creativity awards and contributed to record levels of Customer business and attractiveness of the last ten years.

The advertising campaign, starring Bruno Nogueira, was seen by 3.9 million people, having obtained a record total recall in the sector in 2020. During this period, it rose to the first place of the most recalled campaigns of the entire banking sector, contributing to strength and reaffirm Banco Montepio's positioning in the Mortgage Loan segment.

The good results achieved encouraged the continuity of the campaign in 2021, which was based on an offer of 1% of the value of the loan raised – in home purchase and exchange, loan transfer and all mortgage loan transactions – handed over to the Customer in a pre-paid card to be used in Worten shops. In the first half of 2021, and under this same campaign, a new offer was launched for sustainable houses, with the extra benefit of the refunding of 1.1% of the value of the loan or mortgage loan transfer to Banco Montepio for housing with energy certificate A and A+.

"Pouco Pio" (Little Chatter) Personal Credit Campaign starring Bruno Nogueira

Banco Montepio launched a Personal Credit campaign focused in freedom and respect for individual choices that the Customers can experience in their relationship with Banco Montepio.

Grounded on a global phenomenon in which people, in general, have the habit of giving opinions on what others do with their money, this advertising campaign reinforces the basic assumptions of Personal Credit. The point is that it's so personal, that it's no one else's business.

Bruno Nogueira once again was the star and ambassador of the brand, in a campaign in which Banco Montepio defends people against criticism and judgement of others, showing that it is always there for them, in a responsible manner, supporting whatever their projects may be, without asking too many questions.

"177 anos passam a voar" (177 years just fly by) advertising campaign

With 177 years of history – marked on 24 March – Banco Montepio recalls how its history is interlaced with that of the country. The Institution experienced monarchies and republics. Technological and philosophical revolutions, periods of war, crisis and prosperity.

But no matter how many years may pass, some things never change. Banco Montepio continues at the service of people and communities, here and abroad, to, together, fly even higher. So as to continue to grow with the Portuguese and with Portugal.

It has been a flight and so much more! Thank you to everyone who has been, and currently is, part of Banco Montepio. Nowadays, just like yesterday, Banco Montepio will continue to look towards the future. Because there is so much history still to do.

NEW PROJECTS

Banco Montepio in the Social Networks – "Temos Pio" (We have Chat)

Banco Montepio launched an integrated strategy of repositioning in the social networks – like Blog, Manifesto, Instagram and Podcast, combined with its presence on LinkedIn and YouTube.

At a time in which social networks play a determinant role in the life of millions of people, Banco Montepio wants to help transform the social networks into a more authentic place, through a movement of personal and professional empowerment, against stereotypes and conventions, summarised in the claim "#TuPodesoQueQuiseres" (#YouCandoWhatYouWant).

"Temos Pio" (we have chat) is a space directed at a younger target, creating a space of sharing of purpose and values that touch the new generations and are at the very heart of the Bank's original essence, while simultaneously seeking to inspire authenticity, diversity and inclusion.

"O Banco Explica" (The Bank Explains) financial literacy project

In the second half of 2021, Banco Montepio launched a financial literacy project. 'The Bank Explains' helps to translate terms, jargon, and banking and financial information, in contents in video format that are straightforward, short and light, summarised in the claim: **"Literacia Financeira é Peanuts" (Financial Literacy is Peanuts).**

As a Bank performing a significant economic atd social role, this project combines the increasingly greater need to speak in a straightforward and transparent way with the absolute necessity of teaching the concepts related to personal finance, banking system, investment and financial markets. The purpose is to help the younger generations to take informed decisions and attain their highly desirable financial freedom.

CHANNELS, NETWORKS AND CUSTOMER RELATIONS

CHANNELS AND NETWORKS

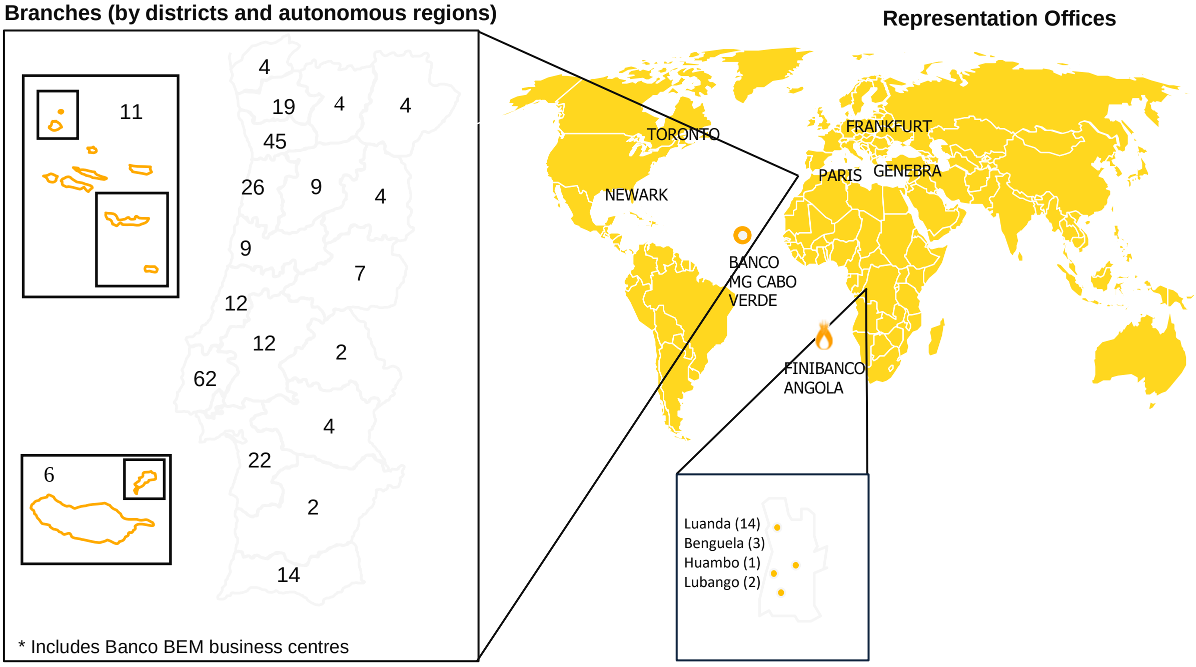
As at 30 June 2021, Banco Montepio held a network of 278 branches in Portugal, of which 7 were proximity branches, and 7 were business centres of Banco BEM. Under the measures implemented by Banco Montepio with a view to optimising the distribution channels, 20 branches of the domestic network were closed in the first half of 2021.

No. of Branches and Representation Offices

	Jun-20	Dec-20	Jun-21
Domestic network	335	298	278
Of which: Proximity Branches	7	7	7
Of which: BEM Business Centres	7	7	7
International network	24	24	20
Finibanco Angola [(a)]	24	24	20
Representation Offices	5	5	5

(a) Includes Corporate Centres.

The decisions taken by Banco Montepio seek to ensure access to bank services, with a balanced geographic coverage of the country. In the international activity, as at 30 June 2021, Finibanco Angola's distribution network also diminished, standing at a total of 20 branches, including 5 corporate centres, corresponding to 4 less branches compared to 31 December 2020. As at 30 June 2021, Banco Montepio had 5 representation offices (Frankfurt, Geneva, Paris, Newark and Toronto) which ensured the Bank's presence among communities that are resident abroad.



Banco Montepio also offers its individual Customers and companies a series of 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 (ATM) and point of sale terminals (POS).

CUSTOMER MANAGERS

Banco Montepio's network of customer managers consists of a total of 480 managers at the end of the first half of 2021, evincing a reduction of 23 managers in relation to 30 June 2020, related to the adjustment of the Commercial Network's distribution and reorganisation model, aimed at updating the service model and increasing efficiency.

As at 30 June 2020, the distribution of managers by segment involves 176 managers assigned to Small Businesses, 49 to Small and Medium-Sized Enterprises with turnover of less than 20 million euros, 40 to Institutional and Social Economy, and 33 to Large Companies (with turnover of 20 million euros or more).

Banco Montepio continues to offer a personalised and proximity service to the Customer, being characteristic features.

No. of Managers per Customer Segment

	Jun-20	Dec-20	Jun-21	Y.o.Y. Change	
				Amount	%
Retail Banking	**431**	**428**	**407**	**(24)**	**(5.6)**
Individuals	187	184	182	(5)	(2.7)
Small Business	191	191	176	(15)	(7.9)
Companies [a)]	53	53	49	(4)	(7.5)
Social Economy	**39**	**38**	**40**	**1**	**2.6**
Institutions and Social Economy [b)]	39	38	40	1	2.6
Corporate Banking	**33**	**33**	**33**	**0**	**0.0**
Companies [c)]	33	33	33	0	0.0
Total managers	**503**	**499**	**480**	**(23)**	**(4.6)**

a) Turnover less than EUR 20 million

b) Includes Microcredit managers.

c) Turnover of EUR 20 million or more.

Note: Does not include managers of preventive credit monitoring.

MONTEPIO 24

The Serviço Montepio24 (Montepio24 Service), corresponding to a multichannel platform integrating remote channels, recorded an increase of 5.9% in the number of active Customers at the end of June 2021 compared to 31 December 2020, with a total number of 415,322 users: 350,473 in the Individuals segment (+6.4%) and 64,849 in the Companies segment (+3.2%).

In Connect24, a dedicated channel where the Customer can provide authentication for login and authorise access to information and banking operations when requested by certified entities, an increase was recorded both in the creation of consents (+56.7%) and in operations derived from Third Party Providers (TPP)/Banks (+51.0%) in comparison with the end of 2020.

Further concerning the influence of the pandemic context, the importance of digital mechanisms continues very present, reflected in the growth of the number of subscriptions and frequency of use, with the increase active Customers in Netmóvel24 (+9.2%) being particularly notable, although a decrease occurred in daily mobile accesses (-9.9%), both in comparison to the end of 2020.

AUTOMATED TELLER MACHINES (ATM)

Montepio's total number of automated teller machines (ATM) at the end of June 2021 amounted to 918 machines, of which 343 were installed in branches and 575 at external locations. In net terms, the number of machines has fallen by 13 units when compared to the end of 2020, essentially due to the internal programme of optimisation of the total amount of machines.

Despite the reduction in the number of ATM in relation to the end of 2020, Banco Montepio's market share remained at 7.4%, with the number of machines available in the national market of the SIBS Global Network having fallen by 88 machines, to stand at 12,451 as at 30 June 2021.

The internal network Chave24 increased the total number of installed machines at the end of June 2021 to 311 machines, of which 258 are ATM, 8 are Selfcheques and 45 are Bank Book updating machines.

POINT-OF-SALE TERMINALS (POS)

Banco Montepio's total number point-of-sale terminals (POS) amounted to 24,340 installed terminals as, representing growth of 1.3% compared to the end of 2020.

Banco Montepio's market share in terms of number of POS stood at 6.0% at the end of June 2021, compared to 6.2% recorded as at 31 December 2020. The total number of machines available in the national market of the SIBS Global Network amounted to 402,674 machines, representing an increase of 14,502 machines (+3.7%) in relation to the total number at the end of 2020.

CUSTOMER RELATIONSHIP

M.A.R.I.A (Montepio's Automated Real-time Interaction Assistant)

In the first half of 2021, M.A.R.I.A. progressively continued to expand its capacity to provide customer care and understand Customer intentions, enabling better execution of the contact and allowing the Customer a more empathetic and personalised experience and the gradual building of trust.

M.A.R.I.A. started by carrying out card activation (debit and credit), rapidly progressing to receiving orders for balance and movement queries (accounts and cards), transfers between Montepio accounts, interbank transfers and immediate transfers. At the end of June 2021, M.A.R.I.A. recorded a score of 80% in level of Customer satisfaction with the service, in line with the score observed at the end of 2020.

Open Banking

The Open Banking API service enables the Customer, through an app of a particular financial entity, to may make queries/operations on accounts that are associated with one or more financial institutions.

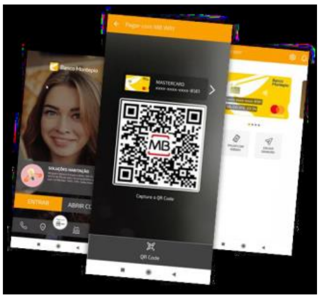
Since SIBS' provision of this service to financial institutions and entities that provide financial services to Customers, under the Payment Services Directive (PSD), Directive 2007/64/ECD2, Banco Montepio offers various functionalities, such as Bulk Payment transactions; Payment to Social Security and Single Social Tax (TSU) Payments; consultation of Consent given to Service Providers (or TPP); Provision of Consent of Confirmation of Availability of Funds; Management of Consent provided to Service Providers (TPP), Information Service for Accounts | Accounts at Other Banks.

“Serviço Montepio24 Empresas” (Montepio24 Service for Companies)

In the first half of 2021, Banco Montepio provided the possibility of subscription to packages of solutions for Companies on the web channel.

“Serviço Montepio24 Particulares” (Montepio24 Service for Individuals)

In the first half of 2021, Banco Montepio provided the MB WAY service on the app of the “Serviço Montepio24 Particulares” (Montepio24 Service for Individuals), enabling Customers to pay in the shop, send money immediately free of charge, and receive money rapidly.



INNOVATION AND QUALITY

In the first half of 2021, Banco Montepio continued to take measures to mitigate the effects associated to the Covid-19 pandemic and pursued the digital transformation process, with the following being noteworthy:

Personal Credit online

In May 2021, Banco Montepio launched a new multichannel, flexible and simple functionality, available at all times, to apply for Personal Credit. Following on from the Personal Credit 100% online, launched in 2019, for eligible Customers and up to the maximum value of 5,500 euros, a new functionality was developed that enables, in a fast and online manner, any Customer to submit a Personal Credit application, for any purpose or amount, and obtain a decision, without having to physically go to a Banco Montepio branch. This represented yet another step towards helping to simplify the Customers’ life and relationship with Banco Montepio, complemented with the launch of the “pouco pio” (little chatter) Personal Credit multimedia campaign aimed at supporting families to achieve their personal projects, irrespective of what they may be.

Corporate Innovation

Throughout the first half of 2021, Banco Montepio pursued its strategies of innovation towards increasing the digitalisation index and deepening the response in the context of the pandemic situation caused by Covid-19.

To this end, two loan simulators for companies were added to the two already provided in the second half of 2020. Therefore, the previous simulators - “Linha de Apoio à Economia COVID-19 - Micro e Pequenas Empresas (08.2020)” (Covid-19 Economy Support Line - Medium and Small Enterprises (08.2020)) and “Linha de Apoio Setor Social COVID-19 (11.2020)” (Covid-19 Social Sector Support Line (11.2020)), were further enhanced by the “Linha de Apoio à Economia COVID-19 - Agências de Viagens e Operadores Turísticos (03.2021)” (Covid-19 Economy Support Line - Travel Agencies and Tour Operators (03.2021)) and the “Linha de Apoio à Economia COVID-19 - Médias e Grandes Empresas do Turismo (05.2021)” (Covid-19 Economy Support Line - Medium and Large Tourism Companies (05.2021)), all still being offered.

These simulators are accessible from Banco Montepio’s public website, available to Customers and non-Customers, and constitute a differentiating factor in view of the non-existent offer of similar simulators by any of the other players of the banking sector. These simulators provide an easy digital experience presenting a summary of the line with a comparator for understanding the impact of the different variables in the instalment plan, where Customers and non-Customers may, at the end, request a contact to discuss the intended plan.

With these simulators, Banco Montepio revealed that it socially supports Customers and non-Customers in a pandemic context, both via the individual protection of users who wish to explore the website in search of the payment plan most suited to their reality, who would otherwise have to go to a branch, and due to the fact of having rapid access to the information of each of the credit lines and taking the first steps towards accomplishing the loan application.

On the other hand, the available credit lines in these simulators are comprehensive, including some of the sectors most affected by the pandemic for which the State provided support lines with mutual guarantee, including Micro and Small-Sized Enterprises, Social Sector, Travel Agencies and Tour Operators as well as Medium and Large Tourism Companies. Here, the line for Travel Agencies and Tour Operators, in addition to companies, also sought to support individuals, as it was designed for the very specific purpose of refunding values paid for travel that was not made or cancelled.

APProva

Banco Montepio launched APProva, a new strong authentication application that further increases the security of online transactions. This application has the advantage of being separate from the current digital channels and is available at iOS and Android stores, for download free of charge. All online payments that require strong authentication must be approved through the APProva application, replacing the SMS 3D Secure. APProva replaces the use of the Matrix Card and SMS Code, both to validate transactions in the Montepio24 service, and to authenticate this service every 90 days. For transactions that need two or more authorisations, APProva is prepared to support various devices and users.

With the launch of this application, the oldest financial institution in Portugal continues focused on innovation, accompanying market requirements, with the mission of simplifying the life of its Customers.

BUSINESS SEGMENTS

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

The Group's business segments cover: in domestic activity, Commercial Banking, comprised of Retail Banking, the Social Economy and 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.

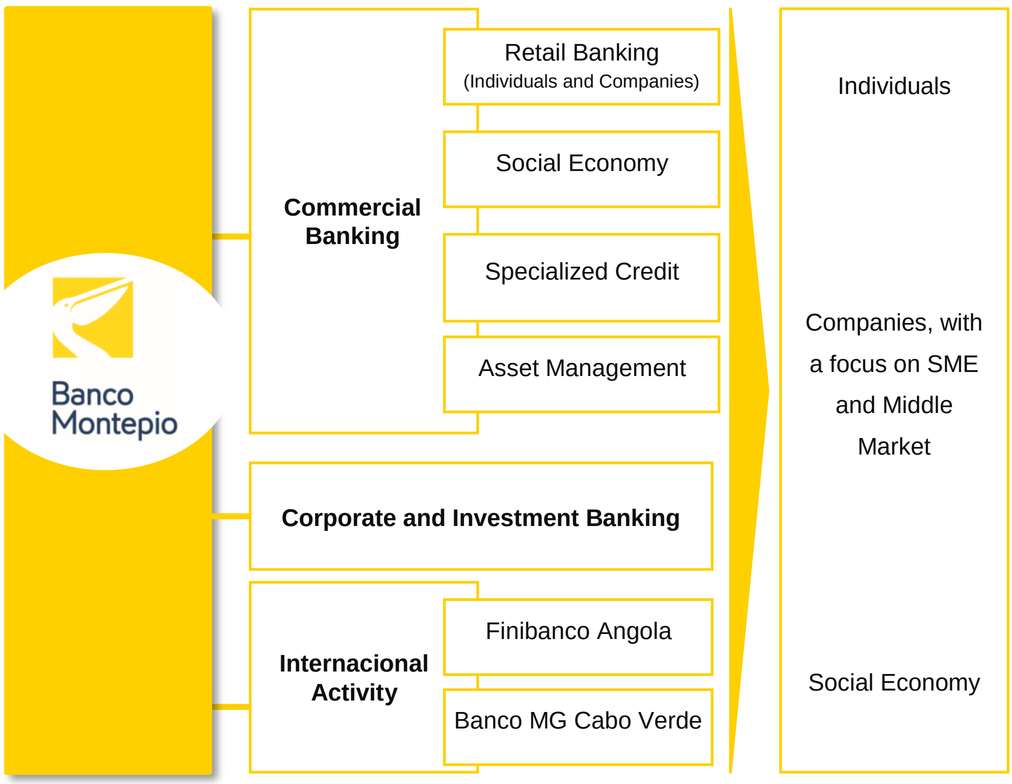
The Group's target Customer segments consist of Individuals, Companies, with emphasis on small and medium-sized enterprises, the middle market, and Social Economy. Banco Montepio's business model is Customer driven, focused on the well-being of families, on supporting the social economy and on attention 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 undergoing a downsizing process, following the strategic redefinition of the international equity holdings, and, considering the new legal framework of Cape Verde and having weighed up all the relevant strategic options, the Board of Directors of Banco Montepio decided not to promote the changes required to adapt its subsidiary Banco Montepio Geral Cabo Verde to a bank with general authorisation and, consequently approved the procedural initiatives stipulated in the Law for its voluntary dissolution and orderly liquidation.

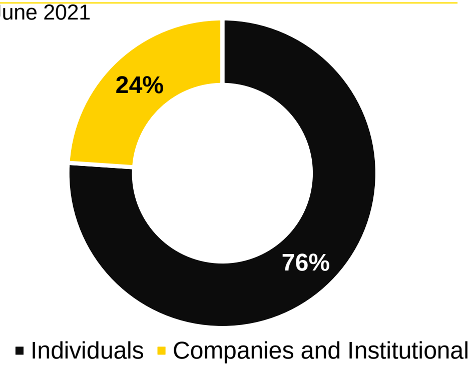
As at 30 June 2021, the operations in Portugal accounted for 98.5% of total assets, 99.8% of total loans to customers (gross) and 99.0% of total customer resources; Banco Montepio had a network of 278 branches in Portugal, serving 1,321 thousand Customers, composed of 158 thousand Companies and 1,163 thousand Individuals, with market shares of 5.1% in Deposits and 5.3% in Loans to customers.

BUSINESS SEGMENTS OF THE BANCO MONTEPIO GROUP

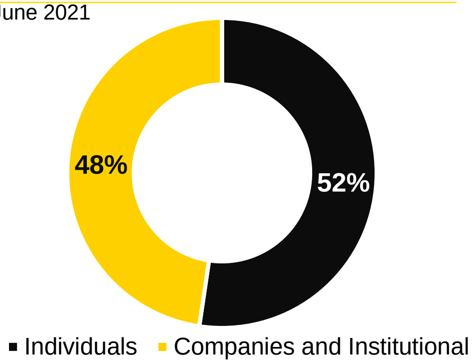


As at 30 June 2021, Bank Montepio's customer deposits stood at 12.6 billion euros, with individual customers representing 76% of this amount, and gross loans to customers reached 12.3 billion, with 52% being individual customers and 48% being companies and institutional customers.

Structure of Customers Deposits
30 June 2021



Structure of Loans to Customers (Gross)
30 June 2021



The main highlights of the first half of 2021 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 prioritises the encouragement of saving, faithful to its centenary vocation as a saving institution, 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 Customers' needs and wishes.

DEPOSITS

In the first half of 2021, Banco Montepio continued to market the "Poupança +Rendimento" (Saving +Income) term deposit aimed at encouraging the Customers to save through the capture of new capital.

Banco Montepio also continued to provide a unique offer, named "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)), aimed at encouraging saving among the youngest cohorts (from 0 to 17 years old).

Furthermore, with a view to facilitating the diversification of investments by Customers, Banco Montepio offered various Structured Deposits, that cannot be withdrawn in advance, but have guaranteed capital upon maturity (covered by the Deposit Guarantee Fund). The potential remuneration is related to the performance of the underlying assets, such as previously selected corporate shares (Pharmaceuticals, Information Technology Companies, among others).

In this regard, special note should be made of the "Banco Montepio Sustentabilidade Mar.2021" (Banco Montepio Sustainability Mar.2021) structured deposit, with remuneration dependent on the performance of 3 Environmental, Social and Governance (ESG) international corporate shares.

INVESTMENT AND PENSION FUNDS

In the context of the offer of Investment Funds, Banco Montepio ensures the distribution of Securities Investment Funds managed by Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A. and two Real Estate Investment Funds, the "Fundo Valor Prime" (Prime Value Fund) and "Fundo VIP"

(VIP Fund), 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.

In the first half of 2021, the following campaigns promoted by Futuro - Sociedade Gestora de Fundos de Pensões, S.A. were particularly notable:

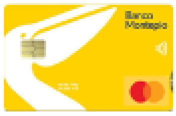
- **"Com Poupanças tudo parece Low-Cost"** (With Savings everything seems Low-Cost), and
- "**Realize os seus Planos"** (Accomplish your Plans). The main goal of the latter was to encourage the first retirement saving plan (PPR) subscription by younger Customers, in addition to the perspective of investment for retirement pension through occasional or regular deposits of sums in "PPR/PPA" (retirement saving plan/saving in shares plan), whose subscription can be done via web, on the Montepio24 Service.

PUBLIC SUBSCRIPTION OFFERS

In the first half of 2021, Banco Montepio participated, as a Placement Entity, in Public Subscription Offers of Bonds of FUTEBOL CLUBE DO PORTO - FUTEBOL, SAD, and SIC – SOCIEDADE INDEPENDENTE DE COMUNICAÇÃO, S.A., offering its Customers the opportunity to subscribe bonds of renowned entities and diversify their investments.

MEANS OF PAYMENT

The replacement of Debit Cards due to the change of the network of use of the card, from the Visa network to the Mastercard network, was completed in the first half of 2021.



To accompany the market evolution and offer more alternatives to the Customers in the use of Credit Cards and Prepaid Cards, Banco Montepio extended the provision of the Apple Pay Service to these types of cards. This service enables making payments both at physical and virtual (e-commerce) automatic payment terminals, using the Apple wallet.

Apple Pay is an Apple payment technology that enables devices of this trademark to make contactless and online payments (to the subscribing merchants), through a wallet in which cards from all issues that had endorsed this technology can be added. This aims to boost the dematerialisation of cards and facilitate payments.

INSURANCE

In Bancassurance, the simplification of services and processes prevails, 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.

In the first half of 2021, note should be made of the distribution of the "Kit Seguro Lusitania" (Lusitania Insurance Kit) to Banco Montepio Customers, according to certain conditions, composed of a reflective bag and vest, a transparent pouch with an accident report form, a sticker pocket for the insurance label, and a lanyard/key-chain.

COMMERCIAL SOLUTIONS

In the first half of 2021, Banco Montepio continued to offer integrated product and service solutions, the "Mais Consigo" and "Mais Contigo" (More With You) accounts, which facilitate the Customer's daily account management, providing the products and services that are most used on a daily basis at a more attractive price than if they were acquired individually.

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 boosting its mortgage loan solutions, while keeping the focus on exceptional measures of protection of loans in the context of the Covid-19 pandemic.

In the first half of 2021, special note should be made of the new Personal Credit campaign, where Banco Montepio shows that, in a responsible manner, it is always alongside its Customers, supporting their projects whatever they may be, without asking too many questions.

COMPANIES

Banco Montepio's offer for the Companies segment focuses on simplification, consistency and easy use as critical success factors for differentiation in the segment, through a model of commercial follow-up based on the specialisation and size of the Customers.

COMMERCIAL SOLUTIONS

In the first half of 2021, Banco Montepio redesigned the commercial solutions **"E.mpreendedor" (E.Enterpreneur), "E.mpresário" (E.Businessperson), "E.xpert" (E.Expert) and "E.Social" (E.Social)**, and integrated offer of products and services aimed at facilitating daily financial management, while simultaneously ensuring the Corporate Customer relationship and transactionality, combining the products and services that are most used at a lower price than if they were acquired individually.

CREDIT

In 2020, recognising the exceptionality of the situation and emergency triggered by the Covid-19 pandemic, Banco Montepio approved exceptional measures aimed at supporting workers and companies towards the normalisation of their activity. In this scenario, in the first half of 2021, Banco Montepio strengthened its participation in public sector initiatives directed at stimulating the financing of companies in different aspects, in particular:

- **"Linha de Crédito Empresas Exportadoras da Indústria e do Turismo" (Industry and Tourism Export Companies Credit Line)**

  This credit line aims to support export companies of the industry and tourism sector, for the purpose of supporting employment and the maintenance of jobs, as an assistance measure supporting the economy in the current context of lower economic activity derived from the Covid-19 pandemic.

- **“Linha de Crédito Empresas Montagem Eventos” (Event Organising Companies Credit Line)**

  This credit line aims to finance the treasury needs of companies whose core business involves the supply of specific services and products to support the holding of cultural, festive, sports or corporate events, for the purpose of supporting employment and the maintenance of jobs.

Moreover, Banco Montepio concluded an agreement with the European Investment Bank (EIB), providing the **“Linha BEI Titularização Sintética”** (Synthetic Securitisation EIB Line), directed at funding loans granted to small and medium-sized enterprises and mid-caps, whose investment projects take place in Portugal or in other European Union countries, in various sectors of economic activity (agriculture, industry and services). This line also ensures the financing of medium and long-term working capital needs.

RENTING

In the first half of 2021, Banco Montepio continued to promote the offer of the “Aluguer Operacional de Veículos” (Vehicle Operating Renting) service, for Customers who wish to use or various vehicles for personal or commercial purposes, with the noteworthy offer of electric vehicle solutions (electric or hybrid), associating efficacy with sustainability. 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)

The “Estatutos PME Líder 2020” (SME Leader 2020 Status) were attributed in the first half of 2021. This corporate reputation seal, created by IAPMEI - Agência para a Competitividade e Inovação, I. P., seeks to distinguish the merit of national small and medium-sized enterprises (SME) with superior performance and is awarded in partnership with Turismo de Portugal, a group of partner banks and the mutual guarantee societies, based on the best risk ratings and economic-financial indicators.

The Management Entities of the SME Leader Status also award the “Estatuto PME Excelência” (SME Excellence Status) to a subset of companies with SME Leader Status with the most outstanding merit of their performance.

SERVICES

Automatic Payment Terminal (POS)

Banco Montepio continues to provide automatic payment terminal at point of sale in various formats: “TPA Fixo” (Fixed POS), “TPA Móvel GPRS” (GPRS Mobile POS) and “TPA WI-FI” (Wi-Fi POS). The innovative POS mobile solution (Touch2Pay), which enables accepting payments in a fast and safe way, at any place, continues to stand out in particular. 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 Band 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

In the first half of 2021, marked by the persistence of the Covid-19 pandemic, with significant economic and social impacts affecting families, companies, and social and solidarity economy entities (EESS), Banco Montepio continued to accompany the Social Sector and upheld its important role as the Social Economy Bank in Portugal.

The EESS are followed-up by the Commercial Department of the Social Economy and Public Sector (DCESSP), an area complementary to Banco Montepio's branch network, composed of an experienced team spread from the north to the south of the country, with specialised knowledge of the sector, its needs and different areas of action.

As a result of the work developed by the commercial teams of dedicated managers, at the end of the first half of 2021, Banco Montepio achieved a penetration rate in Social and Solidarity Economy Customers (with social purposes) of 27%. Continuing its focus on granting loans, both to support treasury and to support investment projects, Banco Montepio achieved a credit market share of approximately 13%, representing growth of approximately 30% in the portfolio of loans to these Customers compared to the same period of 2020[3].

The provision of unique solutions that add value to the daily life of EESS is another of the differentiating factors of Banco Montepio. Within the offer provided by Banco Montepio, the following anchor products are highlighted:

- **"Leasing Auto Setor Social"** (Social Sector Auto Leasing) is a financing mode of Banco Montepio, a campaign created in April 2021 to ensure the mobility of Social Economy Institutions, that enables the acquisition of light vehicles, passenger or goods (transformed for home support or mobility), by Social Economy Institutions, with differentiated conditions in terms of pricing and insurance;
- **"Solução ESocial"** (ESocial Solution) is an integrated solution of products, services and exclusive benefits for EESS. This solution includes a unique product on the market, the "Conta Acordo" (Agreement Account);
- "**Conta Acordo**" (Agreement Account), is an exclusive product of Banco Montepio, created to facilitate and ensure treasury needs that could arise before receiving State funds. This is an exclusive overdraft facility for private social solidarity institutions (IPSS) to facilitate treasury management;
- **Specific Covid-19 treasury support lines** aimed at providing liquidity to EESS so that they can focus entirely on their response to social problems:

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[3] Credit Balance reported by the Monetary and Financial Statistics (Banco de Portugal) in the heading of "ISFLSF – Instituições sem Fins Lucrativos ao Serviço das Famílias" (Non-Profit Institutions at the Service of Families).

- "**Linha de Apoio ao Setor Social Covid-19"** (Covid-19 Social Sector Support Line), a credit line aimed at supporting the treasury of EESS to cope with the Covid-19 pandemic;
- **"Linha de Crédito +Impacto Social"** (+Social Impact Credit Line), an exclusive credit line of Banco Montepio that seeks to help institutions to foster social inclusion;
- **"Linha de Crédito Fundo para a Inovação Social (FIS)"** (Social Innovation Fund Credit Line), a line that aims to facilitate access to bank financing and improve the financing conditions of Social Innovation and Entrepreneurship.

Since the start-up of the Government's Economic and Social Stabilisation Programme and the Protocolled Lines, by the end of the first half of 2021, Banco Montepio had financed more than 62 million euros in the specific Protocolled Line for the Social Sector, directed at supporting treasury and working capital needs of EESS. Complementing this, in an attempt to put investment back on the agenda, in the first half of 2021, Banco Montepio focused strongly on the "Linha de Crédito +Impacto Social" (+Social Impact Credit Line), by providing financing of more than 40 million of euros to projects that will significantly contribute to expand the network of facilities, increase quality and to boost the incorporation of innovation and sustainability in EESS social responses.

As a reference financial partner, Banco Montepio extended its **"Bolsa de Parceiros Estratégicos"** (Pool of Strategic Partners) that support EESS, and currently receives the support of four social consultants: "Aposta nas Pessoas", "Turnaround", "ValeConsultores" and "4Change".

The Bank also established **"protocolos comerciais"** (commercial agreements) with institutions that make a difference in society, seeking to contribute in a positive manner in their activity. These agreements with structures representing the Social and Solidarity Economy included in particular:

- **Casa do Professor,** the oldest social solidarity association in the country, created for the purpose of supporting teachers of all educational levels;
- **Confederação Nacional das Instituições de Solidariedade (CNIS)** (National Confederation of Solidarity Institutions), the confederated organisation of private social solidarity institutions (IPSS), of national scope and non-profit making;
- **Confederação Portuguesa das Colectividades de Cultura, Recreio e Desporto (CPCCRD)** (Portuguese Confederation of Cultural, Recreational and Sports Collectivities), which represents the collectivities or other associations of culture, recreation and sports;
- **Diocese do Algarve** (Diocese of Algarve), whose territory corresponds to the district of Faro, with a population of close to 400,000 usual residents;
- **Diocese do Porto** (Diocese of Porto), located in the North of Portugal along the Atlantic coast, covering 26 municipalities, 17 of which belong to the district of Porto, 8 to the district of Aveiro and 1 to the district of Braga. The Diocese population is around 2,000,000 inhabitants;
- **Federação Nacional das Associações Juvenis (FNAJ)** (National Federation of Youth Associations), which has a determinant political representation, defending and promoting the interests of youth associativism before the public powers, through critical and active participation;
- **Federação Nacional de Cooperativas de Solidariedade Social (Fenacerci)** (National Federation of Social Solidarity Cooperatives), the representative body of the cooperatives of this sector, aimed at structuring suitable solutions for the development of intellectually disabled persons, in addition to supporting and promoting their inclusion in society;

- **Federação Nacional do Voluntariado em Saúde (FNVS)** (National Federation of Voluntary Health Action), which acts in the area of volunteering in health, developing and expanding its social support base concerning this type of voluntary action and the improvement of the services provided to the beneficiaries;
- **Liga dos Bombeiros Portugueses** (League of Portuguese Fire-Fighters), founded in 1930, is the Confederation of Fire-Fighter Associations and Brigades of any nature, voluntary or professional, that, being legally established and effectively active, observe the requirements of the general law and statutes of the Liga dos Bombeiros Portugueses, and propose to accomplish the ends stipulated therein;
- **Rede de Universidades da Terceira Idade (RUTIS)**, a private social solidarity institution of public utility that supports the community and senior citizens;
- **União das Misericórdias Portuguesas (UMP)** (Union of the Portuguese Misericórdias), created in 1976 to guide, coordinate, boost and represent the Santas Casas de Misericórdia, defending their interests and organising services of common interest.

In view of the existing rules and restrictions as a consequence of the Covid-19 pandemic, institutions are focusing on the digital, conducting and providing a variety of events online. Banco Montepio thus remained at the side of the EESS. In this sphere, some of the **projects and initiatives** carried out during the first half of 2021 are highlighted below:

- **"E-Social"**, a 360º communication platform of Banco Montepio directed at all stakeholders of the Social Sector. With the mission of stimulating and disseminating this area and its participants in the most varied forms of action, the social networks Instagram and Facebook (@montepioesocial) of E-Social worked as a meeting point of causes, initiatives, projects, challenges, exhibitions and disclosure of the best that is being done in the Social Economy, in Entrepreneurship, in Social Innovation and in Sustainability in Portugal;

- **"#TodosJuntos"** (#AllTogether), a social solidarity initiative, launched by ten banks of the Portuguese financial system, that included Banco Montepio. The "#TodosJuntos" solidarity campaign, held from 19 May to 15 June 2021, raised 2.5 million euros for food support for the more vulnerable families, in the context of the Covid-19 pandemic, through EESS countrywide. The total amount raised enabled the acquisition of basic foodstuffs (such as, for example, milk, cereals, rice, olive oil, beans, pasta and tuna) and 20% of the total value raised was used to purchase urgent medication;

- **"1.ª Feira Digital Social"** (1st Digital Fair), an initiative organised by NERSANT - Associação Empresarial da Região de Santarém (Business Association of the Region of Santarém), held during the month of March 2021 which received the support and participation of Banco Montepio. Directed at the Social and Solidarity Economy, the main goal of the Digital Social Fair was to present the institutions and their areas of action, as well as products and services of the companies associated to this activity sector. This initiative also enabled Banco Montepio to promote three sessions linked to the areas of the social economy, social entrepreneurship and sustainability;

- **Presentation of financing solutions for IPSS** organised by **UDIPSS Leiria** (District Union of the Private Social Solidarity Institutions of Leiria) and promoted by Banco Montepio. This online initiative, held on 18 May 2021, was attended by different institutions, members of UDIPSS Leiria.

Support to the "Campanha Pirilampo Mágico 2021" (Magic Glow-Worm Campaign 2021)

Banco Montepio supported the "Pirilampo Mágico 2021" (Magic Glow-Worm 2021) campaign through a donation of 10,000 euros. This is one of the largest and oldest social solidarity campaigns in Portugal with positive social impacts on society. With this initiative, Banco Montepio aims to be at the side of FENACERCI and its members, and strengthen its positioning in the Social and Solidarity Economy sector as a reference agent of social sustainability in the market.

Voluntary Work in the School and Educational Community

In the first half of 2021, Banco Montepio once again joined the Junior Achievement Portugal (JAP), which enabled Montepio Group employees to enrol and participate, in digital format, in the JAP's voluntary work programmes (Elementary Education; The Company (and its competitions); Start Up Programme (National Competition) and "Braço Direito" (right-hand man/woman)).

During the academic year of 2020/2021, 20 Montepio Group volunteers completed the JAP programme sessions, affecting a total of 732 students, and corresponding to a total of 131 hours of corporate volunteering. In addition to the hours of volunteering in the programmes mentioned above, Banco Montepio will launch, together with JAP, the SOCIAL INNOVATION BOOTCAMP, starting in the last quarter of 2021.

Support to the Public Sector

Public administrations and the entire entrepreneurial sector of total or majority-held public capital are the entities comprising the Public Sector, which Banco Montepio considers fundamental to create value in the Portuguese economy.

The Public Sector area is followed by the DCESSP, which has an experienced team with specific knowledge of the sector, and is committed to being at the side of those whose mission is to ensure the interests of the community. During the first half of 2021, Banco Montepio continued to monitor this segment, in particular in the analysis of loan proposals related to public tenders. In this regard, tender awards were made to Banco Montepio as well as proposals for overall involvement arising from the strategy of retaining the loyalty of customers through daily products and services.

Support to Entrepreneurship and Social Innovation

In the first half of 2021, and after a year in which it was necessary for entrepreneurs and companies to reassess and, in some cases, change their form of action, Banco Montepio continued to help to reduce the negative impact of Covid-19, but also to stimulate entrepreneurship and social innovation in Portugal.

Banco Montepio's role was manifest through the provision of financing lines for sustainable projects, but also with the creation of partnerships that enabled promoting equal opportunities and more inclusive and closer society.

As a **Social Entrepreneurship Partner**, Banco Montepio actively participates 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 the "Linha de Crédito

Code Academy" (Code Academy Credit Line), specifically to support the students (<Code Cadets>) who attended the bootcamps in Lisbon, Porto, Aveiro and Ilha Terceira.

Under the established partnership and consequent investment in the "Linha de Crédito Code Academy" (Code Academy Credit Line), in the first half of 2021, Banco Montepio recorded:

39 Code Academy Students Financed

209,870 euros of Code Academy Financing

- **"Banco Montepio Acredita Portugal (MAP)"** (Montepio Believes Portugal), the largest entrepreneurship competition of Portugal and the second largest worldwide, promoted by Banco Montepio and by the non-profit organisation "Acredita Portugal".

  Throughout the five years of partnership, which covered the 7th to 11th editions of the competition, the following results were observed:

  - 56,063 applications for the Banco Montepio Acredita Portugal competition, of which 10,620 projects were submitted to the 11th edition of the initiative, held between 2020 and 2021. In addition to the Social Entrepreneurship category ("Prémio Empreendedorismo Social" (Social Entrepreneurship Award), supported by Banco Montepio), the competition received applications focused on the Technology area ("Prémio K.Tech" (K.Tech Award)), Innovation linked to Water ("Prémio H2O Inovação *by* Águas de Gaia" (H2O Innovation Award by Águas de Gaia), Mobility ("Prémio Brisa Mobilidade" (Brisa Mobility Award) and creation of smart cities ("Prémio Gaia 3C: Construção Circular da Cidade" (Gaia 3C Award: Circular Construction of the City)), as well as projects under the general category of the Banco Montepio Acredita Portugal competition.
  - 8,252 applications for the Social Entrepreneurship category, of which 1,666 correspond to the 11th edition. This continues to be the category that received the highest number of applications.

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, among which the following are highlighted:

- **"Projetos de Impacto"** (Impact Projects), a joint initiative of Banco Montepio and Santa Casa da Misericórdia de Lisboa (SCML aimed at boosting social investment through the Investment in 9 projects (2 Social Impact Securities and 7 Partners for Impact), two financial instruments of the "Estrutura de Missão Portugal Inovação Social (EMPIS) (Social Innovation Portugal Mission Structure), representing innovative solutions for the challenges of contemporary society and enabling the combat of various forms of social exclusion.

  "Títulos de Impacto Social (TIS)" (Social Impact Securities) aim to finance, through a mechanism of hiring and payment by results, innovative projects in priority areas of public policy, in the fields of employment, social protection, education, health, justice and digital inclusion. In this area, support was conquered by the following projects:

  - **"Ubbu"** (programming school for children);
  - **Gamezone Lisboa** (a solution to fight against the deficit of competence in Portuguese and mathematics).

  "Parcerias para o Impacto (PPI)" (Partnerships for Impact) finance the creation, development and growth of social innovation projects, together with social investors. In this category, the following projects were supported:

  - **"O Mundo é o meu Bairro"** (The World is my Neighbourhood) (inclusion in a social housing neighbourhood);
  - **"WeGuide"** (support for cancer patients);
  - **"55+"** (work with people over 55 years old);
  - **"Skoola"** (music for social inclusion);
  - **"Impulso"** (creation of micro-business);
  - **"Robot Pepe"** (therapeutic tool for active ageing);
  - **"Na minha praceta"** (In my square) (project for regeneration of three Marvila neighbourhoods).

- **"Projecto Família®"** (Family Project®), a programme of support to families with children and young people at risk with a view to family preservation. With the support of Banco Montepio and the Fundação Calouste Gulbenkian (Calouste Gulbenkian Foundation), financiers of the project managed by MAZE, and implemented by the Movimento de Defesa da Vida (Movement for the Defence of Life), 180 children and young people of Porto and Vila Nova de Gaia at risk of being institutionalised were supervised between July 2017 and October 2020. The project's results were presented in 2021, with a success rate of 91% of the supervised cases, meaning that 163 of the 180 children and young people at risk remained within their family home, corresponding to 55 more children than initially agreed with the investors, under the TIS (Social Impact Securities). With the investment and monitoring through TIS, the success rate of the Projeto Família® shifted from 70% to 91%.

- **"Centro de Inovação Social da Fundação Eugénio de Almeida"** (Social Innovation Centre of the Eugénio de Almeida Foundation) is a PPI (Partnerships for Impact) project. Located in Évora, this centre 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. Following the co-investment made by Banco Montepio between 2018 and 2020, the Social Innovation Centre (CIS) counted on the Bank's active participation as a speaker on initiatives, project selection panel member, in addition to the creation of mentoring relationships between Banco Montepio employees and the teams of the projects incubated in the CIS.

Banco Montepio, as a Social Innovation Partner, supports projects and spaces aimed at fostering entrepreneurship in Portugal:

- **"Acredita Incubação"** (Believe Incubation), located in Vila Nova de Gaia, is an incubation project aimed at providing support and tools to entrepreneurship in areas of the creative industries, technological entrepreneurship and the social economy;
- **"Casa do Impacto"** (Impact House) created by SCML, is the home of Incubus the new generation of entrepreneurs who believe in sustainable business models able to create social and environmental impact. As the only partner bank, Banco Montepio is 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 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), seeking to foster entrepreneurship and social innovation in the district of Beja;
- **sh|ft happens Portugal**, a programme for acceleration of impact projects that bring in a change of benefit to society. Located in Lisbon, this is a diverse community whose mission is to invest in social entrepreneurs in the transformation of their ideas into sustainable business ventures.

Microcredit

The continuation of the Covid-19 pandemic has made traditional business need to transform and develop into new forms. Various scenarios have become installed in the labour market and, in order to foster sustained growth in Portugal, Banco Montepio, which has a team of specialised managers countrywide in the area of Microcredit, has provided the following anchor products:

- The **"Linha de Apoio ao Empreendedorismo e à Criação do Próprio Emprego (LAECPE)"** (Line of Support to Entrepreneurism and Own Job Creation), composed of two distinct credit lines (MicroInvest and Invest+) for different amounts, is directed at unemployed persons enrolled in job centres, with ability and willingness to work. LAECPE, arising from a collaboration agreement between Banco Montepio, the Instituto de Emprego e Formação Profissional, I.P. (IEFP) and four mutual guarantee companies (Norgarante, Garval, Lisagarante and Agrogarante), seeks to fight against economic and social exclusion, and long-term unemployment;
- **"Solução E.mpreendedor"** (E.Entrepreneur Solution), a Banco Montepio solution for new business that is less than 2 years old, presents a selection of integrated products and services to keep the business on the right path;
- **"Solução E.mpresário"** (E.Businessperson), a solution that supports companies at the growth stage, presents a selection of integrated products and services to keep the business on the right path;
- **"Microcrédito (Linha Própria)"** (Microcredit (Own Line)), a special social insertion instrument for those who, having entrepreneurial skills, have extra difficulties in accessing credit and the labour market.

Banco Montepio also provides access to a set of **27 protocols and partnerships** with organisations of national, district or local scope that are distinguished by their experience in the field of social entrepreneurship and protocolled financing lines:

- ACB - Associação Comercial de Braga (Commercial Association of Braga);
- ACIS - Associação Empresarial dos Concelhos de Vila Franca de Xira e Arruda dos Vinhos (Business Association of the Municipalities of Vila Franca de Xira e Arruda dos Vinhos);
- ACM - Alto Comissariado para as Migrações (High Commissioner for Migrations);
- Acredita Incubação, project of the Associação Acredita Portugal (Acredita Portugal Association);
- AEBA - Associação Empresarial do Baixo Ave (Business Association of Baixo Ave);
- AEFAFE - Associação Empresarial de Fafe, Cabeceiras de Basto e Celorico de Basto (Business Association of Fafe, Cabeceiras de Basto and Celorico de Basto);
- AEP - Associação Empresarial Penafiel, (Penafiel Business Association), in Penafiel;
- AERLIS - Associação Empresarial da Região de Lisboa (Business Association of the Region of Lisbon);
- AESintra - Associação Empresarial de Sintra (Business Association of Sintra);
- Amadora Inova da Câmara Municipal da Amadora (Amadora Innovates of Amadora City Council);
- ANJE - Associação Nacional de Jovens Empresários (National Association of Young Entrepreneurs);
- Associação IRISOCIAL Incubadora de Inovação Social (Social Innovation Incubator Association);
- B2A - Business Advisors Association;
- Beira Serra - Associação de Desenvolvimento (Beira Serra Development Association);
- Centro Empresarial INOVAGAIA (Business Centre), in VN Gaia;
- DNA Cascais;
- DOLMEN - Desenvolvimento Local e Regional, CRL (Local and Regional Development), in Amarante;
- FISOOT - Formação, Integração Social e Ofertas de Oportunidades de Trabalho (Training, Social Integration and Job Offers);
- IISBA - Incubadora de Inovação Social do Baixo Alentejo (Social Innovation Incubator of Baixo Alentejo);
- Lions Clube de Coimbra (Lions Club of Coimbra);
- NERSANT - Associação Empresarial da Região de Santarém (Business Association of the Region of Santarém);
- Novos Percursos, CRL (New Pathways);
- Penha Empreende da Junta de Freguesia da Penha de França (Penha Ventures of Penha de França Parish Council);
- Querer Ser - Associação para o Desenvolvimento Social, (Wanting to Be - Association for Social Development), in Rio Tinto, Gondomar);
- RedOeiras+;
- Sol do Ave - Associação para o desenvolvimento integrado do Vale do Ave (Association for the integrated development of the Ave Valley);
- Talentus - Associação Nacional de Formadores e Técnicos de Formação (National Association of Trainers and Training Technicians).

In the area of Microcredit, Banco Montepio supported in the first half of 2021:

10 Projects	174,450 euros of financing	12 jobs

Banco Montepio as a market leader in the "SOU MAIS - Programa Nacional de Microcrédito" (I AM MORE - National Microcredit Programme)

"SOU MAIS – Programa Nacional de Microcrédito" (I AM MORE - National Microcredit Programme) is a measure consisting of support to company creation projects, promoted not only by people who have special difficulties in accessing the labour market, but also by micro-entities and cooperatives of up to 10 workers, who submit viable projects with net job creation, particularly in the Social Economy area.

Mainly geared towards continuing to affirm Banco Montepio as a reference institution in the Social Economy, Microcredit, Social Entrepreneurship and Social Innovation areas, and also giving its contribution in the creation of sustainable projects from the financial point of view, Banco Montepio has participated in the "SOU MAIS – Programa Nacional de Microcrédito" project since 2011.

This measure seeks to facilitate access to credit, through MicroInvest, belonging to LAECPE, for projects with low value investment and financing (up to 20,000 euros), and the provision of technical support for the creation and consolidation of projects.

The Activity Report of 2020 of "SOU MAIS", that was disclosed by CASES - Cooperativa António Sérgio para a Economia Social in 2021, reveals that Banco Montepio was the most outstanding financial institution in the "Sou Mais" National Microcredit Programme, having accounted for 34.51% (4,624,743 euros) of the total financing (13,400,723 euros) granted between 2011 and 2020.

In addition to the financial support through the areas of entrepreneurship and microcredit, Banco Montepio participated in events, in order to contribute to the positive change of those who attended, with the following events having been of particular interest:

- **"Mercado de Financiamento"** (Financing Market), an online session organised by NERSANT, held on 23 February 2021. At this initiative, a number of projects were presented to various bank entities, including Banco Montepio;
- **"Inclusão Social: Da Teoria à Prática"** (Social Inclusion: From Theory to Practice) was the motto of the two sessions organised by Casa do Impacto, where Banco Montepio presented its internal initiative "Programa de Mentoria Mulheres Montepio" (Montepio Women Mentoring Programme). 26 February and 3 March were the dates when the events linked to Sustainable Development Goal 5 (SDG 5 - Gender Equality) were held, addressing equality as a whole applied to the organisational and business context;
- **"Oportunidades ligadas aos apoios, financiamento e entrada na Europa" (Opportunities linked to support, financing and entrance into Europe) and "Speed Meeting Mentores" (Mentor Speed Meeting)**, organised by Acredita Portugal and Turismo de Portugal under the "Programa Aceler@Tech" (Aceler@Tech Programme), held on 31 March and 5 May, respectively;

- **"RP à Primeira Vista"** (PR at First Glance), held under the 4th Edition of the PR OPEN DAY of the Escola Superior de Comunicação Social (ESCS) (Higher Education Social Communication School), on 30 April 2021. The final year students of the undergraduate degree in Public Relations and Business Communication (RPCE) were given the opportunity to introduce themselves to organisations of various activity sectors. Banco Montepio, that was part of the initiative, had the opportunity to give feedback, contributing to improve the efficacy of the applications to the job market;
- **Entrepreneurs Talks,** integrated in the Banco Montepio Acredita Portugal competition. Banco Montepio energised the session "Financiamento para o Empreendedorismo Social" (Financing for Social Entrepreneurship), held on 26 April 2021;
- **"I Congresso de Educação, Cidadania e Empreendedorismo"** (First Congress on Education, Citizenship and Entrepreneurship), an event aimed at fostering the updating and discussion of topics related to education, citizenship and entrepreneurship of society. The initiative took place on 13 May 2021 and was orchestrated by the organisation 1 por tod@s (1 for all), with the support of Acredita Portugal;
- **Ciclo de Conversas *online*** (Cycle of Conversations Online), under the 10 years of implementation of "SOU MAIS – Programa Nacional de Microcrédito" (I AM MORE - National Microcredit Programme). Composed of three thematic sessions related to the Programme and its summing up, Banco Montepio was present and gave its testimony during the panel of the first session, "Empreender em tempo de crise" (Being enterprising in times of crisis), held on 20 May 2021, addressing the question "What is it like to finance these projects in the current context?".

Sustainability

The financial services have a crucial role to perform in the transition to a sustainable global society in line with the 17 Sustainable Development Goals (SDG) of the United Nations, namely in the areas of environmental regeneration, social inclusion and economic prosperity. Thus, and with a view to contributing positively to the environment and the different communities, Banco Montepio is present in a set of **key external representations**, embodied in working parties, committees, commissions and councils:

Entity	Representation
APB – Associação Portuguesa de Bancos (Portuguese Association of Banks)	Member of the Management Board Member of the Sustainable Finance Working Group
APEE – Associação Portuguesa de Ética Empresarial (Portuguese Association of Business Ethics)	Member of Technical Commission 217 - Sustainable Finance
Social Responsibility Commission of the ESBG - European Savings Banks Group	Member of the Board Member of the Coordinator Committee
JAP - Junior Achievement Portugal Ministry of the Environment and Energy Transition	Member of the Board Member of the Reflection Technical Group for Sustainable Financing
Fundação da Juventude (Youth Foundation)	Member of the Board of Founders

Banco Montepio continues focused on working the dimension of sustainability, in order to integrate Environmental, Social and Governance (ESG) factors in the various areas of action within the institution. Alongside the project in course, Banco Montepio accomplished various actions in the first half of 2021, namely:

Environmental

- Launch of a mortgage loan campaign with benefits for housing with energy certificate A or A+;
- Creation of a digital area on its website;
- Reduction of the number of physical letters sent to Customers;
- Offer of products inducing good environmental practices;
- Initiatives directed at offsetting its carbon footprint;
- Dematerialisation of external and internal communication;
- Implementation of the project for separation of solid waste;
- Measures to reduce fuel, electricity and paper consumption;
- Use of more sustainable consumables;
- Replacement of heating, ventilation and air conditioning (HVAC) equipment (with R22 refrigerating gas) with more efficient equipment with less aggressive gases for the environment (R410a and R32);
- Motor vehicle fleet replacement plan;
- Integration of sustainability criteria in market consultations.

Social

- Support to and investment in entities and projects linked to innovation and social entrepreneurship;
- Support to projects and initiatives of the social and solidarity economy;
- Financing in microcredit and support to own job creation;
- Launch of the financial literacy programme “O Banco Explica” (The Bank Explains);
- Offer of products with social concerns and inducing social responsibility practices in Customers;
- Expansion of the penetration in the social economy market and clear differentiation of banking and insurance products for this area;
- Visibility of EESS, through the E-Social platform, powered by Banco Montepio;
- Protocols and partnerships;
- Guaranteed integrated management of human capital;
- Implementation of a perspective of internal and external inclusion, respect for diversity and universal design.

Initiatives linked to Sustainable Finance

The APEE - Associação Portuguesa de Ética Empresarial (Portuguese Association of Business Ethics), which is the entity endorsing the United Nations initiative for business sustainability, United Nations Global Compact, through the Global Compact Network Portugal, promoted an extensive debate on **“O Pilar Social das Finanças Sustentáveis”** (The Social Pillar of Sustainable Finance) with the participation of financing, investment and regulation specialists and entities. Pedro Leitão, CEO of Banco Montepio, was one of the speakers of the panel of the initiative, which took place on 6 May 2021.

Subsequently, and in a year marked by the challenges of a Covid-19 pandemic at a worldwide scale, the APEE organised the 16th Edition of the "Semana da Responsabilidade Social (SRS)" (Social Responsibility Week) between 21 and 25 June 2021, focused on three strategic axes: the Planet, which permits and hosts the life of the People inhabiting and caring for it through a Purpose, that moves and guides them. This initiative includes the conference **"Finanças Sustentáveis: Impacte Social do Investimento Local"** (Sustainable Finance: Social Impact of Local Investment), held on 22 June, with the participation of Banco Montepio.

04 BUSINESS ENVIRONMENT

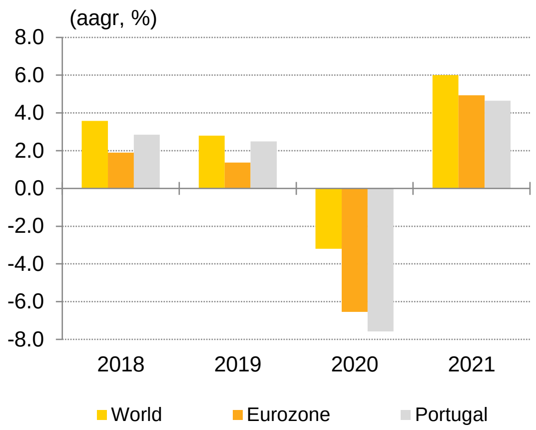
BUSINESS ENVIRONMENT

ECONOMY

World economy

In the recent update of the World Economic Outlook (WEO), dated 27 July 2021, the International Monetary Fund (IMF) continued to point to 6.0% growth of the world economy in 2021, but with accentuating divergences in the post-pandemic recovery. An upward revision was made of the gross domestic product (GDP) of the countries where vaccination is more accelerated, the majority being advanced economies, such as the case of the USA and Eurozone, with a downward revision of all other countries, being more pronounced in the emerging Asian countries.

Gross Domestic Product (GDP)



Source: Thomson Reuters, Banco Montepio and IMF.

According to that study (interim updating), the GDP of the Eurozone should grow by 4.6% in 2021 and 4.3% in 2022, corresponding to 0.2 p.p. and 0.5 p.p. more, respectively, than in the previous WEO (dated April 2021). The forecast for France was maintained at 5.8% for 2021 and 4.2% in 2022, and for Germany at 3.6% for 2021, but there was an upward revision for 2022 (+0.7 p.p., to +4.1%), and Italy being particularly positive, with a significant upward revision for 2021 (+0.7 p.p., to +4.9%) and for 2022 (+0.6 p.p., to +4.2%). However, for Spain there was a downward revision for 2021 (-0.2 p.p., to +6.2%), but an upward revision for 2022 (+1.1 p.p., to +5.8%).

The IMF predicts that the USA should grow by 7.0% in 2021, being 0.6 p.p. more than that previous forecast, and 4.9% in 2022, being 1.4 p.p. more than the forecasts of April 2021. These upward revisions are due to the additional budgetary stimuli of the Biden Administration that will arrive in the 2nd half of 2021 and the improved epidemiological situation in the country.

The divergence between these two blocks of countries arises from the pace of the vaccination process, which should enable an increasing unlocking up of the economy, and the assistance provided by the countries. The IMF details that close to 40% of the population in the advanced economies has already been completely vaccinated, compared to 11% in the emerging markets and “small fraction” in the developing countries. Another contribution to this divergence is the larger volume of budgetary support in the advanced economies, which will reach 4.6 billion dollars in 2021 and following years, while in other countries many measures expired in 2020 as countries attempt to rebalance public accounts.

Economy of the Eurozone

After the Eurozone economy's continued expansion throughout 2019, with annual growth of 1.3% in that year (according to Eurostat data adjusted for seasonality and business days), it returned, as expected, to a scenario of contraction in the first two quarters of 2020 of quarter on quarter declines of 3.6% in the first quarter and 11.4% in the second quarter), with the economy being heavily penalised by the impact of the Covid-19 pandemic in the region. The economy returned, also as expected, to successive growth in the 2nd half of that year, expanding by 12.4% in the 3rd quarter with the renewed exacerbation of the pandemic crisis observed in the autumn and winter leading many countries to return to lockdown, causing a renewed decline of activity in the 4th quarter (-0.6%), with GDP closing 2020 with an expressive annual average contraction of 6.5%.

In 2021, economic activity remained constrained by the lockdown implemented at the beginning of the year, having contracted by 0.3% in the first quarter, leading to a renewed technical recession.

The economy resumed its growth in the 2nd quarter (+2.0%), reflecting the process of gradual lifting of the lockdown observed in the period, pointing to a return to growth, in average annual terms, in 2021. For this year, Banco Montepio foresees growth of 4.9%, although the forecasts remain clouded in uncertainty, in the current pandemic context.

Throughout 2020, and in order to try to mitigate the impact of the Covid-19 pandemic on the economy, 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), which would be strengthened at the end of that year, with its termination extended up to at least the end of March 2022. Throughout the 1st half of 2021, the ECB continuously reiterated the need to maintain the aforesaid policy, having stated that interest rates will remain at current levels, or lower, until inflation is close to the medium-term target, which it actually surpassed in 2021, to become symmetrical around 2%, following the ECB's strategic review of its monetary policy (in contrast to the previous target of close to, or below, 2%). Despite the rise in inflation observed during the first half of the year (having shifted from -0.3% in December 2020 to +1.9% in June of this year), the ECB has admitted its transitory nature.

Portuguese Economy

In Portugal, the year of 2020 was also marked by the severe health and economic crisis that continues to affect the entire globe, and whose impact is being, as expected, very significant, leading to the 1st quarter of 2021 returning to contraction of activity.

The extremely marked negative impact of the Covid-19 pandemic was clearly evident throughout the first half of 2020, essentially reflecting the different lockdown measures taken from March 2020 onwards, which forced the temporary closure of numerous economic activities and restrictions to the free movement of people. In the 1st quarter of 2020, GDP thus showed a quarter on quarter contraction of 4.4%, with the subsequent, as expected, severe intensification of the rate of economic contraction in the 2nd quarter of 2020 – more affected by the impact of the actual containment measures – which declined by 15.2%, representing the highest rate of quarter on quarter GDP contraction of the democratic regime.

Subsequently, the gradual lifting of the containment measures, in a context of relative control of the Covid-19 pandemic, was reflected in a strong and vigorous return of economic activity to growth in the 3rd quarter of 2020, with an expansion of 14.7% (in turn, representing the highest rate of quarter on quarter GDP expansion of the democratic regime), growing once again in the 4th quarter of 2020, but showing a marked slowdown to 0.3%, reflecting the new exacerbation of the pandemic crisis and the need to implement partial lockdown measures in November and December 2020.

The return to growth in the second half of 2020 was insufficient to prevent the Portuguese economy from recording an expressive annual average contraction of 8.4% in 2020, having returned to declines, after having grown by 2.7% in 2019, 2.8% in 2018 and 3.5% in 2017, with this last figure representing the highest growth rate since the beginning of the millennium. This was the most intense decline of GDP of the current National Accounts series (the strongest decline since at least 1910, according to the long-term series of Banco de Portugal), which reflects, as mentioned above, the markedly adverse effects of the Covid-19 pandemic on economic activity.

In the meantime, in 2021, and with a view to halting the intensification of the pandemic crisis at the beginning of the year, the Government was forced to implement a new lockdown, in mid-January, which would subsequently be reinforced, and that led, as expected, to the Portuguese economy returning to activity contractions, with GDP falling quarter on quarter by 3.3% in the 1st quarter of 2021. However, the gradual lifting of the lockdown measures throughout the 2nd quarter of 2021 and the economy's progressive return to normality enabled GDP to return to quarter on quarter growth of 4.5% in that quarter, with expectations pointing to continued economic recovery up to the end of the year, notwithstanding the exacerbation of the pandemic crisis observed between the end of the 2nd quarter and beginning of the 3rd quarter, due to the rapid spreading of the Delta variant of Covid-19.

Consequently, Banco Montepio's current forecasts point to a return to GDP growth in annual average terms in 2021, to 4.6%. Nevertheless, it should be stressed that these forecasts, due to having been made while in the midst of the pandemic context, still remained shrouded in great uncertainty, as the downward risks depend precisely on the future evolution of the pandemic crisis (namely the possible emergence of strains that are highly contagious and/or resistant to the vaccines) and the possible need to strengthen the lockdown, both in terms of severity and measures taken, and in terms of duration of the lockdown. The upward risks arise from the possibility of the economy continuing to be highly resistant, and from the Covid-19 pandemic, at a national and international level, being able to evolve in a more favourable manner, namely as a result of the vaccination processes.

The evolution of public finance in 2020 was naturally strongly affected by the circumstances of the serious health and economic crisis that the country has been experiencing, and that, as noted above, extended throughout part of the first half of 2021, with the budget deficit reaching 5.8% of GDP in 2020, representing a severe deterioration compared to the 0.1% surplus observed in 2019 (the first budget surplus of the Portuguese democracy). Banco Montepio's forecasts point to a renewed deficit in 2021, but easing to 4.0% of GDP (the Government assumed a deficit of 4.3% in the "OE 2021" (State Budget for 2021) and subsequently predicted a deficit of 4.5% in the "PE-2021/25" (Stability Programme for 2021-2025). In the 1st quarter of 2021, the budget deficit reached 5.7% of GDP, in marked exacerbation compared to the 1.1% deficit observed in the same period of the previous year in which the economy was only affected by the pandemic at the end of the quarter. In the meantime, the deficit descended to 5.3% of GDP in the 2nd quarter of 2021 (well below the -10.6% in the same period of the previous year). Banco Montepio's forecasts thus reflect the expectation of a progressive relief of the situation by the end of the year, with economic recovery following the decline of activity displayed in the 1st quarter (as occurred in the 2nd quarter and also in the 3rd quarter), with increased revenue due more private consumption, and lower expenditure due to less need for assistance, being expected.

The labour market witnesses an aggravation of the unemployment rate in 2020, to 6.9%, following the reduction in 2019, from 6.5% observed in 2018 to 7.0% (prolonging the downward trend since the peak reached at the beginning of 2013, of 17.5%). In 2021, the unemployment rate fell in the 1st quarter, from 7.3% with which it had closed the 4th quarter of 2020 to 7.1%, and fell again in the 2nd quarter, to 6.7%, with Banco Montepio foreseeing an unemployment rate of 6.9% in 2021 (Banco de Portugal forecasts 7.2%, while the European Commission (EC) points to 6.8%, the Organisation for Economic Co-operation and Development (OECD) forecasts 7.4% and IMF points to 7.4%), with downward risks continuing to be identified, primarily reflecting the fact that the unemployment rate may remain biased, as occurred in the first lockdown.

Inflation, measured by the annual average rate of change of the harmonised index of consumer prices (HICP), fell in 2020 to a slightly negative figure of -0.1% (+0.3% in 2019, and +1.2% in 2018), reflecting the low activity levels and oil prices, as a result of the impact of the pandemic. In 2021, inflation has been showing some volatility, having shifted from -0.3% recorded in December 2020 to -0.6% in June of this year, with Banco Montepio pointing to a rise of annual average inflation during the year in course, but merely to 0.7%.

Other economies

Concerning other economies, it is noted that in **Angola**, the declining rate of GDP intensified in 2020 (-5.4%, compared to -0.5% in 2019 and -2.0% in 2018), essentially reflecting the direct impact of the economic crisis caused by the pandemic and the indirect impact on oil prices. According to the most recent official data available, GDP fell year-on-year by 3.4% in the 1st quarter of 2021, representing the 7th consecutive quarter of contraction, although easing (-5.5% in the 4th quarter of 2020, -6.6% in the 3rd quarter, -8.4% in the 2nd quarter and -1.0% in the 1st quarter), with quarterly growth expected up to the end of the year, pointing to an annual average growth of 1.2% in 2021.

Regarding **Cape Verde**, likewise reflecting the impact of the pandemic crisis, a strong GDP decrease was also observed in 2020 (-14.8%, after +5.7% in 2019), primarily reflecting the decline in the important tourism sector. In 2021, GDP showed a year-on-year contraction of 11.0% in the 1st quarter of 2021, after a decline of 14.3% in the 4th quarter of 2020, with a return to growth expected for the year of 2020 as a whole (+6.0%).

FINANCIAL MARKETS

The performance of the markets during the first months 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, before the adoption of many of the more restrictive measures in the advanced economies. This adverse impact started to become more pronounced during the month of March 2020, with the main stock market indices dipping to their lowest levels since mid-2016 on 23 March 2020, and volatilities increasing to figures similar to those following the bankruptcy of the Lehman Brothers in 2008.

The markets subsequently embarked on an upward trend, leading the majority (with the main exception being Europe) to close the year of 2020 at historical peaks, with stronger dynamics in the technological sectors, driven by the budgetary and monetary policy measures implemented in the main economies, in addition to the envisaged control of the pandemic.

The extremely expansionary monetary policy, initiated by the main central banks, drove the reference interest rates to historically low levels, consolidating expectations of a prolonged maintenance of the environment of very low interest rates. Consequently, long-term interest rates also showed significant downward movements, likewise, influenced by the debt purchasing programmes decided by the main central banks.

A trajectory of recovery of equity markets continued, in general, throughout the first half of 2021, with prices persistently reflecting the low interest rates, the observed and expected economic recovery (although some countries, like those of the Eurozone, the United Kingdom and Japan, recorded declines in the 1st quarter of 2021, due to new lockdown measures), the recovery of corporate results and the outlook relative to the vaccination process.

Effectively, after having shown abrupt declines in March 2020, the **main stock market indices** embarked on an upward trend since that date, with those declines having almost been reversed by the end of 2020 in a large part of the geographies (where European indices were the main exceptions, in particular in the sectors most affected by the mobility restrictions and in the financial sector).

This trajectory continued in the first half of 2021 – notwithstanding various fluctuations as a result of the pandemic developments, the fears of inflation, of a possible need for the premature reversal of monetary policy. Positive movements were recorded in the main equity indices in the USA, Europe, Asia and Latin America, with a recovery of share prices also being observed in the financial sector.

During that period, in the USA, growth was recorded in the Dow Jones (+12.7%), S&P 500 (+14.4%) and Nasdaq (following a strong rise of +43.6% in 2020), reflecting their greater exposure to the technological sector, which benefited, in various aspects, from the lockdown measures implemented somewhat worldwide, with all of these indices reaching historical maximum levels in the first half of 2021 (which were later surpassed at the beginning of the second half of 2021).

In Europe, the Eurostoxx 50 rose by 14.4%, while the United Kingdom's FTSE 100 rose less (+8.9%) and, similarly, the Portuguese PSI-20 (+2.8%). In Asia, the Japanese Nikkei 225 appreciated by 4.9% and the Chinese Shanghai Composite by 3.4%. The MSCI index for the emerging markets rose by 6.5%, while the MSCI world index appreciated by 11.4%, reaching historical peaks, subsequently renewed in the second half of 2021.

The strong increase of risk aversion observed at the onset of the Covid-19 pandemic was also evident in the **sovereign debt market**, especially in Eurozone countries with higher public debt levels. The yields of German debt fell in 2020 both in the short-term (2 years) and in the long-term (10 years), but increasing in the first half of 2021 to become less negative. In the USA, yields also rose in the two timeframes albeit less intensely, despite the correction observed at the end of the 2nd quarter of 2021, primarily as a result of the downward revision of expectations on inflation and the perception that the current rise of inflation is of mainly temporary nature, not requiring a premature reversal of monetary policy. This aspect has been reiterated by the monetary authorities of the main economic blocks, where, in the case of the ECB, it should be pointed out that there was a “strategic review”, at the beginning of the second half of 2021, that shifted towards a symmetric inflation target around 2% (in contrast to the previous target of “close to, but below, 2%”), enabling inflation above 2% to offset the periods below this figure, in line with what had already been decided by the US Federal Reserve (Fed) in August 2020. It should be recalled that the yields at 10 years dropped to historically low levels in both geographies on 9 March 2020 (at the most critical stage of the Covid-19 pandemic), where, in the case of American debt, these low levels were surpassed in early August 2020.

In mid-March 2020, 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 2020, of a new programme for purchase of debt securities especially directed at mitigating the negative impact of the Covid-19 pandemic (PEPP), which was subsequently strongly reinforced on a further two occasions, throughout 2020, leading to the reversal of this trend and ensuring a stabilisation of this market. This movement continued in the first half of 2021 in Greece, Italy and, very marginally, also in Portugal. The Spanish spread rose very marginally and that of Ireland a little more, with the latter continuing to be the lowest of the peripheral countries.

The **yield rates of Portuguese debt at 10 years** decreased from 0.442% at the end of 2019 to 0.030% at the end of 2020, having reached historically low levels at the end of that year, on 15 December, with a negative figure (-0.056%), closing the first half of the year of 2021 at 0.390%. The spreads of the corporate **credit market** (Credit Default Swaps) showed slight declines in the first half of 2021, reversing their performance in 2020.

In the first half of 2021, **Euribor rates** stabilised at 3 months, but increased by 1 b.p. at 6 months and by 2 b.p. at 12 months, after having sunk to historically low levels at the beginning of the year, observed in the 3-month Euribor on 6 January (-0.5560%), in the 6-month Euribor on 28 January (-0.5340%), and in the 12-month Euribor on 2 February (-0.5150%), with the low levels continuing to reflect the highly expansionary monetary policy followed by the ECB.

Commodities showed rises of composite indices (CRB Index: +27.2%; GSCI S&P: +30.9%) in the first half of 2021, pursuing the recovery that had already been observed in the second half of 2020, but that had not fully annulled the declines observed in the first half of 2020, and especially at the initial stage – of enormous uncertainty in all financial markets – of the pandemic (in March and April 2020).

An upward half-yearly performance was observed in the majority of the types of commodities, with the exception of precious metals that are usually of a counter-cyclical nature, and that, in the most critical stages of the pandemic in 2020, took up their traditional role as safe haven assets in periods marked by greater risk aversion, the case of gold which reached historical peaks in early August 2020.

The strongest rise was observed in the category with greatest weight in the index, energy (+47.8%, as a result of the marked recoveries in oil prices, after the declines recorded in 2020), with strong appreciations also being observed in base metals, livestock and agricultural products.

Special reference should be made of the pandemic's impact on the price of oil in 2020 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 in the spring of 2020 for oil delivery in the short-term. In the Brent market, the price of oil reached a low point of 19 dollars/barrel on 21 April 2020, closing the first half of 2021 at 75.1 dollars, with a rise of 45.0% in relation to the end of 2020 (when it fell by 21.5%). WTI increased by 51.4%, after having fallen by 20.5% in 2020.

FINANCIAL SYSTEM

The year of 2020, marked by the current context of the health and economic crisis, due to the Covid-19 pandemic, led to an aggravation of the framework in which banking activity is developed, introducing an additional level of uncertainty.

In this context, the regulators announced a variety of measures to support financial institutions, in particular the ECB measure of temporary relief from bank capital requirements (March 2020), enabling institutions to operate temporarily with capital levels below the recommended own funds (Pillar 2 Guidance (P2G)) and the combined reserve of own funds. This relief aimed to strengthen the credit institution's capacity to finance the economy and their capacity to absorb the losses that would inevitably arise from the current macroeconomic circumstances.

Bank profitability continues to experience the impact of the conditions arising from the interest rate policy context, added to the effect of the lower economic activity related to the pandemic crisis. In Portugal, the decline of net interest income accentuated, with a 4.3% decrease in 2020, caused by the low interest rates, in the meantime, having been attenuated by the increased credit and positive impact of the financing by central banks (Targeted Longer-Term Refinancing Operation (TLTRO) III with negative rates).

The return on assets (ROA and the return on equity (ROE) diminished in 2020 to figures close to zero, standing at 0.05% (-0.4 p.p. in relation to 2019) and 0.6% (-4.4 p.p. in relation to 2019), respectively. In the 1st quarter of 2021, ROA and ROE increased in relation to the 1st quarter of 2020, to 0.41% (+0.18 p.p.) and 4.7% (+2.2 p.p.), respectively. The positive contribution of the results from financial operations (+0,3 p.p.) is highlighted. The cost-to-income ratio showed a year-on-year decline of 6.1 p.p., to stand at 52.7% in March 2021 (57.8% at the end of 2020 and 59.3% at the end of 2019), reflecting the increased total operating income and the reduction of operating costs. The cost of credit risk fell by 0.13 p.p. in relation to the 1st quarter of 2020 to 0.54%, reversing the upward trend recorded in 2020.

Despite the additional difficulties created by the health crisis, the non-performing loan (NPL) ratio actually stayed on its downward trend, standing at 4.6% at the end of the 1st quarter of 2021, 0.3 p.p. below the figure observed at the end of 2020 (4.9%) and well below the 6.2% recorded at the end of 2019. The NPL stock (gross value) decreased by 386 million euros in relation to the end of 2020 (-2.7%). The NPL ratio net of impairments reached 2.0% (2.2% at the end of 2020 and 3.0% at the end of 2019). The gross NPL ratio stood at 9.2% in the case of non-financial companies (-0.5 p.p. in relation to the end of 2020) and at 3.4% in the case of individuals (3.4% at the end of 2020).

The ratio of NPL coverage by impairments increased in the 1st quarter of 2021 (+0.5 p.p.) to 55.5%. In the segment of non-financial companies, the coverage ratio increased by 0.8 p.p., to 57.3%, while in the segment of individuals it stabilised at 50.2%

According to Banco de Portugal data, in 2020, the total assets of the banking system increased by 5.6% in relation to the end of 2019, with an observed rise of exposure to public debt securities (+0.7 p.p. compared to the end of 2019, to 16.2% of total assets). However, the weight of Portuguese sovereign debt in total assets remained stable, at 8%. In the 1st quarter of 2021, a 2.8% increase was observed in the total assets of the banking system in comparison to the end of 2020, primarily arising from the increased liquidity in central banks (contribution of +2.6 p.p.). Between December 2019 and March 2021, liquidity in cash and deposits at central banks almost doubled, from 24.6 to 47.2 billion euros.

In 2020, the sectors most affected were those that most contributed to the 14.1% increase in the granting of new loans to non-financial companies (8.3% in 2019), namely the sectors of Accommodation and Food services (20 p.p.), Trade (7 p.p.) and Manufacturing industry (7 p.p.). Of the total amount of new loans to non-financial companies granted between March 2020 and March 2021, 30% were under credit lines backed by the State. The month of May 2020 was the most outstanding month in the granting of new loans to non-financial companies, after which a decline was recorded. Mortgage loans showed a 2.6% growth of stock compared to the 1st quarter of 2020 (2.0% in 2020), evincing strong dynamics in terms of new production, reflecting the impact of the lockdown on the demand for new houses.

The liquidity position of the banking system continued to be at comfortable levels, with a loan-to-deposit ratio of 83.6% at the end of the 1st quarter of 2021, despite being on a downward trend (84.9% at the end of 2020 and 87.1% at the end of 2019). The liquidity coverage ratio stood at 265.9%, having increased in relation to the 245.9% at the end of 2020 and in relation to the 218.5% at the end of 2019.

The profile of recovery of economic activity should be reflected in the evolution of the banking business. A scenario of weak recovery in terms of granting new loans, combined with the expected persistence of the environment of very low interest rates in the Eurozone, will also constrain bank profitability, precluding the internal accumulation of capital. As the end of the moratoria deadline approaches, there is also a risk that some of these moratoria will be transformed into non-performing loans, highlighting the importance of the temporary flexibility that was given to institutions, permitting them to operate temporarily with lower capital levels.

MAIN RISKS AND UNCERTAINTIES FOR THE 2ND HALF OF 2021

The pandemic and its economic consequences continue to be the focus of risks and uncertainties, as illustrated in the analyses of the IMF World Economic Outlook (WEO) since the onset of the current crisis. The most recent update of July 2021, notwithstanding the IMF's general optimism regarding the upswing of the worldwide economy, highlights the strong divergence of recovery between the advanced economies and the emerging and developing economies, stating that this divergence is due to the pace of the vaccination process and the assistance provided by the countries.

In view of this scenario, the IMF warns that recovery is not assured, even in countries where infections are currently at very low rates, while the virus continues to circulate at a global scale. The IMF calls for measures that counteract this divergence, and emphasises the spreading of the Delta variant and the chance of new variants emerging that circumvent the protection afforded by the vaccines. The IMF also points to risks if the vaccination process is slower than anticipated, if financial conditions deteriorate rapidly because of expectations on inflation and the action of central banks, or if the emerging and developing economies are doubly penalised by the deterioration of the pandemic and by harsher financing conditions.

The outlook for the Portuguese economy also remains surrounded by high uncertainty, being also primarily dependent on the evolution of the pandemic, the containment measures implemented in Portugal and in the rest of the world, the economic policies, the evolution in terms of vaccination and the reaction of economic agents to these developments.

In the case of Portugal, the economy'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. In the economic bulletin of June 2021, and looking at the medium-term, at a projection period of 2021 to 2023, Banco de Portugal finally considered that the summing up of risks around the projections for economic activity was biased upwards, with a considerable upward risk arising from the impact of the pandemic crisis on family saving (the possibility of part of the saving accumulated during the crisis period being channelled to expenditure constitutes an ascending risk for economic activity).

Moreover, Banco de Portugal considers that a short-term downward risk persists due to the adverse evolution of the pandemic, in particular the appearance and propagation of new variants of the virus, which also conditions the potential materialisation of some of the other risks. As an additional factor of uncertainty, Banco de Portugal stressed the aforesaid prospects for tourism exports, which depend on the decisions concerning the international movement of people in tourism issuing countries and in Portugal.

In turn, specifically in terms of the banking system, Banco de Portugal also highlighted, in its financial stability report of June 2021: the outlook of low profitability, constrained by the low interest rate environment, by the possible increase of NPL (associated to the end of the moratoria) and by the stronger competition of new agents in the market of financial services; the increased connection between the banking system and the public sector, through the latter's augmented exposure to public debt and the granting of loans backed by the State. Nevertheless, Banco de Portugal recognised that a significant part of public debt is recorded at amortised cost, which mitigates the impact of the increased yield rates of public debt on capital ratios.

INFORMATION ABOUT COVID-19 AND OUTLOOK

On 11 March 2020, the World Health Organisation qualified the public health emergency caused by the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) (commonly referred to as Covid-19), which led to the declaration of a state of emergency in Portugal, through President of the Republic decree 14-A/2020 of 18 March. The first state of emergency was enforced in Portugal up to 2 May 2020, succeeded by situations of calamity, alert and contingency which gave way to successive renewals of the state of emergency, and 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.

Accordingly, simultaneously with the adjustment of their operations in order to successfully deal with the pandemic crisis, the banks were at the front line in supporting families and companies, especially through the granting of moratoria and State guarantees.

The response of Banco Montepio

With a legacy of 177 years at the service of families, companies and third sector entities, Banco Montepio, a private banking institution, 100% held by national capital, has never resorted to public funds and has a specific department that develops 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 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 for the acquisition of 100 ventilators and 100 monitors, donated to the Sistema Nacional de Saúde (National Health System), to strengthen the resources available to health professionals.

In view of the situation confronting the country in March 2020, and even before the provision of the protocolled lines, Banco Montepio 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.

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.

In the context of Covid-19 and under the special assistance scheme offered to families and companies, as at 30 June 2021, the Banco Montepio Group, honouring its social commitment, granted 35 thousand moratoria amounting to 2.9 billion euros, representing 9% reduction in relation to the end of 2020.

Support to the Portuguese business fabric is firmly rooted at Banco Montepio. New protocolled lines specifically for companies have been subscribed since the onset of the pandemic. As at 30 June 2021, the Bank has supported national companies with a total contracted amount of 405 million euros, of which 364 million euros were used, with the following lines being highlighted:

- “Apoio à economia Covid-19” (Covid-19 support to the economy);
- “Capitalizar 2018 Covid-19” (Covid-19 Capitalise 2018);
- “Investe RAM Covid-19” (Covid-19 Autonomous Region of Madeira Invest 2018);
- “Açores Covid-19” (Covid-19 Azores);
- “Apoio ao Setor da Pesca 2020 – Covid-19” (Support to the Fisheries Sector – Covid-19);
- “Apoio ao Setor Social Covid-19” (Covid-19 Support to the Social Sector);
- “Apoiar Madeira 2020” (Support Madeira 2020).

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 Institution’s Employees who were incessantly on the side of all Banco Montepio Customers.

In the first half of 2021, Banco Montepio, in order to mitigate the negative economic effects generated by the Covid-19 pandemic, continued to support national companies by providing credit lines with mutual guarantee, and also granted an extension of the grace period to about 3,000 operations.

At the same time, Banco Montepio continued its plan to stimulate Credit Lines under Protocols concluded with the European Investment Bank (EIB) and the European Investment Fund (EIF), and also signed a new protocol: “Linha de Crédito FEI Uncapped” (Uncapped EIF Credit Line), of the value of 150 million euros, which is 70% guaranteed by that entity.

Impacts of Covid-19

Banco Montepio's activity has been transversally marked by the impact caused by the Covid-19 pandemic with effects that were experienced at the end of the first quarter of 2020 in the financial markets and subsequently materialised in the real economy, with historical declines in economic activity, in particular via the lockdown periods.

In fact, in the first half of 2021, Banco Montepio recorded 55.1 million euros of credit impairment, arising from the increased credit risk caused by the Covid-19 pandemic and by the need to strengthen individual cases. This fact partly contributed to the negative net income of -33.0 million euros in the first half of 2021 which, however, compares favourably to the value of -51.3 million euros recorded in the first half of 2020, the period when the impact of the Covid-19 pandemic was harshest. Other factors that influenced the negative net income include the reduction of net interest income and net fees and commissions, reflecting the reduction of the activity levels of economic agents, both among families and companies, and the lower transactionality brought in by the pandemic, the effect of the moratoria on the origination of new credit operations, and the measures to support Customers implemented by Banco Montepio, such as the suspension of fees associated with the means of payment.

Special reference is made below of the direct impacts derived from Covid-19 related to:

- The granting of credit moratoria of the value of 2.9 billion euros, corresponding to 24.0% of the gross loan portfolio as at 30 June 2021, with suspension of payments and consequent impact on liquidity via lower repayment of loan instalments. As at 30 June 2021, the Banco Montepio Group granted 35,545 moratoria, of the value of 1.2 billion euros to families and 1.7 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 telework arrangements, engaging more than 1,400 Employees, involving the reinforcement of cleaning services, the purchase of individual protection kits and information technology (IT) investment.

In this context, Banco Montepio activated the Crisis Management Office, ensuring business continuity, and established a series of operational adjustment measures in the first half of the 2020 with a view to improving operating efficiency and profitability in a sustained manner.

Outlook

The short and medium-term outlook points to adverse impacts associated with the Covid-19 context, 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 extension of the period of enforcement of the public moratoria, created by Decree-Law 10-J/2020 of 26 March, as well as the deadline for signing it, 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 (LCR) close to 261.0% at the end of June 2021.

- 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, significant negative impacts have already been experienced in terms of fees and commissions, namely in income arising from transactions, and in terms of fees and commissions for loans, in view of the reduction of economic activity during the state of emergency, whose recovery rate is difficult to predict.

- The impact of the cost of risk is experienced through 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.

- The potential risk of reduction of the opportunities to divest non-core assets implies 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 moratoria were initially foreseen to come to an end.

However, in view of the changing circumstances and the challenges facing Banco Montepio, the banking sector and the Portuguese economy, the Board of Directors reappraised the goals and measures foreseen in the Transformation Plan designed in 2018, and adopted a multidimensional and multiannual adjustment programme, based on four key strategic pillars – updating of the business model, operational adjustment, preservation of capital, and simplification of the Group.

- The updating **of the business model** is focused on **strengthening the banking services** directed at the Customer and on **improving the relations of proximity in a more comprehensive mix of**

channels , on **strengthening the financing to the economy, supporting** the financial needs of **families** and **SME** (in which the protocolled credit lines are highlighted), and the **development of the distribution capacity and complementary margin**, in order to recover the profitability of Banco Montepio's domestic operation.

- The **operational adjustment** was centred on **accelerating the Bank's digital transition**, by endorsing best market practices, both with respect to the Customer's experience and operational efficiency. Concerning the optimisation of the distribution channels, Banco Montepio resized its physical distribution network (having closed 39 branches in 2020 and 20 in the first half of 2021) according to their geographical coverage, profitability and market size, without placing in question the adequate coverage of the Customer base. At the same time, the Bank approved a **staff reduction** through a series of measures, including early retirement, rescissions by mutual agreement, and labour flexibility measures to accommodate new forms of working, such as part-time and remote work. For purposes of **expansion of the limit of eligibility** for social protection in unemployment, Banco Montepio was declared a “company under restructuring” by order of the Minister of Labour, Solidarity and Social Security, as at 31 December 2020.
- Concerning the **preservation of capital**, the Bank sought to improve its capital ratios by endorsing various measures aimed at **reducing its risk-weighted assets** (RWA) through a more efficient credit and securities portfolio and **divestment of non-performing assets**.
- For the **simplification of the Group's corporate structure**, the adjustment measures are aimed at the **sale of equity holdings in the national and international market**, as well as the **modernisation and rationalisation of the Group's internal procedures**.

In this regard, reference is made to the sale of almost all the Bank’s equity stakes in Monteiro Aranha S.A., in March 2021, and in Almina Holding S.A., in June 2021. Furthermore, the Group decided to sell the equity stake held in Montepio Valor, S.A., and continues to take measures aimed at the deconsolidation of Finibanco Angola, S.A. Considering the new legal framework of Cape Verde and having weighed up all the relevant strategic options, the Board of Directors of Banco Montepio decided not to promote the changes required to adapt its subsidiary Banco Montepio Geral Cabo Verde to a bank with general authorisation and, consequently, approved the procedural initiatives stipulated in the Law for its voluntary dissolution and orderly liquidation.

In this way, the operation and Customer attendance model will be adjusted, aimed at accelerating the digital transition, adapting the service model and increasing efficiency, while preserving convergence towards the major targets defined in the Transformation Plan, 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 relations platforms;
- Enhancing efficiency, namely through the review of internal procedures and rules;
- Adjusting the distribution model with the merger of geographically redundant branches;
- Implementing new concepts and forms of working, valorising collaboration and flexibility, and promoting greater balance between personal and professional life.

05
FINANCIAL INFORMATION

FINANCIAL INFORMATION

ACTIVITY BY SEGMENTS

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 promoters. The financial information of this segment covers, among other aspects, products and services: 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-20 Restated	Dec-20	Jun-21	Y.o.Y. Change	
				Amount	%
Income Statement					
Net interest income [1]	76.8	156.5	68.9	(7.9)	(10.2)
Net fees and commissions	47.8	94.3	46.1	(1.7)	(3.6)
Total operating income	124.5	250.9	115.5	(9.0)	(7.2)
Operating costs [2]	47.4	92.3	44.4	(3.0)	(6.3)
Operating income before impairment	77.1	158.6	71.2	(5.9)	(7.7)
Balance Sheet					
Loans to customers (gross)	8 318	8 457	8 565	247.0	3.0
Customer deposits	10 965	10 834	11 069	104.0	0.9

1) Excluding the liquidity premium and campaign neutralization.

2) Direct operating costs only.

CORPORATE AND INVESTMENT BANKING

The Corporate and Investment Banking segment (companies and 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 developed in the area of Investment Banking of Banco Empresas Montepio.

The products and services offered under commercial banking 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, 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, reflecting the integrated activity developed with companies monitored by Banco Empresas Montepio, in accordance with the segmental reporting indicated in IFRS 8 and presented in the notes to the financial statements of this report.

The indicators expressed in the table reflect the resistance of the level of operating income achieved in the previous year, recording a limited decline in a particularly difficult year for companies. It should also be noted that the decline observed in gross loan values is framed in a strategy of improved efficiency of the use of the available capital, in particular through the promotion of initiatives of external placement of existing operations on the balance sheet, albeit with narrow profitability levels (which in any case is also reflected in net interest income).

That downward shift of risk-weighted assets was only partially offset by the contracting of new loan operations with good risk levels and higher profitability, as well as by operations with lower capital consumption. However, the new operations were also directed at progressively giving the securitised loan operations (namely debenture loans and commercial paper) their true vocation of market instruments placed with institutional investors.

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

	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change	
				Amount	%
Income Statement					
Net interest income [1]	19.9	41.1	19.1	(0.8)	(4.1)
Net fees and commissions	4.6	12.4	4.6	0.0	(0.7)
Total operating income	24.3	51.1	22.8	(1.5)	(6.3)
Operating costs [2]	4.1	8.8	4.2	0.1	3.0
Operating income before impairment	20.3	42.3	18.6	(1.7)	(8.2)
Balance Sheet					
Loans to customers (gross)	2 022	1 919	1 884	(138.0)	(6.8)
Customer deposits	283	294	250	(33.0)	(11.8)

1) Excluding the liquidity premium and campaign neutralization.
2) Direct operating costs only.

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 in the market and with the different stakeholders, innately incorporating the Environmental, Social and Governance (ESG) principles in the social component. In terms of organisation of the commercial activity developed, this area also promotes the business related to Public Sector entities.

The key indicators of this segment are presented in the table below.

Summary of indicators - Social Economy (million euros)

	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change Amount	%
Income Statement					
Net interest income [1)]	1.8	4.0	1.7	(0.1)	(4.1)
Net fees and commissions	0.6	1.8	0.7	0.1	21.6
Total operating income	2.4	5.7	2.5	0.1	4.3
Operating costs [2)]	1.5	3.0	1.7	0.2	16.6
Operating income before impairment	0.9	2.7	0.8	(0.1)	(15.4)
Balance Sheet					
Loans to customers (gross)	121	187	198	77.0	63.7
Customer deposits	595	879	756	161.0	27.1

1) Excluding the liquidity premium and campaign neutralization.
2) Direct operating costs only.

SUBSIDIARIES AND INTERNATIONAL ACTIVITY

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 Commercial Banking and Investment Banking activities in an integrated and multidisciplinary manner, aimed at placing a complete, integrated and global offer of services on the market.

Underlying the creation of BEM was the contribution that the new model would bring as an incremental business to the Banco Montepio Group. The launch of Banco de Empresas Montepio was accompanied by the creation of the Corporate Banking Department (DBE), with the mission of managing commercial relations with 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[4].

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

In the first half of 2021, BEM pursued its action driven by the goal of expanding the Banco Montepio Group's offer of products and services directed to the corporate segment, especially the SME and middle market segments, and supporting their emerging needs in the context of the Covid-19 pandemic. BEM has 7 Business Centres, distributed throughout the country, where dedicated managers receive their Customers, identify their needs, present value propositions while cultivating relations of proximity.

[4] The balance sheet of BEM records the medium and long-term financing, as well as credit securitized by financial instruments, while the balance sheet of Banco Montepio records the remaining operations carried out with the company customers of BEM.

As at 30 June 2021, the Net assets of BEM stood at 454.2 million euros, having increased by 1.2 million euros (+0.3%) in relation to the value recorded at the end of 2020. This primarily reflects the growth of the loans granted under its support to the Portuguese business structure (+10.8 million euros), despite the reductions of Cash and deposits at other credit institutions (-3.6 million euros) and the Securities portfolio (-5.1 million euros).

Net loans to customers amounted to 327.9 million euros as at 30 June 2021, compared to 317.1 million euros recorded as at 31 December 2020, showing an increase of 10.8 million euros (+3.4%), driven by the performance of the business, namely the favourable evolution of the headings of Loans and Securitised credit (Bonds and Commercial paper). As mentioned in the review of the Corporate and Investment Banking area, the more moderate evolution of the volume of loans granted also arises from the option to make greater use of the securitised loans (debenture loans and commercial paper) in a market perspective, through their partial placement in institutional investors.

As at 30 June 2021, Equity (178.9 million euros) and Resources from other credit institutions (261.9 million euros) constituted the main source of Asset funding, representing 97.1% of Total assets, in line with the value recorded at the end of 2020.

In the business model adopted for the Corporate and Investment Banking area, BEM monitors companies integrated in economic groups with turnover equal to or higher than 20 million euros in all aspects of the relationship, where the transactionality of these companies (deposits, current accounts, cards, automatic payment terminals at point of sale, among other operations) is assured by Banco Montepio, through the same commercial agents (belonging to the two banks), enabling synergies and cost rationalisation not only in this area, but also in a transversal form in the respective organisational structures.

In 2020, a period that marked the first full year of activity of BEM under its new business model, which incorporates the areas of Corporate and Investment Banking, and also in the first half of 2021, the evolution of the operational component was blemished by the economic and pandemic crisis experienced worldwide. Nevertheless, there was an increase in the level of revenue, alongside the necessary increase of operating costs arising from the allocation of resources to the growth of activity.

Total operating income reached 2.8 million euros in the first half of 2021, representing an increase of 0.5 million euros (+24.4%) compared to the value recorded in the first half of 2020, essentially benefiting from the favourable performance of Net interest income (+1.5 million euros), caused by the strong growth of the portfolio of loans to customers. There was also a favourable contribution of the Net gains from the sale of other assets (+0.4 million euros), while Net fees and commissions fell slightly (-0.2 million euros), in a context of lower economic activity. Continuing the trend already observed in 2020, the Results from financial operations deteriorated (-0.8 million euros) reflecting the evolution of the value of the participation units of Corporate Restructuring Funds record on the balance sheet of BEM, but inherited from the previous activity of Montepio Investimento, representing losses of 1.2 million euros in the first half of 2021.

In the first half of 2021, Operating costs amounted to 2.3 million euros compared to 2.1 million euros in the first half of 2020. The evolution of costs was influenced, on the one hand, by the increase of 0.2 million euros in Staff costs, as a result of the remuneration of the resources allocated to the new activities, and by the increase of 0.1 million euros in Depreciation and amortisation, and on the other hand, by the reduction of 0.2

million euros of General and administrative expenses, which include expenses related to consulting services (consultants and external auditors) and personnel assignment (Banco Montepio).

Operating income before impairment and provisions reached 0.6 million euros in the first half of 2021, compared to 0.2 million euros recorded in the first half of 2020, reflecting the favourable evolution of Total operating income, despite the increased Operating costs which accompanied the new business model and the allocation of resources to the new activities. Excluding the effect of the aforesaid devaluation of the participation units recorded on the balance sheet of BEM but totally unrelated to its current activity, Operating income before impairment and provisions would have reached 1.8 million euros, reflecting the progressive capability to generate net income.

Impairments and provisions fell by 0.3 million euros reflecting the reduction of the value allocated to Impairments and provisions of 1.9 million euros, evincing the impact of the constitution of Loan impairments in the first half of 2020 and the reversal recorded in the first half of 2021.

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

Activity and Results (million euros)

	Jun-20	Dec-20	Jun-21	Y.oY. Change	
				Amount	%
Total assets	365.0	453.0	454.2	89.2	24.4
Loans to customers (net)	233.8	317.1	327.9	94.1	40.2
Securities portfolio [1]	102.6	82.0	76.9	(25.7)	(25.1)
Equity	182.7	178.5	178.9	(3.8)	(2.1)
Total operating income	2.3	4.3	2.8	0.5	24.4
Operating costs [2]	2.1	5.0	2.3	0.2	7.4
Net operating income before impairment and provisions	0.2	(0.7)	0.6	0.4	>100

1) Includes Financial assets not held for trading mandatorily at fair value through profit or loss and Financial assets at fair value through other comprehensive income.

2) Includes Staff costs, General and administrative expenses and Depreciation and amortisation.

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

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

As a result of the repositioning in terms of the Banco Montepio Group and the solid relations established with its partners, based on the experience acquired over the years, Montepio Crédito continued to offer a comprehensive range of specialised 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, linked credit, movable property leases and operating leases (renting). The entire team relies on the centralised support of a specialized back-office.

As at 30 June 2021, Net assets stood at 603.3 million euros, compared to 613.8 million euros recorded at the end of 2020, reflecting the end of the Pelican Finance No 1 securitisation operation with impacts on various Asset headings (impacts on an individual basis, with no effect at the Banco Montepio Group level), in particular Other financial assets at amortised cost (-28.2 million euros).

Net loans to customers amounted to 536.9 million euros as at 30 June 2021, representing an increase of 25.1 million euros (+4.9%) in relation to the value recorded at the end of 2020.

The securities portfolio stood at 54.1 million euros at the end of the first half of 2021, corresponding to a reduction of 32.5 million euros in relation to the value at the end of 2020, demonstrating the impact of the liquidation of the aforesaid securitisation operation occurred in March 2021.

Equity stood at 59.6 million euros, showing an increase of 2.7 million euros (+4.7%) in relation to the value of 56.9 million euros recorded at the end of 2020, primarily underpinned by the positive evolution of Net income for the first six months of 2021.

Total operating income reached 10.2 million euros in the first half of 2021, representing an increase of 1.3 million euros (+15.1%) in relation to the value of 8.9 million euros recorded in the first half of 2020. This was driven by the favourable evolution of Net interest income, which increased by 2.2 million euros (+45.1%) and Net fees and commissions which grew by 0.5 million euros (+29.6%), which was offset by the reduction of Results from financial operations of 1.1 million euros (-42.6%).

Operating costs amounted to 6.5 million euros in the first half of 2021, corresponding to an increase of 0.6 million euros (+10.0%) in relation to the first half of 2020. This was driven by the increased Staff costs of 0.2 million euros (+7.6%) as a result of the increased Remunerations and Mandatory social charges, by the increased General and administrative expenses of 0.3 million euros (+11.1%) and by the increased Depreciation and amortisation of 0.1 million euros (+23.4%).

Operating income before impairment and provisions reached 3.7 million euros in the first half of 2021, showing an increase of 0.7 million euros (+25.1%) in relation to the value of 3.0 million euros recorded in the first half of 2020, supported by the growth of Total operating income which more than offset the increase recorded in Operating costs.

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

Activity and Results (million euros)

	Jun-20	Dec-20	Jun-21	Y.oY. Change	
				Amount	%
Total assets	577.1	613.8	603.3	26.2	4.5
Loans to customers (net)	470.9	511.8	536.9	66.0	14.0
Equity	54.2	56.9	59.6	5.4	9.9
Total operating income	8.9	20.2	10.2	1.3	15.1
Operating costs [1)]	5.9	12.3	6.5	0.6	10.0
Net operating income before impairment and provisions	3.0	7.9	3.7	0.7	25.1

1) Includes Staff costs, General and administrative expenses and Depreciation and amortisation.

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

The object of Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. (Montepio Valor) is 100% controlled by Banco Montepio through Montepio Holding SGPS, S.A., is the management of real estate investment funds, in particular Valor Prime (open-end fund), three residential rental funds (FIIAH) and various privately subscribed closed-end funds.

Under the simplification of the corporate structure of the Banco Montepio Group, the Management and Supervisory Bodies decided to sell the equity stake held in Montepio Valor, S.A., which is classified, at the Group level, under non-current assets held for sale.

The Net assets of Montepio Valor stood at 6.1 million euros as at 30 June 2021, corresponding to an increase of 0.1 million euros (+1.8%) in relation to its closing value of the year, driven by the increase of Other assets (+0.5 million euros) that was practically offset by the reduction of Cash and deposits at other credit institutions (-0.4 million euros).

Assets under management amounted to 402.0 million euros as at 30 June 2021, showing a decrease of 22.0 million euros (-5.2%) in relation to the value of 424.0 million euros recorded at the end of 2020, driven by the reduction of capital of one of the residential rental funds (FIIAH III) in June 2021, of the value of 20.0 million euros.

As at 30 June 2021, Equity stood at 4.9 million euros, compared to 5.0 million euros recorded in 2020 (-0.1%) essentially showing the impacts of the distribution of profit of 2020 and the evolution of Net income in the first half of 2021. Equity constituted the main source of Asset funding, representing 80.3% of Total assets compared to 92.8% at the end of 2020.

In the first half of 2021, Total operating income stood at 2.4 million euros, compared to 2.2 million euros recorded in the first half of 2020 (+10.4%), influenced by the favourable performance of Net fees and commissions which increased by 0.2 million euros (+10.1%), due to the higher values recorded as Management and performance fees from the “Fundo Valor Prime” (Prime Value Fund).

Operating costs amounted to 1.64 million euros in the first half of 2021, compared to 1.57 million euros recorded in the first half of 2020 (+4.0%), primarily as a result of the increased cost of the Pension fund stated under Staff costs. The increase observed in the heading of Staff costs (+13.8%) was partly offset by the reduction of General and administrative expenses (-7.7%) and Depreciation and amortisation (-2.1%).

Operating income before impairment and provisions stood at 0.8 million euros in the first half of 2021 compared to 0.6 million euros recorded in the first half of 2020, having benefited from the increased Total operating income, via the favourable evolution of Net fees and commissions.

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

Activity and Results (million euros)

	Jun-20	Dec-20	Jun-21	Y.oY. Change	
				Amount	%
Assets under management	401.5	424.0	402.0	0.5	0.1
Total assets	6.3	6.0	6.1	(0.2)	(1.8)
Cash, deposits and advances and loans to OCI's	5.2	4.8	4.5	(0.7)	(12.4)
Equity	4.5	5.0	4.9	0.4	10.4
Total operating income	2.2	4.3	2.4	0.2	10.4
Operating costs [1)]	1.6	3.8	1.6	0.0	4.0
Net operating income before impairment and provisions	0.6	0.5	0.8	0.2	27.4

1) 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 2021, the Assets of SSAGINCENTIVE amounted to 55.6 million euros, showing a 2.1% reduction in relation to the value of 56.7 million euros recorded at the end of 2020, as a result of the reduction of the heading of Inventories (-8.5 million euros), partly offset by the increase of the heading of Cash and deposits at banks (+7.3 million euros).

The heading of Inventories refers to the acquisitions made from Banco Montepio, related to real estate properties that were intended for sale, in particular divisions of properties stated at market value. As at 30 June 2021 the heading of Inventories amounted to 27.6 million euros, of which 12.0 million euros refer to buildings and 15.6 million euros refer to plots of land, showing a reduction of 8.5 million euros in relation to the value of 36.1 million euros recorded as at 31 December 2020, as a result of the sales occurred throughout first half of the year.

The heading of Cash and bank deposits amounted to 27.9 million euros as at 30 June 2021, representing an increase of 7.3 million euros in relation to the value of 20.6 million euros recorded at the end of 2020, reflecting the deposits made at Banco Montepio.

As at 30 June 2021, Equity stood at 55.3 million euros, compared to 56.5 million euros recorded at the end of 2020, reflecting the adverse impact of Net income for the first half of 2021 which was negative by 1.2 million euros. Equity constituted the main source of Asset funding, representing 99.6% of Total assets, in line with the value recorded at the end of 2020.

Sales and services rendered stood at 7.6 million euros in the first half of 2021, compared to the value of 1.1 million euros recorded in the first half of 2020, 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 7.4 million euros in the first half of 2021, corresponding to a reduction of 6.4 million euros in relation to the first half of 2020, and represents the acquisition cost of the real estate properties sold, after deduction of their impairment.

The heading of Impairment of inventories amounted to 1.1 million euros in the first half of 2021, evolving adversely in relation to the value of 0.1 million euros recorded in the first half of 2020, due to the higher level of impairments of real estate properties for trading recorded in the first half of 2021.

The heading of Other income stood at 0.01 million euros in the first half of 2021 (0.2 million euros in the first half of 2020) and includes the refunding of tax (IMT (municipal property tax) and IS (stamp duty)) related to real estate properties sold, income received from real estate properties and other income.

The heading of Other costs, which includes costs related to the maintenance, legalisation and promotion of the sale of real estate properties, amounted to 0.3 million euros in the first half of 2021, compared to 0.2 million euros recorded in the first half of 2020.

Total operating income stood at -1.2 million euros in the first half of 2021 (-0.2 million euros in the first half of 2020), particularly as a result of the higher level of impairment of inventories stated in the year.

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

Activity and Results (million euros)

	Jun-20	Dec-20	Jun-21	Y.oY. Change	
				Amount	%
Total assets	57.9	56.7	55.6	(2.3)	(4.1)
Inventories	39.5	36.1	27.6	(11.9)	(30.0)
Equity	57.6	56.5	55.3	(2.3)	(4.0)
Total operating income	(0.2)	(1.2)	(1.2)	(1.0)	(<100)

INTERNATIONAL ACTIVITY

The Banco Montepio Group's international activity has been carried out by the subsidiaries Finibanco Angola, S.A. and Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A.

Under the strategic redefinition of the international equity holdings, and with a view to refocusing the approach to the African market, Banco Montepio is continuing to take measures towards the deconsolidation of Finibanco Angola, S.A., and, considering the new legal framework of Cape Verde and having weighed up all the relevant strategic options, the Board of Directors of Banco Montepio decided not to promote the changes required to adapt its subsidiary Banco Montepio Geral Cabo Verde to a bank with general authorisation and, consequently, approved the procedural initiatives stipulated in the Law for its voluntary dissolution and orderly liquidation.

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 support and finance individual customers and micro-enterprises, promoting viable business initiatives.

Finibanco Angola completes 13 years of activity in September 2021, having been incorporated on 4 September 2007 and having started its activity in the city of Luanda on 9 June 2008.

As at 30 June 2021, Finibanco Angola had a network of 15 agencies (Retail Banking and Small Businesses) and 5 business centres (Corporate Banking), having closed 4 agencies during the first half of 2021 with a view to the optimisation of its distribution channels.

Banco Montepio Geral Cabo Verde, S.A., 100% held by Banco Montepio, provides a broad offer of specialised financial products and services for the segments of individuals, institutions 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	307.4	311.6	296.7	(10.7)	(3.5)
Loans to customers (net)	23.3	26.5	27.5	4.2	17.7
Customer deposits	228.6	242.1	124.1	(104.5)	(45.7)
Total operating income	10.2	23.4	5.6	(4.6)	(45.7)
Operating costs	4.2	9.5	4.8	0.6	12.7
Cost-to-income	41.4%	40.7%	85.7%	44.3 p.p.	
Net income	3.9	7.1	1.8	(2.1)	(55.0)

Note: For comparative purposes the financial statements of Jun-20, Dec-20 and Jun-21of Finibanco Angola were converted using the same exchange rate (AOA/EUR 767,900).

The total Assets of the international activity of the Banco Montepio Group reached 296.7 million euros as at 30 June 2021, compared to 311.6 million euros recorded at the end of 2020. This evolution was driven by the 3.6% decrease in the Total assets of Banco Montepio Geral Cabo Verde, reflecting the lower volume of Customer resources and, consequently, Loans and advances to credit institutions, and by the 5.5% reduction in the Total assets of Finibanco Angola, influenced by the decrease of the securities portfolio, in particular of Angolan public debt securities on the balance sheet in relation to the values reached at the end of 2020.

Loans to customers (net) of the international activity recorded as at 30 June 2021 showed an increase of 3.8% in relation to the value at the end of 2020, in evolving from 26.5 million euros as at 31 December 2020 to 27.5 million euros as at 30 June 2021. This evolution was exclusively caused by the increase in the loans granted to customers by Finibanco Angola, as Banco Montepio Geral 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 228.3 million euros as at 30 June 2021, reflecting a 5.7% reduction in relation to the value of 242.1 million euros recorded as at 31 December 2020, showing the 3.9% reduction in Customer deposits of Banco Montepio Geral Cabo Verde which stood at 104.2 million euros as at 30 June 2021 compared to 108.5 million euros as at 31 December 2020, associated with the decrease of Customer deposits of Finibanco Angola, which evolved from 133.7 million euros as at 31 December 2020 to 124.1 million euros as at 30 June 2021, representing 54.3% of the total deposits of the international activity.

The Total operating income of the international activity in the first half of 2021 amounted to 5.6 million euros, compared to 10.2 million euros recorded in the first half of 2020. This represents a reduction of 45.7%, penalised by the decreased Net gains/(losses) from foreign exchange differences which reached 1.4 million euros (-3.5 million euros), Net interest income which reached 4.2 million euros (-14.2 million euros) and Other operating income which stood at -0.8 million euros (-0.6 million euros), notwithstanding the reduction recorded in Net fees and commissions, which reached 0.8 million euros (+0.1 million euros).

At Finibanco Angola, Total operating income stood at 5.3 million euros in the first half of 2021, having fallen by 4.6 million euros in relation to the 9.9 million euros recorded in the first half of 2020. This primarily reflects the adverse impact of the Net gains/(losses) from foreign exchange differences, and to a lesser extent, the impact of the reduction of Net interest income and in Other operating income, despite the increased Net fees and commissions.

At Banco Montepio Geral Cabo Verde, Total operating income stood at 0.3 million euros, representing a reduction of 0.1 million euros compared to the value recorded in the first half of 2020, driven by the adverse evolution of Net operating income and Net gains/(losses) from foreign exchange differences.

The Operating costs of the international activity stood at 4.8 million euros in the first half of 2021, revealing an increase of 12.7% in relation to the 4.2 million euros recorded in the first half of 2020, driven by increases in Staff costs (+0.4%), General and administrative expenses (+33.9%) and Depreciation and amortisation (+11.8%). In the first half of 2021, at Finibanco Angola, Operating costs increased by 13.2%, and grew by 4.8% at Banco Montepio Geral Cabo Verde compared to the value recorded in the first half of 2020, 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 2021 was caused by the increases recorded in the components of Staff costs (+0.7%), General and administrative expenses (+37.4%) and Depreciation and amortisation (+12.0%) in relation to the first half of 2020.

At Banco Montepio Geral Cabo Verde, the year-on-year growth observed in Operating costs in the first half of 2021 was driven by the increase recorded in the component of General and administrative expenses (+10.6%), despite the reduction in the components of Staff costs (-4.9%) and Depreciation and Amortisation (-27.3%).

As a result of the operating performance, marked by the adverse evolution of the Net gains/(losses) from foreign exchange differences, the cost-to-income ratio of the international activity stood at 85.7% in the first half of 2021, compared to 41.4% recorded in the first half of 2020.

In the first half of 2021, despite the adverse evolution of the Net gains/(losses) from foreign exchange differences, the Net income of the international activity of the Banco Montepio Group reached 1.8 million euros (3.9 million euros in the first half of 2020), without considering non-controlling interests and exchange rate effects, with positive results in Angola and Cape Verde (1.71 million euros and 0.04 million euros respectively).

CAPITAL AND LIQUIDITY

CAPITAL

With a view to the preservation of the solvency indicators, in the first half of 2021, Banco Montepio continued the implementation of a series of measures aimed at improving the ratios of own funds, namely through the reduction of risk-weighted assets (RWA), focused on deleveraging the balance sheet via divestment of non-performing or non-strategic assets, fostering the growth of the core business of granting loans in lower risk segments, and in the perspective of maximising the return on the assigned capital.

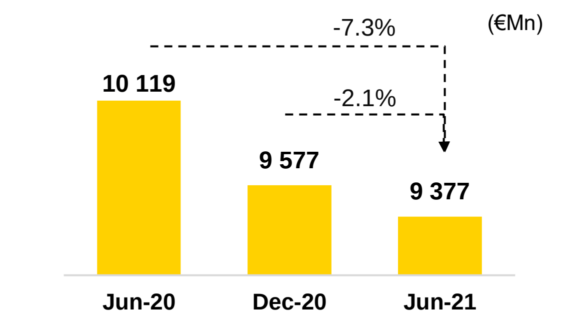
In this regard, special reference is made to the reduction of non-strategic assets accomplished in the first half of 2021 through sale of the equity stakes held in the companies Monteiro Aranha, S.A. (10.31% of its share capital) and Almina Holding, S.A. (19.0% of its share capital), in March and June respectively, contributing to the favourable evolution of RWA in the period.

As at 30 June 2021, the Common equity tier 1 (CET1) and Total capital ratios of Banco Montepio, pursuant to the phasing-in rules, stood at 11.4% and 13.6%, respectively, compared to 11.6% and 13.8% at the end of 2020.

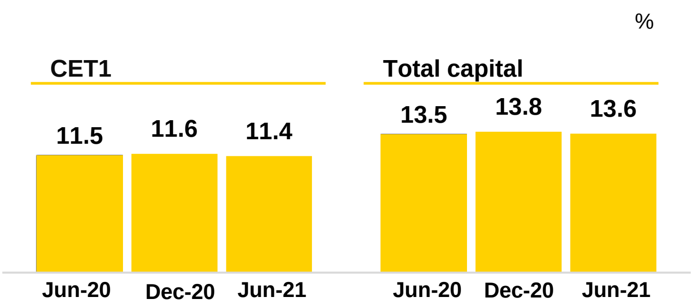
Total own funds stood at 1,275 million euros as at 30 June 2021, compared to 1,321 million euros as at 31 December 2020, to a large extent reflecting the unfavourable impacts arising from the phasing-in of IFRS 9, as well as the exogenous adverse effects brought in by the Covid-19 pandemic which led to negative impacts on net income.

RWA decreased by 200 million euros in relation to the end of 2020, as a result of the reduction of non-strategic assets, achieved in the stock of non-performing loans and real estate assets, the sale of the equity stake held in Almina Holding S.A. and Monteiro Aranha S.A., despite the adverse context of Covid-19, the 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 (also referred to as the Capital Requirements Regulation or CRR quick-fix), framed under the pandemic crisis response measures, namely in terms of the adjustment factor relative to risk exposures in small and medium-sized enterprises (SME).

Risk-weighted Assets (phasing-in)



Total Capital (phasing-in)



Note: The ratios include the accumulated net income for the period; The information presented for Jun-20 is not subject to restatement under IFRS 5.

On a fully implemented basis, as at 30 June 2021, the CET1 ratio stood at 10.3% and the Total capital ratio at 12.5%, with the differences in relation to the phasing-in capital ratios currently being explained by the IFRS 9 component. It should be highlighted that by the end of 2019, the Bank had fully recorded the phasing-in relative to 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, whose impact is rather insignificant.

As at 30 June 2021, the leverage ratio stood at 5.4% (6.0% at the end of 2020) pursuant to the phasing-in rules, and at 4.8% on a fully implemented basis (5.2% in December 2020), continuing to be 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 (Overall Capital requirements – OCR), considering that the capital reserves were designed to enable credit institutions to overcome especially adverse situations. In this way, the minimum regulatory ratios as at 30 June 2021 for Common equity tier 1, Tier 1 and Total capital were 6.328%, 8.438% and 11.25%, respectively.

As at 30 June 2021, 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. Nonetheless, the Board of Directors remains committed to strengthening the capital ratios, having embarked on a series of initiatives to that end (such as, for example, the sale that has already been accomplished of the non-strategic equity stakes referred to above) and that are currently still underway.

A summary of the ratios of own funds of the Banco Montepio Group for Jun-20, Dec-20 and Jun-21 is presented below:

CAPITAL AND CAPITAL REQUIREMENTS

(million euros)

	Jun-20	Dec-20	Jun-21	Y.o.Y. Change		Y.t.D. Change	
				Amount	%	Amount	%
Total own funds							
Common Equity Tier 1	1 164	1 114	1 068	(96)	(8.2)	(46)	(4.1)
Tier 1	1 164	1 114	1 068	(96)	(8.2)	(46)	(4.1)
Total Capital	1 370	1 321	1 275	(95)	(7.0)	(46)	(3.5)
Risk-weighted assets	**10 119**	**9 577**	**9 377**	**(742)**	**(7.3)**	**(200)**	**(2.1)**
Phasing-in ratios							
Common Equity Tier 1	11.5%	11.6%	11.4%	(10) bp		(20) bp	
Tier 1	11.5%	11.6%	11.4%	(10) bp		(20) bp	
Total Capital	13.5%	13.8%	13.6%	10 bp		(20) bp	
Fully implemented ratios							
Common Equity Tier 1	10.3%	10.1%	10.3%	0 bp		20 bp	
Tier 1	10.3%	10.1%	10.3%	0 bp		20 bp	
Total Capital	12.3%	12.3%	12.5%	20 bp		20 bp	
Leverage ratios							
Phasing-In	6.3%	6.0%	5.4%	(90) bp		(60) bp	
Fully implemented	5.6%	5.2%	4.8%	(80) bp		(40) bp	

Note: The ratios include the accumulated net income for the period; The information presented for Jun-20 is not subject to restatement under IFRS 5.

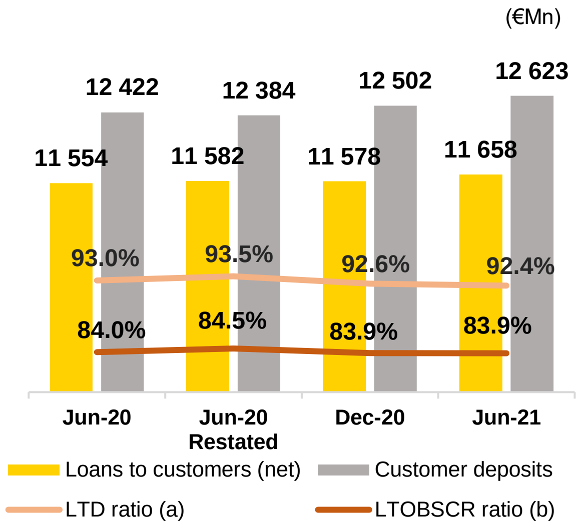
LIQUIDITY

During the first half of 2021, Banco Montepio continued to promote management measures aimed at upholding its 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 261.0%, having evolved favourably in relation to the ratio of 200.7% recorded as at 31 December 2020, to stand at 161.0 p.p. above the minimum regulatory requirement of 100%.

At the same time, the Bank maintains a comfortable base of stable funding, as a result of the delineated funding structure, namely using medium and long-term instruments, which enabled the net stable funding ratio (NSFR) to stand at 120.6%, representing a significant strengthening of this indicator, compared to the figure of 109.8% recorded as at 31 December 2020.

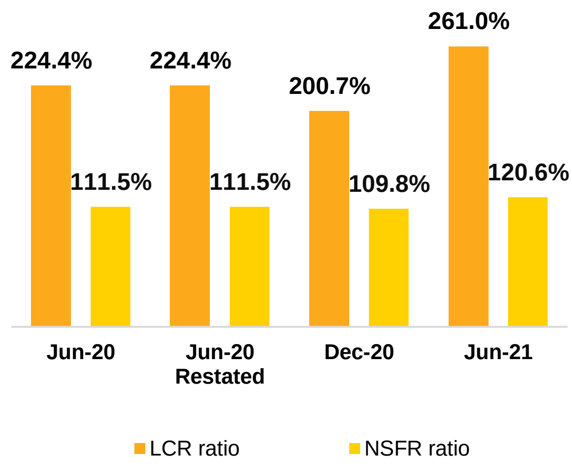
The performance of Customer deposits, on the one hand, and the progression of Loans to customers (net), on the other hand, led to a loan-to-deposit ratio, calculated in accordance with Banco de Portugal Instruction No. 16/2004, of 92.4% as at 30 June 2021, compared to 92.6% as at 31 December 2020.

Loan-to-deposit ratios



(a) Loans to customers (net) / Customer deposits. Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.
(b) Loans to customers (net) / Total on-balance sheet customer resources (Customer resources + Debt securities issued).

Liquidity ratios



As at 30 June 2021, the value of the pool of collateral for Eurosystem operations stood at 3,654 million euros, compared to 4,057 million euros recorded at the end of the first half of 2020, representing a reduction of 403 million euros. This evolution is explained by the market conditions, with short-term European public debt instruments presenting more negative rates than the -0.5% level of the remuneration of deposits at the Central Bank, which constrained investment in these securities. Nevertheless, there was an increase of 1,638 million euros in relation to 30 June 2020 in the heading of Deposits at Banco de Portugal, which reached the value of 2,392 million euros as at 30 June 2021, derived from the surplus liquidity position that was not invested in public debt securities.

The use of European Central Bank (ECB) resources at the end of 2021, of the value of 2,885 million euros, increased by 1,248 million euros in relation to the value as at 30 June 2020. This was framed under funding management, with the continued replacement of funds taken and extension of the maturity period, aimed at strengthening the stable funding, reflected in the net stable funding ratio (NSFR). 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.

The collateral available for obtaining liquidity declined in relation to the end of 2020, reflecting the mobilisation made for taking additional funding from the ECB in the TLTRO III operation at the first half of 2021 (1,500 million euros), in compliance with the approved funding strategy. Thus, in an integrated analysis of the liquidity position, it is important to highlight the evolution of the heading of Cash and deposits at central banks, which increased by a magnitude similar to the decrease observed in the pool of available assets (1,651 million euros). Accordingly, the liquidity buffer, reflecting the immediately available liquidity, resulting from the aggregation of the values available for obtaining funding at the ECB and the cash and deposits at central banks, amounts to approximately 3,323 million euros at the end of June 2021, portrayed in the comfortable position of the liquidity ratios, namely the LCR.

Compared to the same period of the previous years, it is important to highlight the decline of the pool of eligible assets of the value of 403 million euros. This reflects the reduction of the portfolio of public debt securities, in view of market conditions, with treasury bill yields in the main European countries sinking to more negative levels than the deposit rate at the central bank, as mentioned above.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(million euros)

	Jun-20	Dec-20	Jun-21	Y.o.Y. Change		Y.t.D. Change	
				Amount	%	Amount	%
Pool of eligible assets [a]	4 057	3 113	3 654	(403)	(9.9)	541	17.4
Use of the pool	1 637	1 385	2 885	1 248	76.3	1 500	>100
Pool of available assets	**2 420**	**1 728**	**769**	**(1 651)**	**(68.2)**	**(959)**	**(55.5)**

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

In the interbank money market, Banco Montepio did not show any assignment or taking of funds. In the interbank money market of foreign currency, Banco Montepio showed a position of 125 million American dollars.

BALANCE SHEET AND RESULTS

Under the decisions taken by the Board of Directors of Banco Montepio, the subsidiaries Montepio Valor and Banco Montepio Geral Cabo Verde shifted to become classified as discontinued operations since the end of 2020 for accounting purposes, as stipulated by IFRS 5, with Finibanco Angola no longer meeting the requirements established in this standard to be considered a discontinued operation. Therefore, pursuant to the provisions in IFRS 5, this subsidiary started to be fully consolidated, line by line, in a retrospective manner, and the financial statements of the first half of 2020 were restated for purposes of comparability.

In the financial statements, and whenever applicable, the net income of this subsidiaries Montepio Valor and Banco Montepio Geral Cabo Verde is stated under an operating account heading of "Results from discontinued operations" and the assets and liabilities are recorded in the balance sheet, respectively, under the headings of "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 2021 continued to be marked by the impact of the Covid-19 pandemic. Nevertheless, there was a reduction of credit risk and consequent decrease of allocations for impairment and provisions compared to the first half of 2020, the period which experienced the greatest impact of the pandemic, with the continued implementation of a series of operational adjustment measures aimed at fast-tracking the digital transition, adjusting the service model and increasing the Bank's efficiency.

BALANCE SHEET

However, in view of the changing circumstances and the challenges facing Banco Montepio, the banking sector and the Portuguese economy, the Board of Directors reappraised the goals and measures foreseen in the Transformation Plan approved in 2018, and adopted a multidimensional and multiannual adjustment programme, through the implementation of four key strategic pillars: review of the business model, operational adjustment, preservation of capital, and simplification of the Group.

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.

The set of delineated initiatives, namely the strengthening of the in-house recovery of loans, enabled Banco Montepio to pursue its plan to reduce non-performing loans, whose stock amounted to 1,110 million euros as at 30 June 2021, corresponding to a 11.6% decline in relation to the 1,256 million euros at the end of 2020.

On the other hand, with a view to the simplification of the corporate structure of the Banco Montepio Group and the strategic redefinition of the international holdings, the measures stipulated in the adjustment programme primarily concern the sale of equity stakes in the national and international market. In this regard, particular reference is made to the sale of the Bank’s entire equity stake in Monteiro Aranha S.A. in March 2021, and the sale of the entire equity stake in Almina Holding S.A. In June 2021. Furthermore, the Group decided to sell the equity stake held in Montepio Valor, S.A., continues to take measures towards the deconsolidation of Finibanco Angola, S.A., and, considering the new legal framework of Cape Verde and having weighed up all the relevant strategic options, decided not to promote the changes required to adapt its subsidiary Banco Montepio Geral Cabo Verde to a bank with general authorisation and approved the development of the procedural initiatives stipulated in the Law for its voluntary dissolution and orderly liquidation.

SYNTHETIC BALANCE SHEET

(million euros)

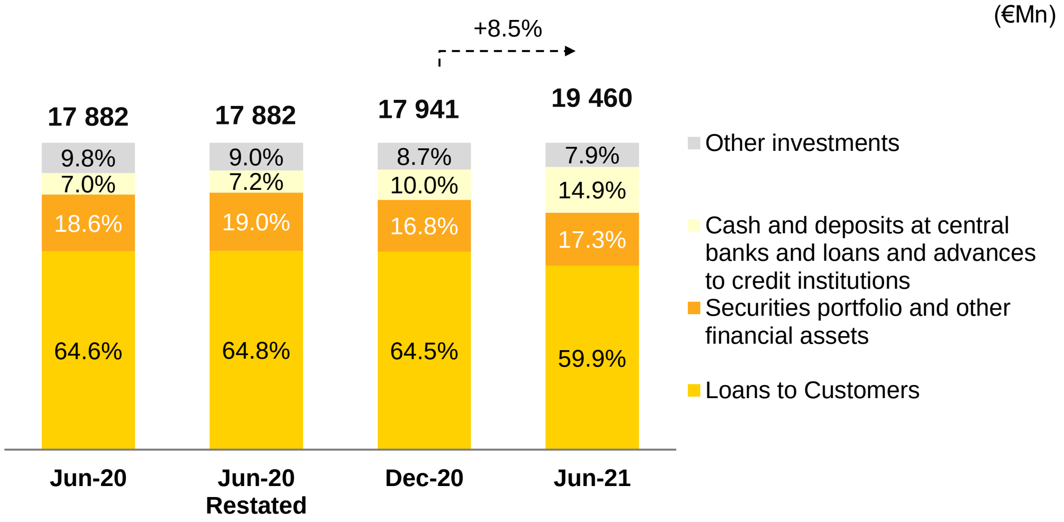
	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change		Y.t.D. Change	
					Amount	%	Amount	%
Cash and deposits at central banks and loans and advances to credit institutions	1 250	1 286	1 793	2 906	1 620	>100	1 113	62.1
Loans to customers	11 554	11 582	11 578	11 658	76	0.7	80	0.7
Securities portfolio and other financial assets*	3 319	3 395	3 013	3 364	(31)	(0.9)	351	11.6
Non current assets held for sale and investment properties	135	142	131	121	(21)	(14.7)	(10)	(8.1)
Non current assets held for sale - Discontinued operations	179	1	1	2	1	69.7	1	24.0
Current and deferred tax assets	478	478	500	497	19	4.1	(3)	(0.5)
Other	967	999	925	913	(86)	(8.6)	(12)	(1.2)
Total assets	**17 882**	**17 882**	**17 941**	**19 460**	**1 578**	**8.8**	**1 519**	**8.5**
Deposits from central banks and other credit institutions	2 172	2 173	2 203	3 593	1 420	65.3	1 390	63.1
Customer resources	12 422	12 384	12 502	12 623	239	1.9	121	1.0
Debt issued	1 539	1 539	1 516	1 487	(52)	(3.3)	(29)	(1.9)
Non current liabilities held for sale - Discontinued operations	96	122	110	105	(17)	(13.7)	(5)	(3.8)
Other	295	306	283	301	(5)	(1.7)	18	6.4
Total liabilities	**16 523**	**16 523**	**16 614**	**18 110**	**1 587**	**9.6**	**1 496**	**9.0**
Share capital*	2 420	2 420	2 420	2 420	0	0.0	0	0.0
Reserves, retained earnings and other	(1 010)	(1 010)	(1 012)	(1 036)	(26)	(2.6)	(24)	(2.4)
Net income	(51)	(51)	(81)	(33)	18	35.7	48	59.1
Total equity	**1 359**	**1 359**	**1 327**	**1 351**	**(8)**	**(0.6)**	**24**	**1.8**
Total liabilities and equity	**17 882**	**17 882**	**17 941**	**19 460**	**1 578**	**8.8**	**1 519**	**8.5**

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

ASSETS

The evolution of the Net assets as at 30 June 2021 shows an increase of 1,519 million euros (+8.5%) in relation to the value at the end of 2020, primarily driven by the increase of the heading of Cash and deposits at central banks and of Other credit institutions, combined with the increases recorded in the headings of Securities portfolio, reflecting the funding strategy that led to the additional taking of 1,500 million euros from TLTRO, as well as the heading of Loans to customers.

Asset structure



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 includes the balances recorded under Cash and deposits at central banks and Loans and advances to credit institutions.

As at 30 June 2021, the liquidity deposited at central banks and Other credit institutions stood at 2,906 million euros, compared to 1,793 million euros recorded at the end of 2020, reflecting an increase of 1,113 million euros (+62.1%). This is essentially explained by the increase of the heading of Cash and deposits at central banks, reflecting the increased Resources from central banks, pursuant to the delineated funding strategy.

LOANS TO CUSTOMERS

As at 30 June 2021, Loans to customers (gross) amounted to 12,318 million euros, compared to 12,357 million euros recorded as at 31 December 2020. This evolution was influenced by the loans written off from the assets (write-offs) of the value of 178.2 million euros and, additionally, by assignment of non-performing loans. In this context, it is important to highlight the positive performance of the business in the Loans to individuals segment, which grew by 77 million euros. This placed in evidence the effectiveness of the commercial strategy adopted towards the end of 2020, and, on the other hand, the reduction in the companies segment, which fell by 117 million euros, due to the Covid-19 pandemic scenario with negative impact on the activity level of economic agents, and the effect of the external placement of operations aimed at reducing RWA.

Indeed, it should be noted that gross performing loans grew by 106 million euros in comparison to the end of 2020 (+1.0%), with the portfolios of mortgage loans and consumer credit showing growth of 54 million euros and 52 million euros, respectively. In contrast, non-performing loans decreased by 146 million euros (-11.3%).

At the same time, there was an improvement of the credit quality indicators, which benefited from rigorous discipline of credit risk-taking, as well as the measures that were approved and implemented in the credit monitoring and recovery areas. Thus, as a result of the measures that have progressively been implemented, there was a reduction in the first half of 2021, both of the number of new contracts[5] that entered into default (-61%), and of the value in default (-73%), compared to the first half of 2020.

As noted above, the progression of Loans to customers (gross) was influenced, on the one hand, by the growth in loans granted to individuals that increased by 77 million euros (+1.2%), of which 52 million euros were in Mortgage loans (+0.9%) and 27 million euros in Other loans (+3.5%), benefiting from the strong dynamics in new operations. On the other hand, it was influenced by the reduction of 117 million euros in the companies segment (-2.0%), where the Covid-19 pandemic scenario, highly penalising for economic agents, constrained Banco Montepio's growth trend observed at the end of 2020.

Under Banco Montepio's Adjustments Programme, the improvement of credit quality is also based on a more effective and integrated management of the non-performing exposures, by maximising recoveries and corporate finance solutions, benefiting from the strategic focused on the segments of individuals and companies, particularly on small and medium-sized enterprises (SMEs) and social economy entities.

LOANS TO CUSTOMERS

(By sector of activity)

(million euros)

	Dec-20	Jun-21	Y.t.D. Change	
			Amount	%
Individuals	**6 377**	**6 454**	**77**	**1.2**
Housing loans	5 636	5 688	52	0.9
Others	740	767	27	3.5
Corporate	**5 980**	**5 863**	**(117)**	**(2.0)**
Manufacturing industries	981	1 016	35	3.6
Wholesale and retail trade	915	905	(10)	(1.1)
Construction and Public works, and Real estate activities	1 363	1 214	(149)	(10.9)
Accommodation and catering activities	533	607	74	13.9
Financial and insurance activities	627	549	(78)	(12.5)
Transportation and storage	404	384	(20)	(5.2)
Business Services	374	373	(1)	(0.2)
Other collective service activities	303	330	27	9.0
Others	481	486	5	1.1
Gross loans	**12 357**	**12 318**	**(39)**	**(0.3)**
Impairment for credit risk	**780**	**660**	**(120)**	**(15.3)**
Net loans	**11 578**	**11 658**	**80**	**0.7**

The current Covid-19 pandemic scenario has hampered the reduction of loans, namely in terms of loan collection and recovery, and reduced the non-financial private sector's debt service capacity, and has also hindered the effective loan maturities. Despite the challenges of the current context, embodying the effect of the measures referred to above, Banco Montepio was able to reduce the stock of non-performing loans, consequently reflected in the decline of the ratio of non-performing exposures (NPE) in relation to the total Gross loans to customers, which stood at 9.3% at the end of June 2021, compared to 10.4% as at 31 December 2020. This favourable evolution essentially reveals the reduction of the balance of non-performing exposures in relation to the value recorded at the end of 2020, which stood at 1,144 million euros as at 30

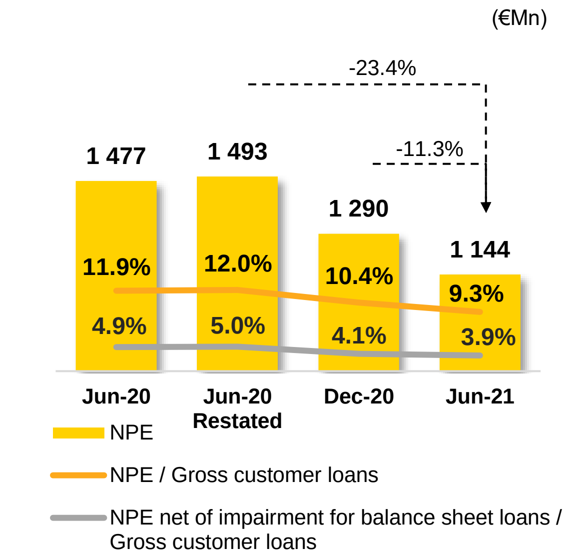
[5] Contracts of more than 90 days, excluding sight deposits and cards.

June 2021. In turn the NPE ratio net of on-balance sheet loan impairment stood at 3.9% as at 30 June 2021, having evolved favourably in relation the 4.1% recorded at the end of 2020.

In this regard, Banco Montepio's Adjustment Programme 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.

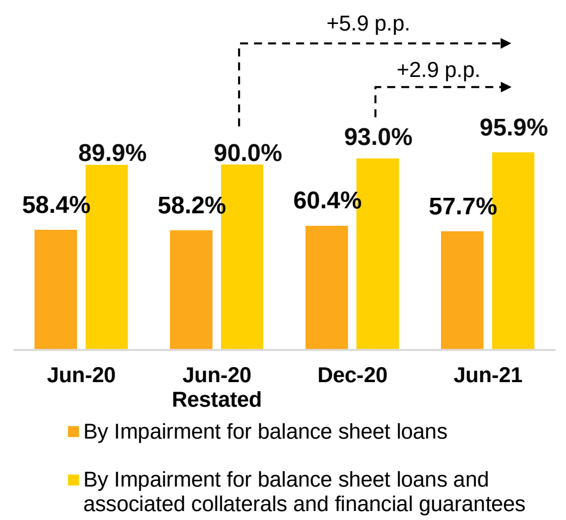
As at 30 June 2021, Banco Montepio also strengthened the levels of coverage of non-performing exposures by impairment for loans and associated collateral and financial guarantees on the balance sheet, which reached 95.9% at the end of June 2021, compared to 93.0% as at 31 December 2020, while the coverage for balance sheet impairment stood at 57.7%, compared to 60.4% as at 31 December 2020.

Non-performing exposures (NPE)*



* EBA definition

NPE* coverage



* EBA definition

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

In the context of strategy of rebalancing the asset structure, Banco Montepio continued, in the first half of 2021, 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 2021, the portfolio of securities and other instruments amounted to 3,364 million euros, compared to 3,013 million euros recorded as at 31 December 2020. The evolution of the portfolio of securities and other instruments in relation to 31 December 2020 reveals, on the one hand, the increase of the portfolio of Other financial assets at amortised cost of 451 million euros driven by the increased Bonds of foreign public issuers, which more than offset the reduction observed in Bonds of national public issuers, and the increase of the portfolio of Financial assets held for trading of 14 million euros, derived from the increased Bonds of public issuers. On the other hand, it reveals the reduction of the portfolio of Financial assets at fair value through other comprehensive income of 57 million euros, as a result of the decline recorded in National and foreign shares and in Bonds of foreign public issuers, and the decrease of the portfolio of Assets at fair value through profit or loss, also of 57 million euros, derived from the reduction recorded in Participation units of variable yield securities.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

(million euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change Amount	Y.o.Y. Change %	Y.t.D. Change Amount	Y.t.D. Change %
Financial assets held for trading	44	44	17	31	(13)	(30.0)	14	81.9
Financial assets at fair value through other comprehensive income	1 200	1 200	287	230	(970)	(80.9)	(57)	(19.9)
Other financial assets at amortised cost	1 704	1 780	2 363	2 814	1 034	58.1	451	19.1
Financial assets not held for trading mandatorily at fair value through profit or loss*	371	371	347	290	(81)	(22.0)	(57)	(16.5)
Total Securities portfolio and other financial assets	**3 319**	**3 395**	**3 013**	**3 364**	**(31)**	**(0.9)**	**351**	**11.6**

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

In analysing the securities portfolio by type of instrument, an increased is observed in relation to 31 December 2020 of 509 million euros in Bonds and other debt instruments, which include public debt, that led to the increase recorded in the portfolio of securities and other instruments (11.6% in relation to 31 December 2020).

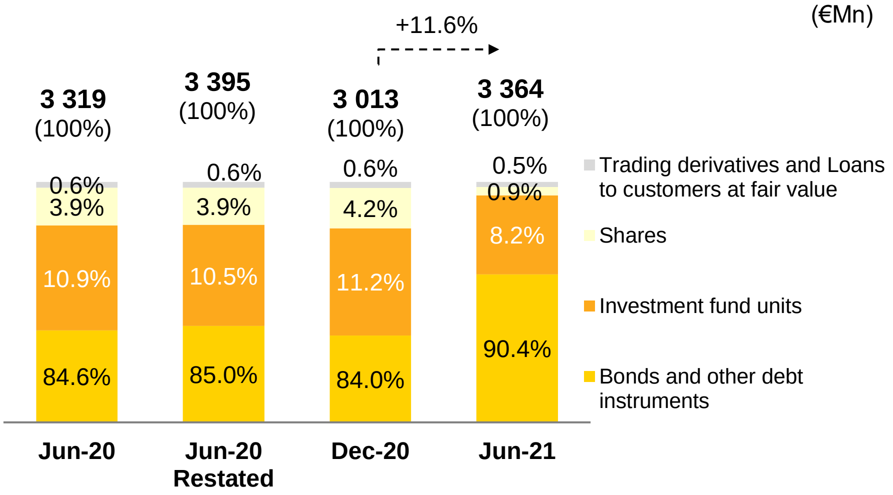
SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS BY TYPE OF INSTRUMENT

(million euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change Amount	Y.o.Y. Change %	Y.t.D. Change Amount	Y.t.D. Change %
Bonds and other debt instruments	2 808	2 884	2 532	3 041	157	5.4	509	20.1
Shares	131	131	126	29	(102)	(77.6)	(97)	(76.7)
Investment fund units	360	360	336	276	(84)	(23.3)	(60)	(17.8)
Trading derivatives	10	10	9	8	(2)	(25.6)	(1)	(14.1)
Loans to customers at fair value	10	10	10	10	0	(0.9)	0	0.2
Total securities portfolio and other financial assets	**3 319**	**3 395**	**3 013**	**3 364**	**(31)**	**(0.9)**	**351**	**11.6**

The structure of the portfolio of securities and other instruments remained, as at 30 June 2021, primarily composed of Bonds and other debt instruments, whose total weight in the portfolio increased to 90.4%. In turn, the proportion of Investment fund units and Share decreased to 8.2% and 0.9% of the portfolio, respectively.

Structure of the Securities portfolio and other financial assets



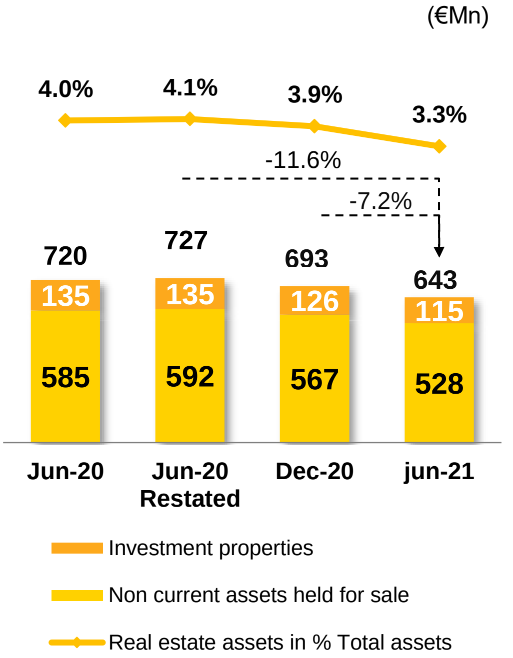
NON CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

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 with the strategy to reduce exposure to real estate risk remaining unchanged.

The evolution of the exposure to real estate assets, incorporating the aforesaid reclassification, showed a year-on-year decrease of -7.2% as at 30 June 2021 in relation to the end of 2020, in having shifted from 693 million euros at 31 December 2020 to 643 million euros as at 30 June 2021, in line with the guidelines for the integrated management of real estate properties and consequent reduction of exposure to this activity sector.

The heading of Non-current assets held for sale, together with the value reclassified to the heading of Other assets, which essentially shows the value associated with real estate properties derived from the dissolution of loan contracts with Customers, decreased by 6.9% in evolving from 567 million euros at the end of December 2020 to 528 million euros as at 30 June 2021. This evolution primarily reveals the effect of credit recovery.

Exposure to real estate assets



* Including the value of properties reclassified to Other assets.

Regarding 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 8.7%, in evolving from 126 million euros at the end of December 2020 to 115 million euros as at 30 June 2021, continuing to accomplish the goal of reducing exposure to real estate risk.

NON CURRENT ASSETS HELD FOR SALE – DISCONTINUED OPERATIONS

As at 30 June 2021, the heading of Non-current assets held for sale - Discontinued operations amounted to 2 million euros, corresponding to the value of the assets recorded by the Group’s operations related to the subsidiaries Banco Montepio Geral - Cabo Verde, Sociedade Unipessoal, S.A. and Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A., after having been adjusted for the necessary movements of the consolidation process, and 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 2021, the aggregate of Current and deferred tax assets amounted to 497 million euros, compared to 500 million euros as at 31 December 2020.

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.

The Annual General Meeting held on 29 June 2021 unanimously approved the constitution of a special reserve and the constitution of conversion rights relative to the year of recoverability of the deferred tax assets, reported as at 31 December 2020, following Banco Montepio's decision to subscribe to the special scheme applicable to deferred tax assets established in Law 61/2014 of 26 August ("Law 61/2014"), taken at the General Meeting of 6 July 2016, and Banco Montepio's corresponding subscription to this scheme.

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 associates and Other assets.

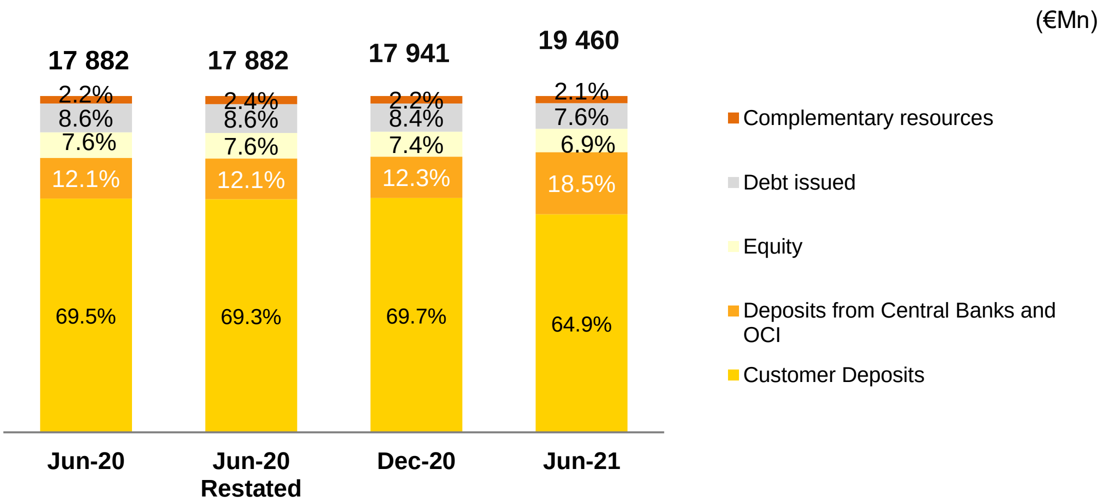
As at 30 June 2021, the aggregate Other stood at 913 million euros, compared to 925 million euros as at 31 December 2020, of which 522 million euros correspond to real estate properties held for sale reclassified from the heading of Non-current assets held for sale to Other assets.

LIABILITIES

As at 30 June 2021, the Total liabilities stood at 18,110 million euros, revealing growth of 1,496 million euros (+9.0%) in relation to the value of 16,614 million euros recorded as at 31 December 2020, primarily demonstrating the increase in Resources from central banks (+1,496 million euros), that funded the growth of the Securities portfolio and the heading of Cash and deposits at central banks, and to a lesser degree, the increase of Customer resources (+121 million euros) in relation to the end of December 2020.

As at 30 June 2021, Equity funded 6.9% of the Assets and the Debt issued funded 7.6%, in a context in which the requirements for issuance in the market of instruments eligible for compliance with the Minimum Requirement for own funds and Eligible Liabilities (MREL) are being (re)assessed by the competent authorities – in a scenario of the flexibilisation measures in terms of the capital and liquidity requirements announced by the ECB –, with Resources from central banks and other credit institutions (OCI) having reached 18.5% of the Assets. Customer deposits continued to be the main source of balance sheet funding, representing 64.9% of total liabilities and equity.

Liabilities and Equity Structure



DEPOSITS FROM CENTRAL BANKS AND OTHER CREDIT INSTITUTIONS

As at 30 June 2021, the funding obtained from central banks and other credit institutions amounted to 3,593 million euros, compared to 2,203 million euros recorded at the end of 2020, revealing an increase of 63.1%.

As at 30 June 2021, the component of Resources from central banks recorded the resourced obtained from the European System of Central Banks which was collateralised by portfolios of financial assets at fair value through other comprehensive income and the portfolio of other assets at amortised cost, which amounted to 2,879 million euros, compared to 1,383 million euros as at 31 December 2020 (+108.2%).

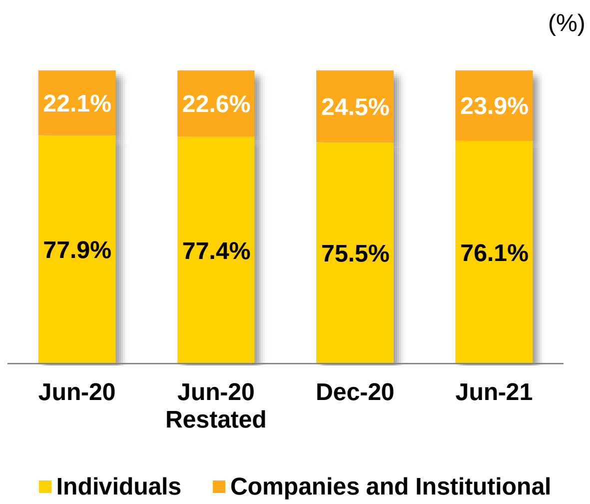
The funding obtained from Other credit institutions stood at 713 million euros as at 30 June 2021, compared to 821 million euros as at 31 December 2020 (-13.2%), revealing the end of the Sale operations with repurchase agreement.

CUSTOMER RESOURCES

Throughout the first half of 2021 Banco Montepio developed a series of initiatives aimed at capturing and retaining customer resources, under its liquidity risk management strategy.

Total customers' resources amounted to 13,732 million euros as at 30 June 2021, of which 12,829 million euros correspond to Customer resources on the balance sheet, with 98.4% referring to Customer deposits.

Customer deposits structure



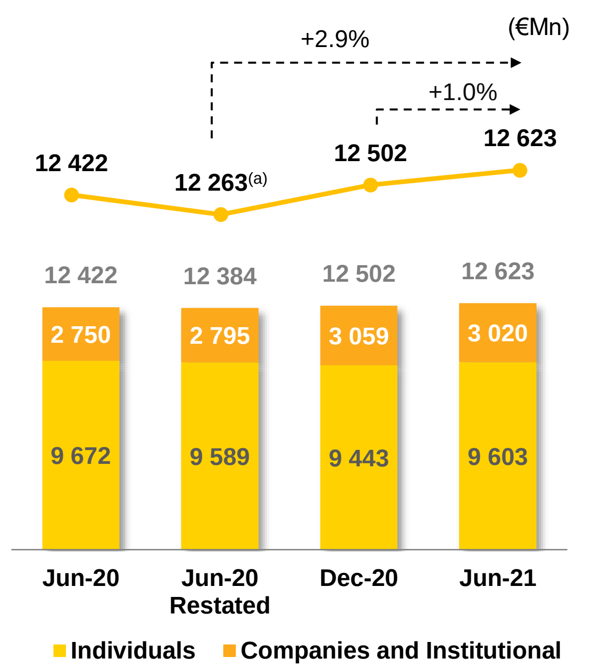
As at 30 June 2021, Customer deposits stood at 12,623 million euros, primarily concentrated in individual customers, a segment that has continued predominant by accounting or 76.1% of total deposits.

As at 30 June 2021, despite the context of interest rates at historically low levels and the reduction of economic activity caused by the Covid-19 pandemic, Customer deposits increased by 121 million euros in relation to December 2020, with Term deposits having fallen by 401 million euros and Sight deposits having increased by 522 million euros, with the rate of recomposition of the deposit portfolio's structure being maintained with the change of the Sight deposit/Term deposit mix, which stood at 48%/52% as at 30 June 2021.

It should be noted that in 2020, Customer deposits of Banco Montepio Geral Cabo Verde started to be classified under Non-current liabilities held for sale - Discontinued operations.

As at 30 June 2021, the heading of Securities placed with customers stood at 206 million euros, compared to 210 million euros at the end of December 2020.

Customer deposits



(a) Excluding customer deposits from Banco Montepio Geral Cabo Verde (120.7 €Mn), which in 2020 started to be classified as discontinued operations.

Off-balance sheet resources reached 903 million euros as at 30 June 2021, compared to 844 million euros recorded at the end of December 2020, representing a 7% increase, underpinned by the increases recorded in the Real estate investment funds (+51 million euros) and in Pension funds (+9 million euros).

CUSTOMER RESOURCES

(million euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change		Y.t.D. Change	
					Amount	%	Amount	%
Customer deposits	**12 422**	**12 384**	**12 502**	**12 623**	**239**	**1.9**	**121**	**1.0**
Sight deposits	4 998	5 048	5 482	6 004	956	18.9	522	9.5
Term deposits	7 424	7 336	7 020	6 619	(717)	(9.8)	(401)	(5.7)
Customer deposits (a)	**12 422**	**12 263**	**12 502**	**12 623**	**360**	**2.9**	**121**	**1.0**
Securities placed with customers	201	201	210	206	5	2.3	(4)	(2.1)
Total on-balance sheet resources	**12 623**	**12 585**	**12 712**	**12 829**	**244**	**1.9**	**117**	**0.9**
Total on-balance sheet resources (a)	**12 623**	**12 464**	**12 574**	**12 829**	**365**	**2.9**	**255**	**2.0**
Off-balance sheet resources	795	795	844	903	108	13.6	59	7.1
Total customer resources	**13 418**	**13 380**	**13 556**	**13 732**	**352**	**2.6**	**176**	**1.3**
Total customer resources (a)	**13 418**	**13 259**	**13 556**	**13 732**	**473**	**3.6**	**176**	**1.3**

(a) Excluding, for comparability purposes, in Jun-20 restated the customer deposits from Banco Montepio Geral Cabo Verde (120.7 €Mn) which in 2020 started to be classified as discontinued operations.

DEBT ISSUED

The heading of Debt issued incorporates the amounts recorded in the balance sheet related to Liabilities represented by securities and Subordinated liabilities.

As at 30 June 2021, the value of Debt issued stood at 1,487 million euros, representing a reduction of 29 million euros (-1.9%) in relation to the value of 1,516 million euros recorded as at 31 December 2020, primarily as a result of the decrease recorded in Liabilities represented by securities (-23 million euros), and in Other subordinated debt (-6 million euros). The evolution observed in Liabilities represented by securities in relation to 2020 reveals the decrease recorded in Securitisations (-22 million euros), associated to the reduction recorded in Cash bonds (-3 million euros) combined with the increase of Mortgage bonds (+2 million euros). The decrease recorded in Other subordinated liabilities in relation to the end of 2020 was caused by the movement occurred during the first half of 2021 (which includes the accrued interest on the balance sheet) in the issuances named MONTEPIO EMTN SUB 2018/2028 (+2 million euros), MONTEPIO EMTN SUB 2019/2029 (-5 million euros) and MONTEPIO EMTN SUB 2020/2030 (-2 million euros).

NON CURRENT LIABILITIES HELD FOR SALE – DISCONTINUED OPERATIONS

As at 30 June 2021, the heading of Non-current liabilities held for sale - Discontinued operations amounted to 105 million euros, corresponding to the value of the liabilities recorded by the Group's operations related to the subsidiaries Banco Montepio Geral - Cabo Verde, Sociedade Unipessoal, S.A. and Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A., 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.

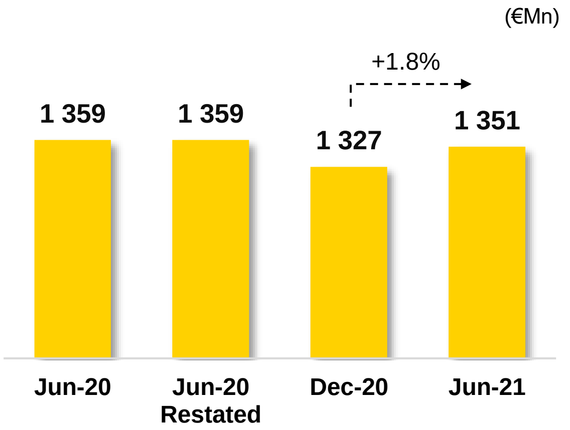
OTHER

The aggregate Other, presented in the Liabilities of the synthetic balance sheet, stood at 301 million euros as at 30 June 2021 (283 million euros at the end of 2020), and incorporates the headings of Financial liabilities held for trading, Hedge derivatives, Provisions, Current tax liabilities and Other liabilities.

TOTAL EQUIY

Equity amounted to 1,351 million euros as at 30 June 2021, showing a 1.8% increase in relation to the value at the end of 2020, reflecting, on the one hand, the positive effect of the actuarial deviations of the Pension Fund (+62 million euros) and the evolution of the fair value reserve (+37 million euros), and on the other hand, the recording of negative net income of 33 million euros in the first half of 2021.

Total Equity



RESULTS

In the first half of 2021, Banco Montepio recorded a consolidated net income of -33.0 million euros, comparing favourably to the value of -51.3 million euros recorded in the first half of 2020. The net income of the first half of 2021 reflects, on the one hand, the lower level of Impairments and provisions (60.7 million euros) compared to the first half of 2020 (122.5 million euros), despite still being influenced by the adverse circumstances caused by the Covid-19 pandemic, and, on the other hand, the lower contribution of Finibanco Angola in relation to the contribution of the same period of 2020, as well as the non-recurring costs incurred during the first half of 2021, of the value of 4.1 million euros related to the Staff adjustment measures (3.2 million euros) and to the reduction of non-strategic assets (0.9 million euros).

SYNTHETIC INCOME STATEMENT

(million euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change	
					Amount	%
Net interest income	**114.7**	**121.3**	**242.8**	**114.3**	**(7.0)**	**(5.8)**
Net fees and commissions	56.1	55.4	115.3	54.9	(0.5)	(1.0)
Core total operating income	**170.8**	**176.7**	**358.1**	**169.2**	**(7.5)**	**(4.2)**
Income from equity instruments	1.7	1.7	3.0	1.7	0.0	1.6
Results from financial operations	7.2	13.9	17.9	(3.3)	(17.2)	(<100)
Other operating income	(10.8)	(11.2)	14.7	(8.1)	3.1	27.7
Total operating income	**168.9**	**181.1**	**393.7**	**159.5**	**(21.6)**	**(11.9)**
Staff Costs	78.8	80.8	189.3	79.5	(1.3)	(1.6)
General and administrative expenses	32.5	33.4	67.0	32.0	(1.4)	(4.1)
Depreciation and amortization	16.2	16.8	35.1	17.8	1.0	6.0
Operating costs	**127.5**	**131.0**	**291.4**	**129.3**	**(1.7)**	**(1.3)**
Operating costs, excluding specific impacts [a]	**127.5**	**131.0**	**261.9**	**125.2**	**(5.8)**	**(4.4)**
Net operating income before provisions and impairments	**41.4**	**50.1**	**102.3**	**30.2**	**(19.9)**	**(39.7)**
Net provisions and impairments	122.3	122.5	220.8	60.7	(61.8)	(50.4)
Share of profit (losses) booked under the equity method	(0.3)	(0.3)	(0.7)	(0.2)	0.1	29.4
Net income before income tax	**(81.2)**	**(72.7)**	**(119.2)**	**(30.7)**	**42.0**	**57.8**
Income tax	(24.9)	(23.7)	(42.3)	1.2	24.9	>100
Net income after income tax from continuing operations	**(56.3)**	**(49.0)**	**(76.9)**	**(31.9)**	**17.1**	**34.9**
Income from discontinued operations	6.2	(1.1)	(1.9)	(0.8)	0.3	29.0
Non-controlling interests	1.2	1.2	1.9	0.4	(0.8)	(71.6)
Net Income	**(51.3)**	**(51.3)**	**(80.7)**	**(33.0)**	**18.3**	**35.7**

(a) Excluding the amount related to the increase in Personnel costs and in General administrative expenses generated by operational adjustment measures of 29.5 M€ in the 4th quarter of 2020 and 4.1 M€ in the 1st half of 2021.

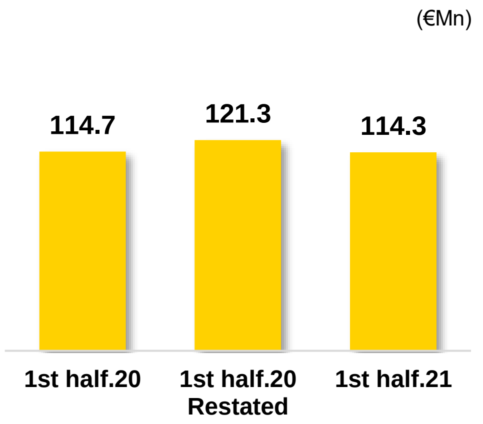
TOTAL OPERATING INCOME

The Total operating income of the first half of 2021 amounted to 159.5 million euros, compared to the value of 181.1 million euros in the first half of 2020, as a result of the reduction of Results from financial operations, Net interest income and Net fees and commissions, despite the favourable evolution of Income from equity instruments and Other operating income.

NET INTEREST INCOME

In the first half of 2021, Net interest income stood at 114.3 million euros, compared to the value of 121.3 million euros recorded in the first half of 2020, that, despite the slowdown of economic activity of families and companies, captured the positive effects of the commercial dynamics, embodied in the favourable evolution of the performing loans and in the lower cost of the interest of customer deposits. However, this was not sufficient to offset the negative effect related to the low market interest rates which constrain the profitability of operations and the repricing of the loan portfolio and interest of the securities portfolio, in addition to the increased interest on the subordinate debt issuances and the synthetic securitisation operation on a portfolio of performing loans granted to SME initiated in December 2020. It is also important to stress that, in the first half of 2021, there was an annulment of 0.5 million euros of interest of operations that were classified under stage 3, with this effect having been associated to the Covid-19 pandemic.

Net interest income



In the first half of 2021, Net interest income was penalised by a reduction of the interest of Cash and deposits at other credit institutions and Loans and advances to other credit institutions of 3.2 million euros, reflecting the increased balance in the portfolio (volume effect), alongside the evolution of the average interest rate (price effect) from -0.03% and 1.00%, in the first half of 2020 to -0.26% and 0.28% respectively, in the first half of 2021.

The reduction of the interest of the portfolio of Loans to customers of 4.6 million euros in the first half of 2021 likewise contributed to lower Net interest income, via the evolution of the average interest rate (price effect) from 2.11% in the first half of 2020 to 2.04% in the first half of 2021, in a context in which the main reference rates continue on negative ground, reaching successive minimum figures.

In the first half of 2021, Net interest income was also penalised by the reduction of 1.6 million euros observed in the Securities portfolio, which reflected the reduction of the average interest rate (price effect) from 0.56% in the first half of 2020 to 0.43% in the first half of 2021, despite the increased balance of the portfolio (volume effect).

The interest paid for Senior debt issued, although of a lower materiality, also contributed to the adverse evolution of Net interest income in increasing by 0.6 million euros in relation to the first half of 2020, via the price effect, with the average interest rate having shifted from 0.63% in the first half of 2020 to 0.76% in the first half of 2021.

The negative impact of Net interest income of the additional 1.7 million euros in interest paid by the Subordinated debt in the first half of 2021 in relation to the first half of 2020 reflected the increased balance of the portfolio (volume effect) driven by the synthetic securitisation operation on a portfolio of performing loans granted to SME initiated in December 2020, despite the reduction of the average interest rate (price effect) of 9.57% in the first half of 2020 to 8.89% in the first half of 2021.

On the other hand, Net interest income benefited from the reduction of costs related to interest of Resources from central banks that fell by 0.3 million euros, via the volume effect, with the average interest rate having shifted from -0.39% in the first half of 2020 to -0.28% in the first half of 2021.

Resources from other credit institutions also contributed to the favourable evolution of Net interest income in decreasing by 0.8 million euros, via the price effect, with the average interest rate having fallen from 0.30% in the first half of 2020 to 0.01% in the first half of 2021.

The reduction of the cost associated to Customer deposits of 4.8 million euros contributed positively to the evolution of Net interest income via the price effect, portraying the impacts of the reduction of the average interest rate of the portfolio of deposits from 0.17% in the first half of 2020 to 0.10% in the first half of 2021, benefiting from the conducted pricing management in the capture of new deposits, as well as in the renewal of existing deposits, and from the increased proportion of sight deposits.

In the first half of 2021, the Net interest margin thus stood at 1.30%, compared to 1.47% in the first half of 2020, 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 2020			1st Half of 2021		
	Avg. amount	Avg. rate (%)	Interest	Avg. amount	Avg. rate (%)	Interest
Assets						
Cash and deposits	820	-0.03	(0.1)	1 799	-0.26	(2.4)
Loans and advances to OCI	291	1.00	1.5	340	0.28	0.5
Loans to customers	12 371	2.11	132.0	12 421	2.04	127.4
Securities portfolio	2 779	0.56	7.9	2 908	0.43	6.3
Other assets at fair value	11	1.28	0.1	10	1.37	0.1
Other (includes derivatives)	-	-	8.8	-	-	7.3
subtotal	16 271	1.83	150.1	17 479	1.58	139.2
Liabilities						
Resources from central banks	1 443	-0.39	-2.8	2 238	-0.28	-3.1
Resources from OCI	546	0.30	0.8	814	0.01	0.1
Customer deposits	12 382	0.17	10.8	12 430	0.10	6.0
Senior debt	1 357	0.63	4.3	1 289	0.76	4.9
Subordinated debt	165	9.57	8.0	216	8.89	9.7
Other (includes derivatives)	-	-	7.7	-	-	7.4
subtotal	15 894	0.36	28.8	16 988	0.29	25.0
Net interest margin		**1.47**	**121.3**		**1.30**	**114.3**

EVOLUTION OF NET INTEREST INCOME BETWEEN THE 1ST HALF OF 2020 AND THE 1ST HALF OF 2021

(million euros)

	Volume effect	Price effect	Residual effect	Total
Assets				
Cash and deposits	(0.2)	(1.0)	(1.1)	(2.3)
Loans and advances to Other credit institutions	0.3	(1.1)	(0.2)	(1.0)
Loans to customers	0.5	(4.5)	(0.7)	(4.6)
Securities portfolio	0.4	(1.8)	(0.1)	(1.6)
Other assets at fair value	(0.0)	0.0	(0.0)	(0.0)
Other (includes derivatives)	0.0	0.0	(1.4)	(1.4)
subtotal	11.1	(19.8)	(2.2)	(10.9)
Liabilities				
Resources from central banks	(1.6)	0.8	0.5	(0.3)
Resources from Other credit institutions	0.4	(0.8)	(0.4)	(0.8)
Customer deposits	0.0	(4.8)	(0.1)	(4.8)
Senior debt	(0.2)	0.9	(0.1)	0.6
Subordinated debt	2.5	(0.6)	(0.2)	1.7
Other (includes derivatives)	0.0	0.0	(0.3)	(0.3)
subtotal	2.0	(5.3)	(0.5)	(3.9)
Change in net interest income	**9.2**	**(14.5)**	**(1.7)**	**(7.0)**

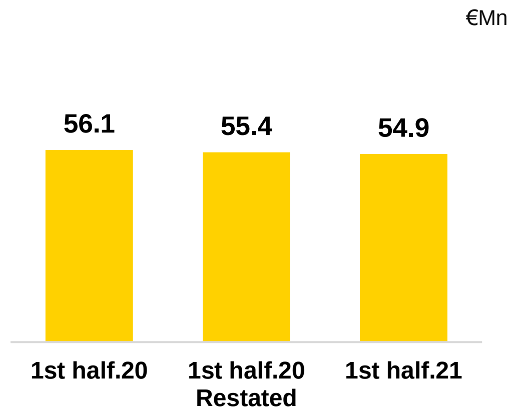
INCOME FROM EQUITY INSTRUMENTS

The heading of Income from equity instruments includes the income associated with variable yield securities, namely shares related to investments stated in the portfolio of assets available for sale. The value recorded in the first half of 2021 amounted to 1.7 million euros, in line with the value recorded in the first half of 2020, which includes 1.39 million euros relative to dividends received from the company Unicre, 0.17 million euros from SIBS, and 0.16 million euros from Monteiro Aranha (0.95 million euros from the company Almina and 0.55 million euros from Monteiro Aranha in the first half of 2020).

NET FEES AND COMMISSIONS

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

Net fees and commissions



In the first half of 2021, net fees and commissions remained practically stable, having evolved from 55.4 million euros in the first half of 2020 to 54.9 million euros in the first half of 2021, nevertheless, incorporating the negative impact of the reduction of the activity levels of economic agents and the lower transactionality brought in by the Covid-19 pandemic, the effect of the moratoria and the applicable legislation on the charging of fees and commissions on loans, and the measures to support Customers implemented by Banco Montepio, such as the suspension of fees associated with means of payment.

The progression of Net fees and commissions reflect the favourable performance of Market fees and commissions[6] which increased by 0.1 million euros (+2.5%) and Other fees and commissions[7] which grew by 0.1 million euros (+0.2%), that, however, were not sufficient to offset the reduction of Loan fees and commissions of 0.1 million euros (-2.0%) and the decline of Fees and commissions on payment services[8] of 0.6 million euros (-6.5%).

RESULTS FROM FINANCIAL OPERATIONS

The Results from financial operations stood at -3.3 million euros in the first half of 2021, compared to 13.9 million euros recorded in the first half of 2020, reflecting the lower net gains from financial assets at fair value through other comprehensive income (-18.3 million euros in relation to the first half of 2020), primarily reflecting the higher gains from the sale of Portuguese public debt securities carried out in the first half of 2020 and, to a lesser extent, the reduction of the net gains from foreign exchange differences (-4.3 million euros).

The Results from financial operations in the first half of 2021 also reflect the favourable evolution of the net gains/(losses) from financial assets and liabilities at fair value through profit or loss, which stood at -6,5 million euros in comparison to -11.9 million euros in the first half of 2020, due to the impact of the loss of value of a derivative arising from a loan disposal operation, with a loss of 12.8 million euros having been recorded in that period, and from financial assets and liabilities at fair value through profit or loss, namely in participation units, driven by the anticipation of the impact arising from the liquidation of the real estate investment funds managed by Norfin.

RESULTS FROM FINANCIAL OPERATIONS

(million euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change	
					Amount	%
Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	(11.9)	(11.9)	(18.7)	(6.5)	5.4	45.1
Net gains / (losses) from financial assets at fair value through other comprehensive income	18.8	18.8	23.7	0.5	(18.3)	(97.2)
Net gains / (losses) from foreign exchange differences	0.3	7.0	12.9	2.7	(4.3)	(60.6)
Results from financial operations	**7.2**	**13.9**	**17.9**	**(3.3)**	**(17.2)**	**(<100)**
of which: Results from the sale of Portuguese public debt	11.5	11.5	13.1	0.1	(11.4)	(99.1)

OTHER RESULTS

The aggregate Other results incorporates the Net gains from the 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 Deposit Guarantee Fund, and to loan recovery services.

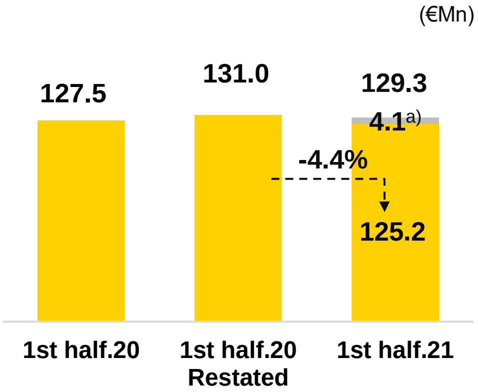
[6] Includes fees for management, administration and custody of assets and operations on securities.
[7] Includes fees for insurance mediation, provision of banking service and operations provided on account of third parties.
[8] Includes fees for deposit, custody, administration and collection of values,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

Other results stood at -8.1 million euros in the first half of 2021, comparing favourably with the value of -11.2 million euros recorded in the first half of 2020. This primarily reflects, on the one hand, the income of 14.7 million euros from the sale of a portfolio of debt securities recorded at amortised cost in March 2021, and on the other hand, the lower income (net) from the sale real estate properties held for trading (-4.9 million euros), and higher costs related to Regulatory contributions of 2.8 million euros (in 2020 the exceptional solidarity contribution was recorded in the third quarter).

OPERATING COSTS

In the first half of 2021, total Operating costs amounted to 129.3 million euros, representing a 1.3% reduction in relation to the value recorded in the first half of 2020, despite the impact of the costs related to the Staff adjustment measures concerning early retirement and rescissions by mutual agreement (3.2 million euros) and the costs incurred with the reduction of non-strategic assets (0.9 million euros). Excluding these effects, Operating costs would have fallen by 5.8 million euros (-4.4%) compared to the first half of 2020.

Operating costs



a) Impact arising from operating costs associated with operational adjustment measures.

Staff costs reached 79.5 million euros in the first half of 2021, reflecting a reduction of 1.3 million euros (-1.6%) in relation to the value of 80.8 million euros stated in the first half of 2020, influenced by the recording of 3.2 million euros of costs related to the Staff adjustment measures. These costs incorporate the expenses incurred via the programme of early retirement and rescissions by mutual agreement, and include the components of the Pension Fund, compensations and health charges. Excluding this impact, Staff costs would have fallen by 4.5 million euros in relation to the same period of the previous year (-5.6%).

In the aggregate Staff costs, the heading of Remunerations fell by 3.1 million euros compared to the first half of 2020. In turn, in the 2nd quarter of 2021 costs related to the Pension Fund showed the impact of the reduction of the respective liabilities that led to the recognition of a gain of 1.4 million euros in June 2021.

General and administrative expenses stood at 32.0 million euros in the first half of 2021, reflecting a reduction of 1.4 million euros in relation to the value of 33.4 million euros recorded in the first half of 2020 (-4.1%), primarily benefiting from the reductions recorded in Other administrative costs (-1.8 million euros) and Consumables (-0.4 million euros), despite the increases recorded in the aggregates Specialised services, that include the headings of Other specialised services, Information Technology, and Independent work (+1.4 million euros).

Excluding the non-recurring costs incurred with the reduction of non-strategic assets (0.9 million euros), General and administrative expenses would have fallen by 2.3 million euros compared to the first half of 2020 (-6.8%).

Amortisation and depreciation amounted to 17.8 million euros (+6.0%) in the first half of 2021, compared to 16.8 million euros recorded in the first half of 2020, basically reflecting the increase related to computer software.

In the first half of 2021, the cost-to-income ratio, corrected for non-recurring costs related to the Staff adjustment measures and the costs incurred with the reduction of non-strategic assets, and the more volatile components of the results, such as the Results from financial operations and Other results (Net gains from the sale of other assets and Other operating income), stood at 73.3% compared to 73.4% recorded in the first half of 2020, primarily reflecting the reduction of Total operating income.

OPERATING COSTS

(million euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change Amount	Y.o.Y. Change %
Staff Costs	78.8	80.8	189.3	79.5	(1.3)	(1.6)
General and administrative expenses	32.5	33.4	67.0	32.0	(1.4)	(4.1)
Depreciation and amortisation	16.2	16.8	35.1	17.8	1.0	6.0
Operating costs	**127.5**	**131.0**	**291.4**	**129.3**	**(1.7)**	**(1.3)**
Operating costs, excluding specific impacts [(a)]	**127.5**	**131.0**	**261.9**	**125.2**	**(5.8)**	**(4.4)**
Efficiency ratios						
Cost-to-income (Operating costs / Total operating income) [(b)]	75.5%	72.3%	74.0%	81.1%	8.8 p.p.	
Cost-to-income, excluding specific impacts [(a) (c)]	73.9%	73.4%	72.5%	73.3%	(0.1 p.p.)	

(a) Excludes the amount related to the increase in Personnel costs and in General administrative expenses generated by the operational adjustment measures of 29.5 M€ in the 4th quarter of 2020 and 4,1 M€ in the 1st half of 2021.

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

(c) 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 60.7 million euros in the first half of 2021, reflecting a reduction of 61.8 million euros (-50.4%) in relation to the first half of 2020, which experienced the main impact of the Covid-19 pandemic. This was driven on the one hand, by the reduction of the Impairment of loans and advances to customers and credit institutions of 53.7 million euros, of the Impairment of other financial assets of 2.8 million euros, and of the Other provisions of 9.4 million euros, and on the other hand, by the increased impairment of other assets of 4.0 million euros.

The allocations for Impairment of loans and advances to customers and credit institutions incorporate the result of the individual analysis made to significant exposures that showed signs of impairment, on the one hand, and the value derived from the impairment model used to calculate the impairment associated with 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 2021, the Impairment of loans and advances to customers and credit institutions (net of reversals) stood at 55.1 million euros, compared to the value of 108.8 million euros in the first half of 2020 (-53.7 million euros). This shift was fundamentally driven by the lower allocation of impairment for risk of loans to customers, of 57.6 million euros in the first half of 2021, in relation to the 109.9 million euros in the first half of 2020, as a result, at that time, of the increased credit risk triggered by the Covid-19 pandemic. The evolution of Loan impairment in the first half of 2021 also benefited from the higher level of loan recovery and interest, of the value of 2.5 million euros in relation to the 1.2 million euros in the same half of 2020.

At the same time, Loans to customers (gross) reached 12,318 million euros (12,357 million euros recorded at the end of 2020). The two combined effects led a reduction in the cost of credit risk to stand at 0.9%, compared to 1.5% at the end of 2020.

The aggregate of Other impairment and provisions, related to other financial assets, other assets and provisions, amounted to 5.6 million euros in the first half of 2021 in comparison to 13.7 million euros recorded in the first half of 2020. This essentially reveals the lower allocations made for other financial assets and for other provisions that, in this case, include the provisioning of the off-balance exposures, and the strengthening of the impairments for other assets derived from the impairments constituted for real estate properties for trading.

The Impairment of other financial assets stood at 3.0 million euros, having fallen by 2.8 million euros in relation to the 5.8 million euros recorded in the first half of 2020, and mainly corresponds to the constitution of impairments on debt securities of sovereign issuers. This evolution was particularly driven by the lower allocation for the year net of reversals for impairment of financial assets at fair value through other comprehensive income (-2.3 million euros), associated to the reduction of the allocation for the year net of reversals for impairment of other financial assets at amortised cost (-0.5 million euros).

The value recorded in the first half of 2021 for Impairment of other assets amounted to 9.5 million euros (5.5 million euros recorded in the first half of 2020), mainly consisting of impairments for real estate properties, essentially related to the process of updating the valuations of the real estate properties for trading and, as well as the valuations made by independent experts of a set of properties that were closed under the process of resizing Banco Montepio's distribution network.

In turn, Other provisions amounted to -6.9 million euros in the first half of 2021, revealing a reduction of 9.4 million euros compared to the value of 2.5 million euros recorded in the first half of 2020. Other provisions include the impacts of the reversal of provisions under the repurchases made under the Atlas I operation (-2.4 million euros), which led to a reinforcement in loan impairment of the value of 1.5 million euros, of the restitution of the impairment of off-balance exposures of 2.2 million euros, and of the reversal of 2.3 million euros relative to judicial proceedings initiated by Banco de Portugal.

IMPAIRMENTS AND PROVISIONS

(million euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change Amount	Y.o.Y. Change %
Impairment of loans and advances to customers and to credit institutions	109.4	108.8	185.1	55.1	(53.7)	(49.4)
Impairment of other financial assets	5.6	5.8	12.2	3.0	(2.8)	(48.3)
Impairment of other assets	5.5	5.5	19.4	9.5	4.0	73.8
Other provisions	1.8	2.5	4.1	(6.9)	(9.4)	(<100)
Total net impairments and provisions	**122.3**	**122.5**	**220.8**	**60.7**	**(61.8)**	**(50.4)**

INCOME TAX

In the first half of 2021, the current and deferred taxes amounted to 1.2 million euros, compared to -23.7 million euros recorded in the first half of 2020, 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, on one angle, from the fact that the accounting treatment diverges from the tax framework, namely with respect to the statement of impairment costs, thus leading to the statement of deferred tax assets associated with temporary differences, as well as other costs not accepted for tax purposes. Furthermore, due to the current context of negative profitability, new deferred taxes due to tax losses were generated.

INCOME FROM DISCONTINUED OPERATIONS

The heading of Results from discontinued operations incorporates the net income for the year of the subsidiaries Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. and Montepio Valor, Sociedade Gestora de Fundos de Investimento, S.A., attributable to the Banco Montepio Group under the application of the accounting policy defined in IFRS 5, which stood at -0.8 million euros in the first half of 2021, compared to -1.1 million euros in the first half of 2020.

NON-CONTROLLING INTERESTS

The Non-controlling interests recorded in the first half of 2021 (0.4 million euros) correspond to the portion of equity held by third parties in the subsidiary Finibanco Angola, S.A..

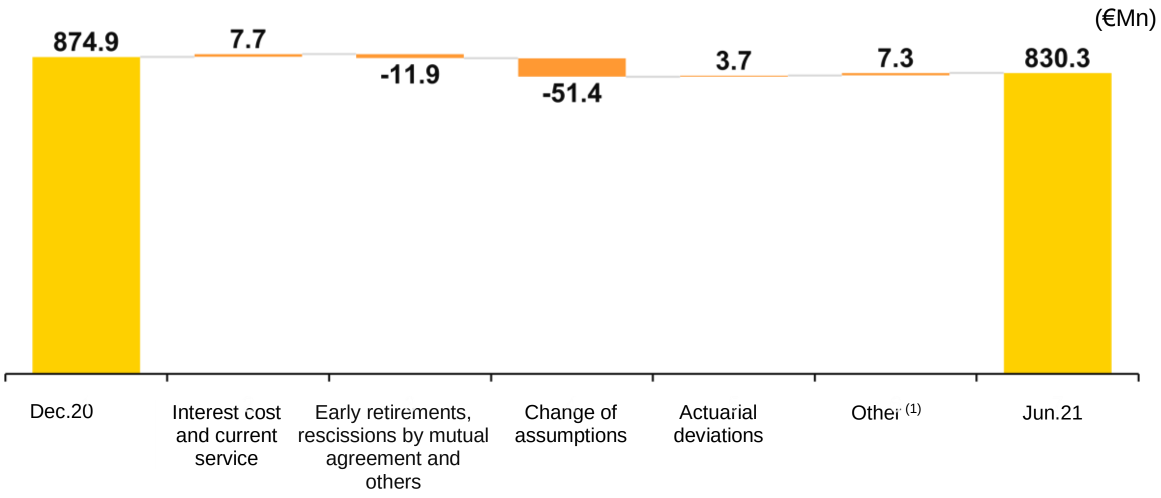
PENSION FUND

The liabilities related to post-employment and long-term benefits of the Employees amounted to 830.3 million euros as at 30 June 2021, compared to 874.9 million euros recorded as at 31 December 2020, showing a reduction of 44.6 million euros.

The evolution of the liabilities was driven, on the one hand, by the increase arising from the cost of interest and current service of 7.7 million euros, by the impact of the actuarial deviations of 3.7 million euros, and by the component of Others of 7.3 million euros, which includes the pensions paid by the Fund and by Banco Montepio and the contribution of the participants.

On the other hand, a reduction was recorded in the liabilities related to pensions due to the decrease of the component of Early retirement, rescissions by mutual agreement and other of 11.9 million euros, and by the effect associated with the change of actuarial assumptions, reflected in a reduction of 51.4 million euros, as illustrated in the graph.

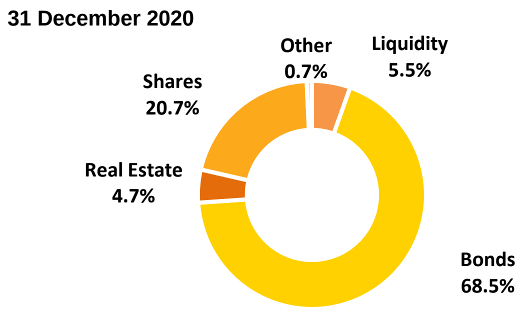
Evolution of pension liabilities in June 2021

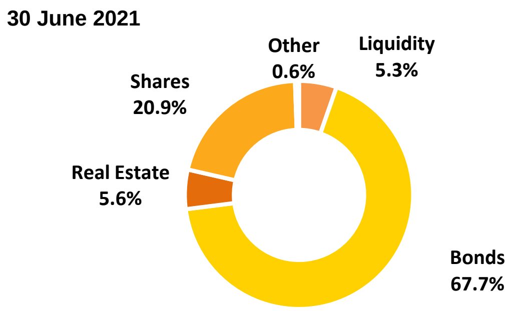


(1) Includes Pensions paid by the Fund, Pensions paid by Banco Montepio, Contribution from participants and others.

The value of the Pension Fund's assets increased by 0.9%, reaching the total value of 873.5 million euros as at 30 June 2021, compared to 865.5 million euros recorded at the end of 2020, continuing to show a conservative distribution, with 67.7% of these assets invested in Bonds compared to 68.5% as at 31 December 2020.

Distribution of the pension fund assets portfolio





The evolution of the key indicators of the Pension Fund with reference to December 2020 and June 2021 are presented below, namely its liabilities, assets and their financing levels.

PENSION FUND

(million euros)

	Dec-20	Jun-21	Y.t.D. Change	
			Amount	%
Total liabilities	874.9	830.3	(44.6)	(5.1)
Minimum liabilities to be financed	851.5	808.9	(42.6)	(5.0)
Value of the Pension Fund's assets	865.5	873.5	8.0	0.9
Coverage:				
Minimum liabilities (1)	102.7%	109.0%	6.3 p.p.	
Total liabilities (1)	100.0%	106.2%	6.2 p.p.	

(1) Also considering, in Dec-20 and Jun-21, 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 106.2% as at 30 June 2021.

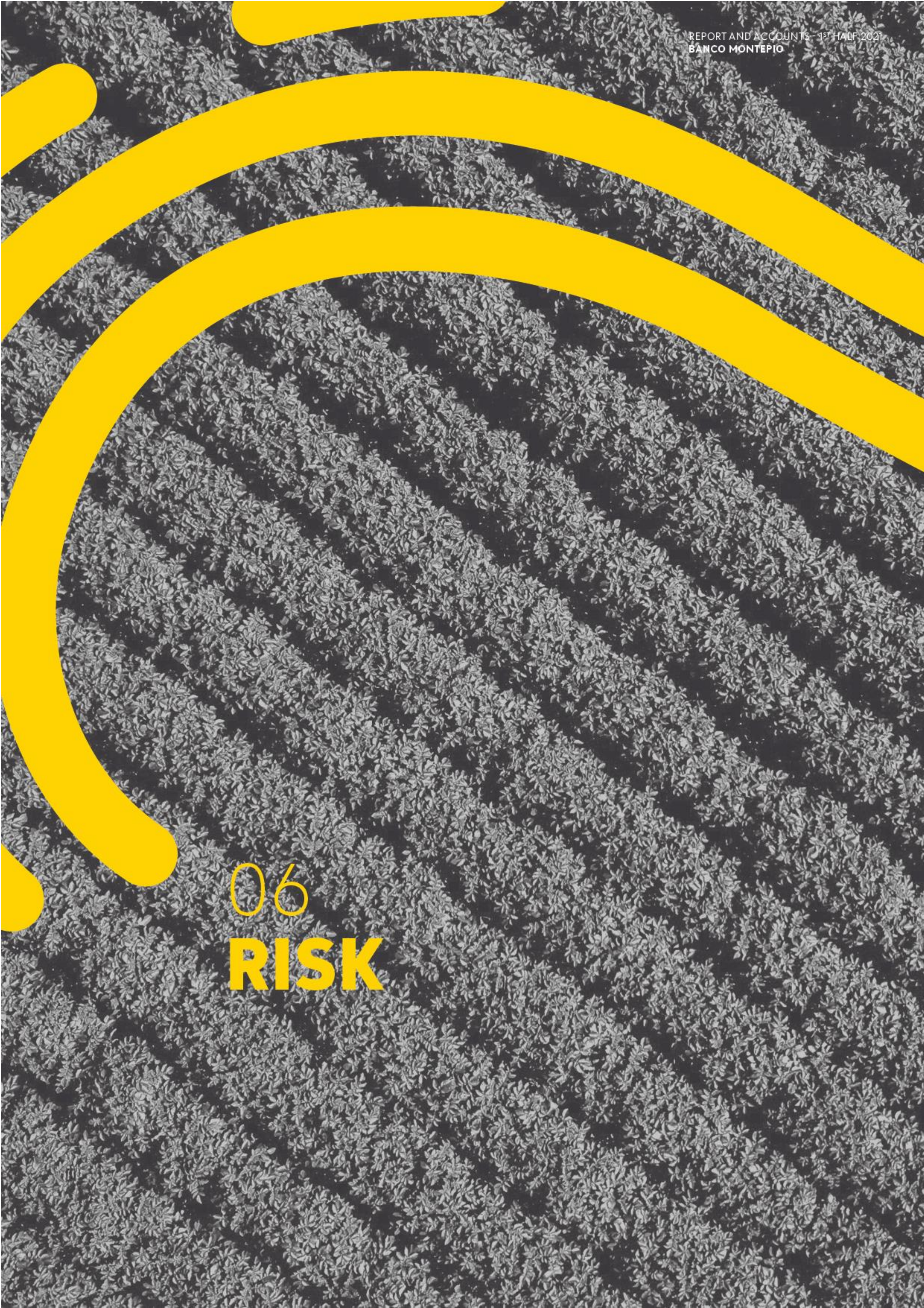
Pursuant to Banco Montepio's accounting policy, and following the appraisal made on the adequacy of the actuarial assumptions, the discount rate was changed to 1.50% as at 30 June 2021, compared to 1.15% as at 31 December 2020, taking into account the evolution occurred in the key market indices related to high quality bonds and the duration of the Pension Fund's liabilities. As at 30 June 2021, the average duration of the liabilities related to Bank Montepio Group Employee pensions was 18 years (19.0 years as at 31 December 2020), including actively employed and pensioners.

The main actuarial assumptions used to determine the liabilities in December 2020 and June 2021 are presented in the following table. The information is supplemented by the details presented in Note 50 to the consolidated financial statements.

ACTUARIAL ASSUMPTIONS

	Dec-20	Jun-21
Financial Assumptions		
Salary growth rate	0.50%	0.50%
Pension growth rate	0.30%	0.30%
Rate of return of the Fund	1.15%	1.50%
Discount rate	1.15%	1.50%
Revaluation rate	0.00%	0.00%
Salary growth rate - Social Security	1.25%	1.25%
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) Projected Unit Credit method.



06
RISK

RISK

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 as well as for the different entities comprising the Group.

INTERNAL CONTROL SYSTEM

In line with Banco de Portugal Notice 3/2020 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, namely: 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 Board of Directors, and should not affect the Institution's financial situation.

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

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

The risk function operates as a second line of defence of the internal control system, ensuring the existence of an appropriate risk management system and aimed at obtaining a vision of the Institution's overall risk profile, 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.

Under the risk management function, the following developments that place in the first half of 2021 are highlighted:

- Review of the Credit Risk Policy and Regulation;
- Review of the scoring and rating models;
- Adjustment of processes to the activity of BEM, in accordance with the new strategy;
- Continuation of the reinforcement and improvement of the risk management information system and reporting produced by the Risk Department (DRI);
- Continuation of the updating and review of internal rules and regulations on various processes related to risk;
- Implementation of new regulatory requirements under CRR II;
- Pursuit of the strengthening of the processes for calculation and reporting interest rate risk, pursuant to Banco de Portugal Instruction 34/2018 and most recent EBA guidelines; and
- Review and updating of the Bank's risk classification, as well as the process of identification of material risks.

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 risk. For the purpose of compliance and reputational risk management, Banco Montepio has a Policy and Methodological Approach for Compliance Risk Management and a Policy and Methodological Approach for Reputation Risk Management, both of which are communicated to all the institution's employees. These policies support the adoption 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 independently, reporting to the Board of Directors and the Audit Committee on relevant matters such as approval of the activities and training plan, the budget, as well as compliance policies, and also on any indications of breach of legal obligations or rules of conduct that may cause Banco Montepio and/or the Banco Montepio Group Companies to incur in unlawful conduct of the nature of an administrative offence.

The implemented 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 with products and services with the consolidation of the process of prior analysis and monitoring of the offer of products and services of Banco Montepio, duties of disclosure of information to Customers and, in general, providing specialized support on matters of control and compliance.

At the beginning of 2021, the compliance function underwent an internal reorganisation, aimed at separating the compliance management function from the compliance and reputational risk management function, in order to strengthen the control and monitoring processes *a posteriori*, with the compliance management processes continuing to be more based on prior controls and advising on regulatory issues, in a separate area. At the monitoring level, the mechanisms to monitor the Banco Montepio Group branches were strengthened (from the compliance perspective), with a reporting package having been implemented that seeks to obtain information to carry out compliance risk management from a consolidated standpoint. These changes also seek to accommodate the new legal and regulatory requirements, especially those arising from the implementation of Banco de Portugal Notice 3/2020, with the Compliance Department henceforth comprising a separate department to support the management of the internal control system. This department aims to foster the appropriate and effective management of the internal control system, in close articulation with the internal control functions, being particularly responsible for the integrated and overall monitoring and centralising of the internal control flaws and corresponding action plans, striving to ensure their implementation and conducting their regular follow-up.

Under anti-money laundering and counter terrorist financing (ML/TF), special note is made of the change of the structure of the Prevention of Financial Crime Department, with the creation of filtering, monitoring, Customers and counterparts, and prevention of market abuse units. Reference is also made to the mechanisms of control of politically expose persons, and the continuous improvement of the implemented processes and controls.

At the Banco Montepio Group, the internal audit function is carried out by the Audit and Inspection Department (DAI) of Banco Montepio, which, under a perspective of shared services, carries out the audit function for all the other entities of the Group, with the exception of external entities in which there is a specific audit function. In this situation, the Audit and Inspection Department carries out the corporate function, through the functional coordination of the local audit function, in order to ensure the alignment of practices and procedures at a Group level, including the conduct of local audit actions.

In terms of mission, the internal audit function assists 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 is an integral part of the process of monitoring the organisational culture, the governance and internal control systems and, as a third line of defence, conducts independent and risk-oriented assessments of the activities, systems and processes, including the risk management function and the compliance function.

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 Board of Directors and monitoring by the Supervisory Board.

RISK MANAGEMENT GOVERNANCE MODEL

At Banco Montepio, the risk management function is the responsibility of the Risk Department (DRI), the organic unit that conducts 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 Audit Committee, as the supervisory body of Banco Montepio, and the Board of 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 each 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 internal control systems, the drafting of opinions on the policies and procedures supporting the systems of risk management prior to approval by the Board of Directors, of control of conformity (compliance) and on 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.

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 Credit Committee (COMCRED) holds weekly meetings, where loan operations area appraised and decided in accordance with the policy and regulation on loan concession. The Assets and Liabilities Committee (COMALCO) is responsible for following up the management of Capital, Balance Sheet and Profit and Loss Account. 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 (COMIMP), in the Non-Performing Asset Monitoring Committee (COMAANP), in the Business Committee (COMNEG), in the Pension Fund Monitoring Committee (COMAFP), as well as in the regular meetings of the Crisis Management Office, and business recovery, activated under the Bank's response to the Covid-19 pandemic crisis in order to ensure the operational continuity of the Bank's critical functions and business continuity.

Risk Department (DRI)

The Risk Department (DRI) is Banco Montepio’s unit responsible for performing the risk management function, being entrusted with monitoring all the financial and operational risks, exercising its function in an independent manner and in conformity with best practices and the regulatory requirements.

The Risk Department carries out the analysis and management of risks, providing advice to the Board of Directors, 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 a set of prudential reports to the supervision authority, namely in the area of own fund requirements, control of major risks, liquidity risk, interest rate risk, counterparty risk, monitoring of the evolution of the impact of the Covid-19 pandemic in the financial statements and in the operational processes of the Bank, internal capital and liquidity adequacy assessment, Market Discipline, Recovery Plan and Resolution Plan.

Subsidiary Companies

In order to ensure an effective management of the risks associated with 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 Board of Directors 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 (GVM) 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 2021, the Model Validation Office completed a series of validation procedures relative to various models, among which particular reference is made to the regular validation of the models, methods and results of the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP), and the initial validation of the Bank’s calibration and Master scale methodology.

With respect to its overall function of management of the Group's model risk, the Model Validation Office also proceeded with the control of the inventory of models, ensuring the 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, 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. The annual report included the inventory and characterisation of the Group's models in terms of the technical specifications and risk tiering, the main activities carried out in 2020 concerning development, alteration, validation and audit of models, the planning of activities for 2021 in terms of the development, review, validation and audit of models, the current situation of insufficiencies in terms of the models issued for validation, whether identified by the Model Validation Office, by the Internal Audit function or by external entities, and the overall assessment of model risk through the qualitative assessment of the model risk and situations of overrunning the defined model risk limits.

Information Management

Banco Montepio has defined a data policy and the respective implemented operative model. This 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 were reviewed and aligned pursuant to Banco de Portugal Notice 3/2020. During the first half of 2021, the investments continued in the modernisation of the technological infrastructure and in software tools to support the governance and data quality processes.

The Information Management Office, responsible for the implementation of the data policy, saw its team strengthened in this adverse scenario, demonstrating Banco Montepio's commitment to effectively support as data management strategy and its commitment to the information's reliability, timeliness and quality in supporting the decision-making process and in its response to the internal and external reporting requirements, ensuring 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 2021, 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.

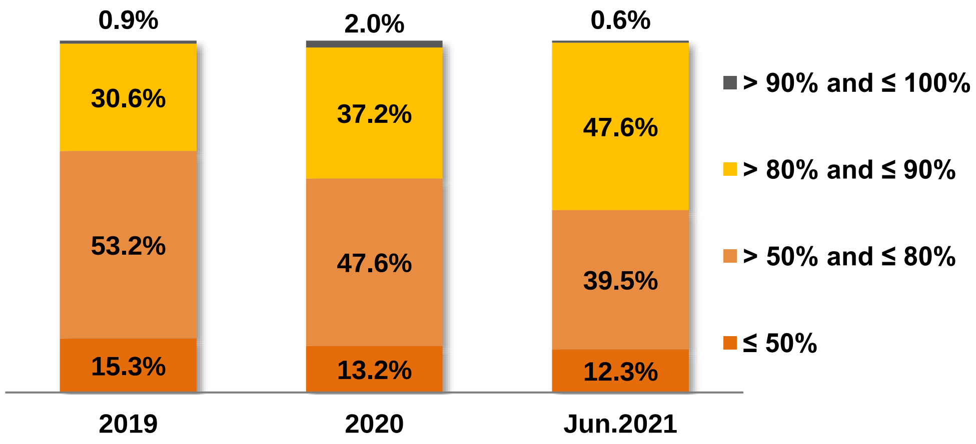
The decision-making process for loan operations is based on a series of policies using scoring models for the retail and business portfolios and rating models for the corporate segment. These models, developed based on internal historical data, enable obtaining an assessment which is reflected in the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

In the mortgage loan segment, the loans granted in the first half of 2021 recorded an increase, in relation to 2020, of the Loan-to-Value (LTV) ratio (the loan value divided by the valuation of the collateral), to 77.6% (73.1% in 2020 and 71.6% in 2019), 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 2021, the weight of the non-performing exposures (NPE) measured based on the heading of Gross loans to customers decreased by 1.1 p.p. in relation to 31 December 2020, to stand at 9.3%. This evolution was driven by the positive effect of the reduction of non-performing exposures by 146 million euros, notwithstanding the reduction of the portfolio of loans to customers of 39 million euros in the period.

The amount of impairments for credit risk reached 660 million euros as at 30 June 2021, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 131.3%, a reinforcement of 6.9 p.p. in relation to 2020. Moreover, the coverage of non-performing exposures stood at 57.7%, while the coverage ratio, also considering the associated total collateral and financial guarantees, reached 95.9%.

CREDIT QUALITY INDICATORS

(million euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21	Y.o.Y. Change		Y.t.Y. Change	
					Amount	%	Amount	%
Gross loans to customers	12 417	12 451	12 357	12 318	(133)	(1.1)	(39)	(0.3)
Loans and interest overdue by more than 90 days	702	705	627	503	(202)	(28.7)	(124)	(19.8)
Loans impairment	863	869	780	660	(209)	(24.0)	(120)	(15.3)
Ratios (%)								
Cost of credit risk	1.8	1.8	1.5	0.9	(0.9 p.p.)		(0.6 p.p.)	
Loans and interest overdue by more than 90 days	5.7	5.7	5.1	4.1	(1.6 p.p.)		(1.0 p.p.)	
Non-performing exposures (NPE) [(a)] / Gross loans to customers	11.9	12.0	10.4	9.3	(2.7 p.p.)		(1.1 p.p.)	
Forborne exposures [(a)] / Gross loans to customers	7.4	7.4	6.6	5.9	(1.5 p.p.)		(0.7 p.p.)	
Coverage by Impairments for balance sheet loans (%)								
Loans and interest overdue by more than 90 days	122.9	123.2	124.4	131.3	8.1 p.p.		6.9 p.p.	
Non-performing exposures (NPE) [(a)]	58.4	58.2	60.4	57.7	(0.5 p.p.)		(2.7 p.p.)	
Non-performing exposures (NPE) [(a)], also including associated collaterals and financial guarantees	89.9	90.0	93.0	95.9	5.9 p.p.		2.9 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 commodities risk.

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

The 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.

A summary of the value at risk (VaR) indicators in December 2020 and June 2021 is presented below:

VaR INDICATORS [(1)]

	Jun-21		Dec-20	
	Banking Book	Trading Portfolio	Banking Book	Trading Portfolio
Market VaR [(1) (2) (3)]	**1.25%**	**1.60%**	**3.78%**	**20.52%**
Interest Rate Risk	0.81%	1.08%	2.31%	0.40%
Exchange Rate Risk	0.00%	0.53%	0.00%	2.06%
Price Risk	0.01%	0.97%	0.00%	20.55%
Credit risk (spread)	0.78%	0.55%	3.19%	0.73%
Commodity Risk	0.00%	0.00%	0.00%	0.00%

(1) 10-day time horizon and significance level of 99%; As a Percentage of total portfolio assets; Includes the portfolios of BM and BEM.
(2) Includes diversification effect.
(3) Excludes positions of Finibanco Angola.

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

EXCHANGE RATE RISK

Concerning the exchange rate risk of the banking book, in general, the different resources captured in different currencies are invested in assets in the respective money market for maturity periods that are not higher than those of the resources. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources. The current foreign exchange exposure of the Bank Montepio Group in consolidated terms is essentially the result of 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 (ALCO), where any overrunning of the established limits follows an established circuit, including approval by the Board of Directors 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 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 (ALCO), where any overrunning of the established limits, even if temporary, requires the approval of the Board of Directors 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.

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 weekly, with various reports being prepared for control and monitoring purposes and to support decision-taking within the ALCO Committee. 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 2021, the liquidity gaps up to 12 months were as presented in the table below.

LIQUIDITY POSITION GAPS IN JUNE 2021

(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	3 571	3 563	3 546	3 520	3 469

Customer resources constitute the main source of funding, accounting for 69.7% of total funding sources in June 2021.

Liabilities	%
Resources from central banks	15.9%
Resources from other credit institutions	3.9%
Resources from customers	69.7%
Debt securities issued	7.1%
Other liabilities	3.4%
Total	**100.0%**

The Liquidity Coverage Ratio (LCR) reached 261.0% in June of 2021, 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%.

The Net Stable Funding Ratio (NSFR) stood at 120.6% in June 2021, compared to the minimum requirement of 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 investment fund 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 2021, the Bank Montepio Group's exposure to real estate risk, in the components described above, fell by approximately 102.1 million euros, in shifting from 945.9 million euros at the end of 2020 to 843.8 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 2021, the accumulated negative actuarial deviation of the Pension Fund stood at 239.6 million euros, compared to 301.2 million euros in December 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.

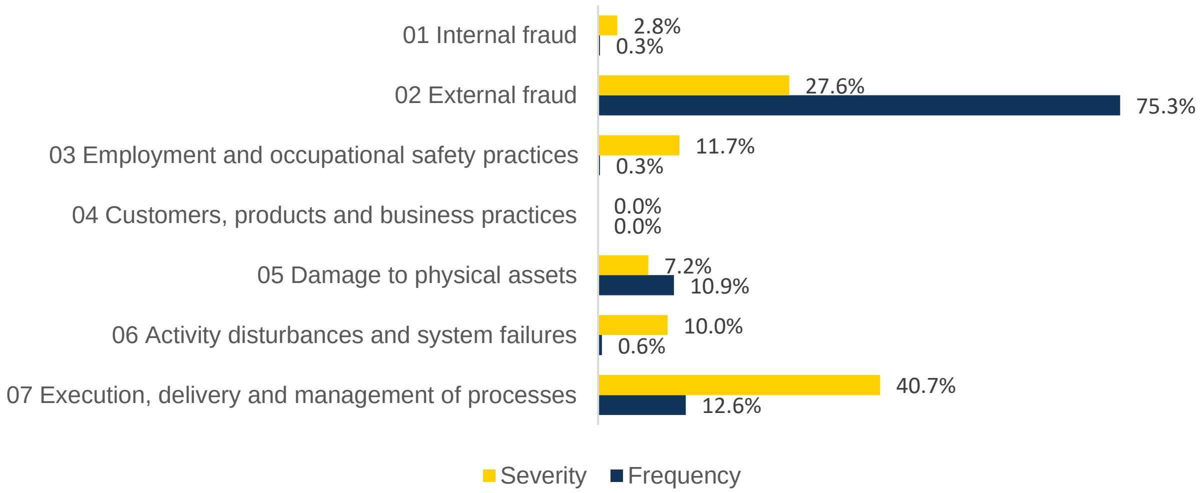
The Risk Department performs the corporate function of operational risk management for Banco Montepio This is supported by specific employees within different organic units that assure the appropriate implementation of the operational risk management.

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 2021, the profile of the loss events maintained an inversely proportional relationship between the frequency and severity of the losses, typical of Operational Risk, where, on the one hand, 6% of the events with financial impact represent more than 80% of the total net loss and, on the other hand, 94% are responsible for merely 20% of the severity.

In the first half of 2021, there was an increase of events related to external fraud, acts of vandalism, both in terms of quantity and value. On the other hand, events related to the incorrect implementation of processes fell, both in frequency and severity.

Operational Risk Typologies by Frequency and Severity
1st half 2021



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

Monitoring

Under the Operational Risk Management System of Banco Montepio, the key risk indicators (KRI) seek to monitor the factors of exposure associated with 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, the defined limits were regularly monitored and action plans were promoted in the cases where these limits were surpassed.

These indicators are part of the Operational Risk Reports submitted to the Risk Committee and Executive Committee.

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.

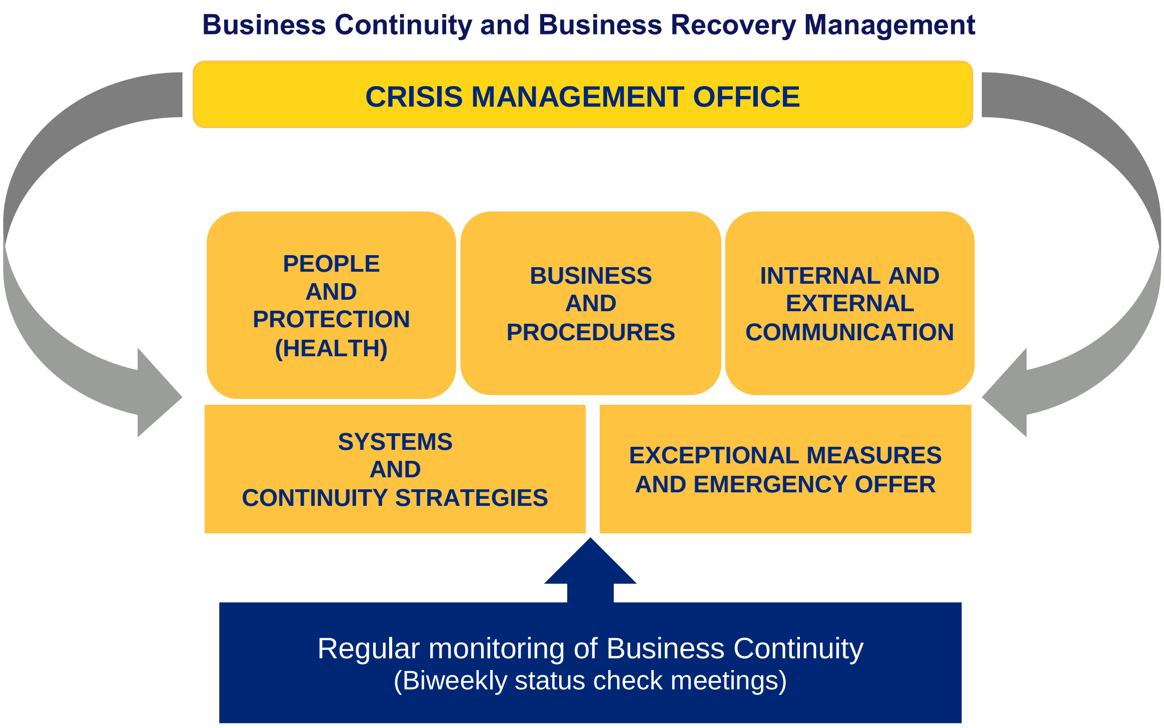
Business Continuity Management

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 epidemiological situation related to the Covid-19 pandemic continued to mark the activity of the first half of 2021. Banco Montepio maintained an ongoing monitoring of the rules issued of the Directorate General for Health, considering the necessary adaptation to them whenever required.

The Crisis Management Office, which is responsible for the management of the crisis, for the management and implementation of the Operational Continuity Plans and for the coordination of the business recovery teams, continued to function on a biweekly basis, ensuring operational continuity and the monitoring and follow-up of business recovery.

Banco Montepio ha always followed a conservative strategy based on the fundamental principle of protecting the safety and health of its Customers and Employees.



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 Board of Directors.

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 taxonomy, in alignment with Banco de Portugal Instruction 18/2020. 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.

RISK RATINGS

Rating events relative to the first half of 2021

In the first half of 2021, Banco Montepio did not receive any changes to the risk ratings attributed and confirmed by Fitch Ratings, DBRS Morningstar and Moody's on 23 October 2020, 16 December 2020 and 25 March 2021, respectively.

The risk ratings attributed to Banco Montepio by the rating agencies as at 30 June 2021 and 30 June 2020 are presented in the table below:

Rating Agencies	Covered Bonds (CPT) (1)		Long-term (2)		Deposits		Outlook	
	30 June 2020	**30 June 2021**	30 June 2020	**30 June 2021**	30 June 2020	**30 June 2021**	30 June 2020	**30 June 2021**
Fitch Ratings	AA-	**AA-**	B-	**B-**	B	**B**	Negative	**Negative**
Moody's Investors Service	A1	**A1**	b3	**b3**	B1	**B1**	Stable	**Stable**
DBRS Ratings Limited	BBB (high)	**BBB (high)**	B	**B**	B (high)	**B (high)**	Negative	**Negative**

(1) Conditional Pass-through Covered Bond Programme.
(2) Issuer Default Rating (IDR) by Fitch, Baseline Credit Assessment (BCA) by Moody's and Intrinsic Assessment (IA) by DBRS.

However, after the closure of the first half of 2021, DBRS and Fitch Ratings reconfirmed their ratings attributed to Banco Montepio; DBRS in a press release dated 2 July 2021 and Fitch Ratings through a Rating Report update disclosed on 13 July 2021.

Furthermore, in a press release dated 13 July 2021, the financial rating agency Moody's made an upward revision of the risk rating of senior unsecured bonds (Senior Unsecured MTN) and senior non-preferred debt (Junior Senior Unsecured MTN), issued under Banco Montepio's Euro Medium Term Note (EMTN) Programme, from (P)Caa1 to (P)B3, following the review of the methodology in the analysis of the banks, in order to more suitably reflect the risk of these classes of debt.

07
REGULATORY INFORMATION

CONSOLIDATED FINANCIAL STATEMENTS

Banco Montepio

Interim Consolidated Balance Sheet at 30 June 2021 and 31 December 2020

(Euro thousand)

	Jun 2021	Dec 2020
Assets		
Cash and deposits at central banks	2 553 842	1 466 250
Loans and deposits to credit institutions payable on demand	55 870	33 660
Other loans and advances to credit institutions	296 121	293 004
Loans and advances to customers	11 657 532	11 577 702
Financial assets held for trading	30 787	16 923
Financial assets at fair value through profit or loss	289 795	346 892
Financial assets at fair value through other comprehensive income	229 610	286 797
Hedging derivatives	10 726	10 693
Other financial assets at amortized cost	2 813 935	2 362 616
Investments in associated companies	3 762	3 872
Non-current assets held for sale	5 554	5 484
Ativos não correntes detidos para venda - operações em descontinuação	1 624	1 310
Investment properties	115 200	125 893
Other tangible assets	236 803	259 162
Intangible assets	32 850	35 829
Current tax assets	3 774	3 584
Deferred tax assets	493 572	496 223
Other assets	629 051	615 112
Total Assets	19 460 408	17 941 006
Liabilities		
Deposits from central banks	2 879 434	1 382 545
Deposits from other credit institutions	713 252	820 638
Deposits from customers	12 623 152	12 501 973
Debt securities issued	1 276 239	1 299 188
Financial liabilities held for trading	12 174	13 598
Hedging derivatives	347	397
Non-current liabilities held for sale - discontinued operations	105 458	109 619
Provisions	30 851	38 654
Current tax liabilities	1 703	4 486
Other subordinated debt	211 159	216 896
Other liabilities	255 894	225 853
Total Liabilities	18 109 663	16 613 847
Shareholders' Equity		
Share capital	2 420 000	2 420 000
Other equity instruments	-	-
Fair value reserves	8 882	(28 295)
Other reserves and Retained earnings	(1055 007)	(993 159)
Consolidated net income for the period attributable to the Shareholder	(33 002)	(80 686)
Total equity attributable to shareholders	1 340 873	1 317 860
Non-controlling Interests	9 872	9 299
Total equity capital	1 350 745	1 327 159
Total liabilities and equity	19 460 408	17 941 006

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

Banco Montepio

Interim Consolidated Income Statement for the six months periods ended on 30 june 2021 and 2020

(Euro thousand)

	Jun 2021	Jun 2020 (Restated)
Interest and similar income	144 737	153 259
Interest and similar expense	30 483	31 958
Net interest income	114 254	121 301
Dividends from equity instruments	1 747	1 719
Net fee and commission income	54 907	55 445
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(6 546)	(11 931)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	526	18 836
Net gains/(losses) arising from exchange differences	2 739	6 953
Net gains/(losses) arising from sale of other financial assets	19 089	9 146
Other operating income/(expense)	(27 178)	(20 357)
Total operating income	159 538	181 112
Staff costs	79 522	80 806
General and administrative expenses	31 993	33 368
Depreciation and amortization	17 817	16 808
Total operating costs	129 332	130 982
Impairment of loans and advances to customers and to credit institutions	55 065	108 757
Impairment of other financial assets	2 994	5 791
Impairment of other assets	9 513	5 475
Other provisions	(6 864)	2 452
Operating income	(30 502)	(72 345)
Share of profits/(losses) booked under the equity method	(233)	(330)
Profit/(loss) before income tax	(30 735)	(72 675)
Income Tax		
Current	50	210
Deferred	(1 215)	23 466
Profit/ (loss) after income tax from continuing operations	(31 900)	(48 999)
Profit/ (loss) from discontinued operations	(752)	(1 059)
Consolidated net income after income tax	(32 652)	(50 058)
Consolidated net income for the period attributable		
to the shareholders	(33 002)	(51 291)
Non-controlling Interests	350	1 233
Earnings per share (in Euro)	(32 652)	(50 058)
Earnings per share (in Euro)		
From continuing operations		
Basic	(0.013)	(0.020)
Diluted	(0.013)	(0.020)
From discontinued operations		
Basic	(0.000)	(0,001)
Diluted	(0.000)	(0,001)

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

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 the first half of 2021 financial information, with references to the various chapters of this Report.

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS	
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 117 (notes 23, 24, 25, 27)

Components and calculus

(thousand euros)

		Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a)	Financial assets held for trading	43 955	43 955	16 923	30 787
(b)	Financial assets at fair value through other comprehensive income	1 199 387	1 199 444	286 797	229 610
(c)	Other financial assets at amortised cost	1 703 767	1 779 923	2 362 616	2 813 935
(d)	Financial assets at fair value through profit or loss*	371 469	371 469	346 892	289 795
(e)	Securities portfolio and other financial assets* (a + b + c + d)	3 318 578	3 394 791	3 013 228	3 364 127
(f)	Total net assets	17 882 093	17 882 093	17 941 006	19 460 408
	% Securities portfolio and other financial assets (e / f)	18.6%	19.0%	16.8%	17.3%

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

OTHER INVESTMENTS

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 117, (notes 20, 21, 22, 23, 24, 25, 27)

Components and calculus

(thousand euros)

		Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a)	Total net assets	17 882 093	17 882 093	17 941 006	19 460 408
(b)	Cash and deposits at central banks and loans and advances to credit institutions	1 249 803	1 285 554	1 792 914	2 905 833
(c)	Net loans to customers	11 554 304	11 581 882	11 577 702	11 657 532
(d)	Financial assets held for trading	43 955	43 955	16 923	30 787
(e)	Financial assets at fair value through other comprehensive income	1 199 387	1 199 444	286 797	229 610
(f)	Other financial assets at amortised cost	1 703 767	1 779 923	2 362 616	2 813 935
(g)	Financial assets at fair value through profit or loss	371 469	371 469	346 892	289 795
(h)	Other investments (a - b - c - d - e - f - g)	1 759 408	1 619 866	1 557 162	1 532 916
	% of Other investments (h / a)	9.8%	9.1%	8.7%	7.9%

DEBT ISSUED

Definition	Sum of the balance sheet items 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Sum of the balance sheet items 'Debt securities issued' and 'Other subordinated debt'.
Reference to FSNO	Page 117, (notes 38, 40)

Components and calculus

(thousand euros)

		Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a)	Debt securities issued	1 327 340	1 327 340	1 299 188	1 276 239
(b)	Other subordinated debt	211 164	211 164	216 896	211 159
(c)	Debt issued (a + b)	1 538 504	1 538 504	1 516 084	1 487 398
(d)	Total liabilities	16 523 344	16 523 344	16 613 847	18 109 662
	% of Debt issued (c / d)	9.3%	9.3%	9.1%	8.2%

Complementary resources

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 117, (notes 35, 36, 37, 38, 40)

Components and calculus

(thousand euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a) Total liabilities	16 523 344	16 523 344	16 613 847	18 109 662
(b) Central bank resources and OCI	2 172 027	2 172 808	2 203 183	3 592 686
(c) Customer resources	12 421589	12 383 553	12 501973	12 623 152
(d) Debt securities issued	1327 340	1327 340	1299 188	1276 239
(e) Other subordinated debt	211164	211164	216 896	211159
(f) Complementary resources (a - b - c - d - e)	391224	428 479	392 607	406 426
% of Complementary resources (f / a)	2.4%	2.6%	2.4%	2.2%

Off-balance sheet resources

Definition	Assets under management by the Groups' subsidiaries being a constituent part of Total customers resources. Excluding securities investment funds and real estate investment funds included in the Bank's own portfolio.
Relevance	Contribute to the analysis of the evolution of total customers resources.
Reference to FSNO	(note 51)

Components and calculus

	Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a) Securities investment funds	156 217	156 217	158 724	157 911
(b) Real estate investment funds	394 713	394 713	417 915	468 951
(c) Pension funds	243 155	243 155	265 616	275 296
(d) Capitalization Insurance	963	963	955	898
Off-balance sheet resources (a + b + c + d)	795 048	795 048	843 210	903 056

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME

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-20	Jun-20 Restated	Dec-20	Jun-21
(a) Interest received from loans to customers	128 914	132 020	267 459	127 376
(b) Interest paid on customers' deposits	11 026	10 782	19 454	6 016
Commercial net interest income (a - b)	117 888	121 238	248 005	121 360

OPERATING COSTS

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 117, (notes 11, 12, 13)

Components and calculus

(thousand euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a) Staff costs	78 819	80 806	189 255	79 522
(b) General and administrative expenses	32 503	33 368	66 989	31 994
(c) Depreciation and amortisation	16 176	16 808	35 118	17 817
Operating costs (a + b + c)	127 498	130 982	291 362	129 333

RESULTS FROM THE COMMERCIAL ACTIVITY

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 117 (notes 3, 5, 11, 12, 13)

Components and calculus

(thousand euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a) Commercial net banking income	117 888	121 238	248 005	121 360
(b) Net commissions	56 127	55 445	115 311	54 907
(c) Operating costs	127 498	130 982	291 362	129 332
Results from the commercial activity (a + b - c)	46 517	45 701	71 954	46 935

RATIOS

LOAN-TO-DEPOSIT RATIO: NET LOANS TO CUSTOMERS / ON-BALANCE SHEET CUSTOMER RESOURCES

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 117, (notes 22, 37, 38)

Components and calculus

(thousand euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a) Net loans to customers	11 554 304	11 581 882	11 577 702	11 657 532
(b) Customer resources	12 421 589	12 383 553	12 501 973	12 623 152
(c) Debt securities issued	1 327 340	1 327 340	1 299 188	1 276 239
Net loans to customers / On-balance sheet customer resources (a / (b + c))	**84.0%**	**84.5%**	**83.9%**	**83.9%**

EFFICIENCY RATIO: COST TO INCOME, WITHOUT SPECIFIC IMPACTS

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 117 (notes 6,7,8, 9, 10, 11, 12, 13)

Components and calculus

(thousand euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a) Total operating income	168 855	181 112	393 744	159 538
(b) Results from financial operations (i + ii + iii)	7 173	13 858	17 862	(3 281)
(i) Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(11 931)	(11 931)	(18 695)	(6 546)
(ii) Net gains / (losses) from financial assets at fair value through other comprehensive income	18 836	18 836	23 693	526
(iii) Net gains / (losses) from foreign exchange differences	268	6 953	12 864	2 739
(c) Other income (i + ii)	(10 843)	(11 211)	14 725	(8 088)
(i) Net gains / (losses) arising from the sale of other financial assets	9 146	9 146	43 020	19 089
(ii) Other operating income / (expenses)	(19 989)	(20 357)	(28 295)	(27 177)
(d) Operating costs, excluding specific impacts 1)	127 498	130 982	261 862	125 233
Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	**73.9%**	**73.4%**	**72.5%**	**73.3%**

1) Excluding the amount related to the increase in Personnel Costs and in General and administrative expenses generated by operational adjustment measures of 29.5 M€ in the 4th quarter of 2020 and 4.1 M€ in the 1st half of 2021.

Cost of credit risk

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-20	Jun-20 Restated	Dec-20	Jun-21
(a)	Impairment of loans and advances to customers and to credit institutions (annualized[1])	219 363	218 709	185 126	111 042
(b)	Average gross loans to customers[2]	12 327 936	12 371 038	12 416 390	12 421 165
	Cost of credit risk (a / b)	**1.8%**	**1.8%**	**1.5%**	**0.9%**

1) Annualized values considering the total number of days elapsed and total days of the year.
2) Average balance for period (Jun-20: 365 days / Dec-20: 365 days / Jun-21: 365 days).

Ratio of loans and interest overdue by more than 90 days

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-20	Jun-20 Restated	Dec-20	Jun-21
(a)	Loans and interest overdue by more than 90 days	701 631	705 055	626 784	502 824
(b)	Gross loans to customers	12 416 934	12 450 594	12 357 216	12 317 610
	Ratio of loans and interest overdue by more than 90 days (a / b)	**5.7%**	**5.7%**	**5.1%**	**4.1%**

Coverage of loans and interest overdue by more than 90 days by impairment for balance sheet

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-20	Jun-20 Restated	Dec-20	Jun-21
(a)	Impairment for credit risk (balance sheet)	862 630	868 712	779 514	660 078
(b)	Loans and interest overdue by more than 90 days	701 631	705 055	626 784	502 824
	Coverage of loans and interest overdue by more than 90 days (a / b)	**122.9%**	**123.2%**	**124.4%**	**131.3%**

Non-performing exposures / Gross loans to customers

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-20	Jun-20 Restated	Dec-20	Jun-21
(a) Stock of Non-performing exposures	1 477 134	1 492 862	1 289 555	1 143 984
(b) Gross loans to customers	12 416 934	12 450 594	12 357 216	12 317 610
Non-performing exposures / Gross loans to customers (a / b)	11.9%	12.0%	10.4%	9.3%

Non-performing exposures net of Impairment for balance sheet loans / Gross loans to customers

Definition	Ratio that measures the quality of the loan portfolio.
Relevance	Measure the proportion of non-performing exposures (NPE, according to EBA's definition) net of Impairment for balance sheet loans in relation to the total customer loan portfolio.
Reference to FSNO	(note 55)

Components and calculus

(thousand euros)

	Jun-20	Jun-20 Restated	Dec-20	Jun-21
(a) Stock of Non-performing exposures	1 477 134	1 492 862	1 289 555	1 143 984
(b) Impairment for credit risk (balance sheet)	862 630	868 712	779 514	660 078
(c) Gross loans to customers	12 416 934	12 450 594	12 357 216	12 317 610
Non-performing exposures net of Impairment for credit risk / Gross loans to customers (a-b)/c	4.9%	5.0%	4.1%	3.9%

Coverage of Non-performing exposures by Impairment for balance sheet loans

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-20	Jun-20 Restated	Dec-20	Jun-21
(a) Impairment for credit risk (balance sheet)	862 630	868 712	779 514	660 078
(b) Stock of Non-performing exposures	1 477 134	1 492 862	1 289 555	1 143 984
Coverage of Non-performing exposures by Impairment for credit risk (a / b)	58.4%	58.2%	60.4%	57.7%

Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees

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-20	Jun-20 Restated	Dec-20	Jun-21
(a) Impairment for credit risk (balance sheet)	862 630	868 712	779 514	660 078
(b) Associated collaterals and financial guarantees	465 682	475 073	420 001	436 651
(c) Stock of Non-performing exposures	1477 134	1492 862	1289 555	1143 984
Coverage of Non-performing exposures by Impairment for credit risk and associated collaterals and financial guarantees ((a + b) / c)	89.9%	90.0%	93.0%	95.9%

Forborne exposures / Gross customer loans

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-20	Jun-20 Restated	Dec-20	Jun-21
(a) Stock of Forborne exposures	914 163	924 423	815 895	728 640
(b) Gross customer loans	12 416 934	12 450 594	12 357 216	12 317 610
Forborne exposures / Gross loans to customers (a / b)	7.4%	7.4%	6.6%	5.9%

GLOSSARY

ATM: Automated Teller Machine.

CET1: Common Equity Tier 1

CET1 ratio: ratio between Common equity tier 1 capital and Risk-weighted assets.

Commercial net interest income: corresponds to the difference between the Income received from Loans and advances granted to customers and the Interest paid on Customer deposits.

Cost-to-income ratio: Ratio between Operating costs and Total operating income, pursuant to Banco de Portugal Instruction 16/2004.

Coverage of loans and interest overdue by more than 90 days by Impairment for balance sheet loans: ratio between Impairment for accumulated loans (book value) and total Loans and interest overdue by more than 90 days.

Complementary resources: sum of the balance sheet headings of Financial liabilities held for trading, Hedge derivatives, Non-current liabilities held for sale - Discontinued operations, Provisions, Current tax liabilities and Other liabilities.

Cost of credit risk: ratio between the income statement heading of Impairment of loans and advances to customers and credit institutions (annualised value) and the average balance of Loans to customers (gross).

CRR quick-fix: Capital Requirements Regulation quick-fix.

Debt issued: sum of the balance sheet heading of Liabilities represented by securities and Other subordinated liabilities.

DTA: Deferred tax assets.

EBA: European Banking Authority.

EMTN: Euro Medium Term Note Programme.

Fully implemented: refers to the full implementation of the prudential rules established in the legislation in force in the European Union, that were produced based on the standards defined by the Basel Committee on Banking Supervision, in the agreements known as Basel II and Basel III.

Gross return on assets: Ratio between Net income before taxes and minority interests and Average net assets, pursuant to Banco de Portugal Instruction 16/2004.

Gross return on equity: Ratio between Net income before taxes and minority interests and Average equity, pursuant to Banco de Portugal Instruction 16/2004.

IFRS: International Financial Reporting Standards.

Impairments and provisions: sum of the income statement headings of Impairment of loans and advances to customers and credit institutions, Impairment of other financial assets, Impairment of other assets and Other provisions.

LCR ratio: Liquidity Coverage Ratio. Ratio between the Buffer of net assets and the Net outflows in a stress period of 30 days.

Leverage ratio: ratio between Tier 1 own funds and Non-weighted exposure.

Loans to customers (gross): corresponds to Loans to customers before deducting Impairment for credit risks (book value).

Loans to customers (net): corresponds to Loans to customers (gross) after deducting Impairment for credit risks (book value).

Loans and interest overdue by more than 90 days: corresponds to Loans with principal instalments or interest in arrears for a period of more than 90 days.

Loan-to-deposit ratio: ratio between Loans to customers (net) and Customer resources, pursuant to Banco de Portugal Instruction 16/2004.

Loan-to-resource ratio: ratio between Loans to customers (net) and the sum of the balance sheet heading of Customer resources and Securities placed with customers.

LTV ratio: Loan-to-value ratio, referring to the ratio between the value of the loan and the value of the real estate property given as collateral.

Net fees and commissions: corresponds to the income statement item Net fees and commissions income.

Net interest income: sum of the balance sheet headings of Interest and similar income and Interest and similar expenses.

NPE: Non-performing exposures (as defined by the EBA).

NPE coverage by Impairment of balance sheet loans: ratio between the sum of the accumulated impairment for loans (book value) and the balance of non-productive exposures (NPE, as defined by the EBA).

NPE coverage by impairment of balance sheet loans and associated collateral and financial guarantees: ratio between the sum of the accumulated impairment for loans (book value) and their associated collateral and financial guarantees and the balance of non-productive exposures (NPE, as defined by the EBA).

NPE ratio: ratio between the non-performing exposures (NPE, as defined by the EBA), net of accumulated loan impairment (book value), and total Loans to customers (gross).

NPL: Non-performing loans (as defined by the EBA).

NSFR ratio: Net stable funding ratio. Ratio between available stable funding and required stable funding.

OCR: Overall capital requirements.

Off-balance sheet customer resources: corresponds to the Disintermediation resources managed by the Group's companies (assets under management), excluding securities investment funds and real estate investment funds in its own portfolio, i.e., the sum of the Securities investment funds and Real estate investment funds, Pension funds and Capitalisation insurance.

On-balance sheet customer resources: sum of the balance sheet heading of Customer resources and Securities placed with customers.

Operating costs: sum of the income statement headings of Staff costs, General and administrative expenses, and Depreciation and amortisation.

Operating income before impairment: sum of the income statement headings of Net interest income, Net fees and commissions, Income from equity instruments, Results from financial operations, Other operating income, Net gains from the sale of other assets, Staff costs, General and administrative expenses, and Depreciation and amortisation.

Other assets: sum of the income statement heading of Hedge derivatives, Non-current assets held for sale, Non-current assets held for sale - Discontinued operations, Investment properties, Other tangible assets, Intangible assets, Investments in associates, Current tax assets, Deferred tax assets and Other assets.

Other impairments and provisions: sum of the income statement headings of Impairment of other financial assets, Impairment of other assets and Other provisions.

Other results: sum of the income statement headings of Net gains from the sale of other assets and Other operating income.

Outlook: forward-looking perspective.

Performing loans: corresponds to Loans to customers (gross) after deducting non-performing exposures (as defined by the EBA).

Phasing-in: transitional period. This refers to the phased implementation of the prudential rules under the terms established in the legislation in force in the European Union.

POS: Point of Sale, referring to an automatic payment terminal.

Ratio of forborne exposures: Ratio between deferred exposures (forborne exposures, as defined by the EBA) and Loans to customers (gross).

Ratio of loans and interest overdue by more than 90 days: Ratio between Loans and interest overdue by more than 90 days and Loans to customers (gross).

Results from commercial activity: sum of the income statement headings of Interest and similar income, Interest and similar expenses, Net fees and commissions, Staff costs, General and administrative expenses, and Depreciation and amortisation.

Results from financial operations: sum of the income statement headings of Net gains/(losses) from financial assets and liabilities at fair value through profit or loss, Net gains/(losses) from financial assets at fair value through other comprehensive income, and Net gains/(losses) from foreign exchange difference.

RWA: Risk-Weighted Assets.

Securities portfolio: sum of the balance sheet headings of 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.

Tier 1 ratio: ratio between Tier 1 own funds and Risk-weighted assets.

TLTRO: Targeted Longer-Term Refinancing Operations.

Total capital ratio: ratio between Total own funds and Risk-weighted assets.

Total customer resources: sum of On-balance sheet customer resources and Off-balance sheet customer resources.

Total operating income: sum of the income statement headings of Net interest income, Net fees and commissions, Income from equity instruments, Results from financial operations, Other operating income and Net gains from the sale of other assets.

Write-offs: Loans written off from the assets. The Group recognises a loan written off from the assets when it has no reasonable expectation of totally or partially recovering that asset. This recording takes place after all the recovery actions implemented by the Group have proved fruitless. Loans written off from the assets are recorded in off-balance sheet accounts.

PART II

INTERIM CONDENSED 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

Banco Montepio

Interim Consolidated Income Statement for the six months periods ended on 30 june 2021 and 2020

(Euro thousand)

	Notes	Jun 2021	Jun 2020 (Restated)
Interest and similar income	3	144 737	153 259
Interest and similar expense	3	30 483	31 958
Net interest income	3	114 254	121 301
Dividends from equity instruments	4	1 747	1 719
Net fee and commission income	5	54 907	55 445
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	6	(6 546)	(11 931)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	7	526	18 836
Net gains/(losses) arising from exchange differences	8	2 739	6 953
Net gains/(losses) arising from sale of other financial assets	9	19 089	9 146
Other operating income/(expense)	10	(27 178)	(20 357)
Total operating income		159 538	181 112
Staff costs	11	79 522	80 806
General and administrative expenses	12	31 993	33 368
Depreciation and amortization	13	17 817	16 808
Total operating costs		129 332	130 982
Impairment of loans and advances to customers and to credit institutions	14	55 065	108 757
Impairment of other financial assets	15	2 994	5 791
Impairment of other assets	16	9 513	5 475
Other provisions	17	(6 864)	2 452
Operating income		(30 502)	(72 345)
Share of profits/(losses) booked under the equity method	18	(233)	(330)
Profit/(loss) before income tax		(30 735)	(72 675)
Income Tax			
Current	33	50	210
Deferred	33	(1 215)	23 466
Profit/ (loss) after income tax from continuing operations		(31 900)	(48 999)
Profit/ (loss) from discontinued operations	60	(752)	(1 059)
Consolidated net income after income tax		(32 652)	(50 058)
Consolidated net income for the period attributable to the shareholders		(33 002)	(51 291)
Non-controlling Interests	47	350	1 233
Earnings per share (in Euro)		(32 652)	(50 058)
Earnings per share (in Euro)			
From continuing operations			
Basic		(0.013)	(0.020)
Diluted		(0.013)	(0.020)
From discontinued operations			
Basic		(0.000)	(0,001)
Diluted		(0.000)	(0,001)

THE REGISTERED ACCOUNTANT THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Consolidated Statement of Comprehensive Income
for the period ended on 30 June 2021

(Euro thousand)

		Jun 2021				
	Notes	**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	(640)	-	(640)	(640)	-
Loans and advances to customers	45	(103)	-	(103)	(103)	-
Own credit risk	45	(18)	-	(18)	(18)	-
Taxes related to fair value changes	33	276	-	276	276	-
Exchange difference arising from the consolidation	45	(408)		(408)	(631)	223
		(893)	-	(893)	(1 116)	223
Items that will not be reclassified to the Income Statement						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	45	(1 650)	-	(1 650)	(1 650)	-
Actuarial gains/ (losses) for the period recorded againist retained earnings	50	62 005	-	62 005	62 005	-
		60 355	-	60 355	60 355	-
Other comprehensive income/(loss) for the period		59 462	-	59 462	59 239	223
Consolidated net income for the period		(31 900)	(752)	(32 652)	(33 002)	350
Total consolidated comprehensive income/(loss) for the period		27 562	(752)	26 810	26 237	573

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Consolidated Statement of Comprehensive Income
for the period ended on 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)	(10 840)	(2 065)
		(16 186)	-	(29 091)	(27 026)	(2 065)
Items that will not be reclassified to the Income Statement						
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)	-	(36 696)	(34 631)	(2 065)
Consolidated net income for the period		(48 999)	(1 059)	(50 058)	(51 291)	1 233
Total consolidated comprehensive income/(loss) for the period		(72 790)	(1 059)	(86 754)	(85 922)	(832)

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Consolidated Balance Sheet at 30 June 2021 and 31 December 2020

(Euro thousand)

	Notes	Jun 2021	Dec 2020
Assets			
Cash and deposits at central banks	19	2 553 842	1 466 250
Loans and deposits to credit institutions payable on demand	20	55 870	33 660
Other loans and advances to credit institutions	21	296 121	293 004
Loans and advances to customers	22	11 657 532	11 577 702
Financial assets held for trading	23	30 787	16 923
Financial assets at fair value through profit or loss	24	289 795	346 892
Financial assets at fair value through other comprehensive income	25	229 610	286 797
Hedging derivatives	26	10 726	10 693
Other financial assets at amortized cost	27	2 813 935	2 362 616
Investments in associated companies	28	3 762	3 872
Non-current assets held for sale	29	5 554	5 484
Ativos não correntes detidos para venda - operações em descontinuação	60	1 624	1 310
Investment properties	30	115 200	125 893
Other tangible assets	31	236 803	259 162
Intangible assets	32	32 850	35 829
Current tax assets	33	3 774	3 584
Deferred tax assets	33	493 572	496 223
Other assets	34	629 051	615 112
Total Assets		19 460 408	17 941 006
Liabilities			
Deposits from central banks	35	2 879 434	1 382 545
Deposits from other credit institutions	36	713 252	820 638
Deposits from customers	37	12 623 152	12 501 973
Debt securities issued	38	1 276 239	1 299 188
Financial liabilities held for trading	23	12 174	13 598
Hedging derivatives	26	347	397
Non-current liabilities held for sale - discontinued operations	60	105 458	109 619
Provisions	39	30 851	38 654
Current tax liabilities	-	1 703	4 486
Other subordinated debt	40	211 159	216 896
Other liabilities	41	255 894	225 853
Total Liabilities		18 109 663	16 613 847
Shareholders' Equity			
Share capital	42	2 420 000	2 420 000
Other equity instruments	43	-	-
Fair value reserves	45	8 882	(28 295)
Other reserves and Retained earnings	44 and 45	(1055 007)	(993 159)
Consolidated net income for the period attributable to the Shareholder		(33 002)	(80 686)
Total equity attributable to shareholders		1 340 873	1 317 860
Non-controlling Interests	47	9 872	9 299
Total equity capital		1 350 745	1 327 159
Total liabilities and equity		19 460 408	17 941 006

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Consolidated Statement of Cash Flows
for the six months periods ended on 30 June 2021 and 2020

(Euro thousand)

	Jun 2021	Jun 2020
Cash from operating activities		
Interest income received	136 429	130 010
Interest expense paid	(39 197)	(13 561)
Fee and commission income received	66 451	67 119
Fee and commission expense paid	(11 544)	(11 077)
Costs with staff and suppliers	(114 649)	(109 415)
Recovery of loans and interest	2 546	1 132
Other payments and receivables	21 736	(45 540)
Income tax payment	(1 211)	5 586
	60 561	24 254
(Increases)/Decreases in operating assets		
Loans and advances to credit institutions and customers	(124 260)	(207 135)
Deposits held for monetary control purposes	(1 110 212)	55 442
(Purchase)/Sale of financial assets held for trading	36 059	(20 760)
(Purchase)/ Sale of financial assets at fair value through profit or loss	-	11 867
(Purchase)/Sale of financial assets at fair value through other comprehensive income	53 548	627 906
Interest received from financial assets at fair value through other comprehensive income	19	14 816
(Purchase)/Sale of hedging derivatives	-	(1 382)
(Purchase)/Sale of other assets at amortized cost	(448 332)	(806 614)
Other assets	51 088	7 194
	(1 542 090)	(318 666)
Increases/(decreases) in operating liabilities		
Deposits from customers	119 729	(99 887)
Deposits from credit institutions	(106 783)	13 361
Deposits from central banks	1 500 000	335 000
	1 512 946	248 474
	31 417	(45 938)
Cash from investing activities		
Dividends received	1 747	1 719
Purchase of investments in associated companies	-	(5 855)
Sale of fixed assets and investment properties	(9 701)	10 816
	(7 954)	6 680
Cash from financing activities		
Other equity instruments	-	(162)
Issuance of cash bonds and subordinated debt (notes 38 & 40)	-	50 000
Repayment of cash bonds and subordinated debt (notes 38 & 40)	(23 873)	(30 191)
Finance lease agreements	-	5 009
	(23 873)	24 656
Effects of exchange rate changes on cash and cash equivalents	-	268
Net change in cash and cash equivalents	(410)	(14 334)
Cash and cash equivalents at the beginning of the period		
Cash (note 19)	165 863	194 530
Loans and deposits to credit institutions payable on demand (note 20)	33 660	29 445
	199 523	223 975
Cash and cash equivalents at the end of the period		
Cash (note 19)	143 243	161 079
Loans and deposits to credit institutions payable on demand (note 20)	55 870	48 562
	199 113	209 641

THE REGISTERED ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

interim Consolidated Statement of Changes in Equity
for the six months periods ended on 30 June 2021 and 2020

(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 2020	**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 period	-	-	-	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)
Change in the consolidation perimeter	-	-	-	-	(162)	-	(162)	-	(162)
Financial costs related to the issue of perpetual subordinated debt	-	(6 323)	-	-	-	-	(6 323)	-	(6 323)
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**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(8 000)	-	(8 000)	(2 067)	(10 067)
Appropriation to retained earnings of net income of the previous period	-	-	-	-	-	-	-	-	-
Remeasurements in the period (note 50)	-	-	-	-	3 663	-	3 663	-	3 663
Changes in fair value (note 45)	-	-	3	-	3 750	-	3 753	-	3 753
Taxes on changes in fair value (notes 33 and 45)	-	-	(62)	-	-	-	(62)	-	(62)
Consolidated net income for the period	-	-	-	-	-	(29 395)	(29 395)	648	(28 747)
Total comprehensive income/(loss) for the period	-	-	(59)	-	(587)	(29 395)	(30 041)	(1 419)	(31 460)
Financial costs related to the issue of perpetual subordinated debt	-	-	-	-	(130)	-	(130)	-	(130)
Balances on 31 December 2020	**2 420 000**	**-**	**(28 295)**	**193 266**	**(1 186 425)**	**(80 686)**	**1 317 860**	**9 299**	**1 327 159**
Other comprehensive income:									
Exchange difference arising from consolidation	-	-	-	-	(631)	-	(631)	223	(408)
Appropriation to retained earnings of net income of the previous period	-	-	-	-	(80 686)	80 686	-	-	-
Remeasurements in the period (note 50)	-	-	-	-	62 005	-	62 005	-	62 005
Changes in fair value (note 45)	-	-	36 901	-	(39 312)	-	(2 411)	-	(2 411)
Taxes on changes in fair value (notes 33 and 45)	-	-	276	-	-	-	276	-	276
Consolidated net income for the period	-	-	-	-	-	(33 002)	(33 002)	350	(32 652)
Total comprehensive income/(loss) for the period	-	-	37 177	-	(58 624)	47 684	26 237	573	26 810
Other consolidation reserves	-	-	-	-	(3 224)	-	(3 224)	-	(3 224)
Balances on 30 June 2021	**2 420 000**	**-**	**8 882**	**193 266**	**(1 248 273)**	**(33 002)**	**1 340 873**	**9 872**	**1 350 745**

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

Introduction

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 the end of 2021 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 passed, 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 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 (Open Fund), 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, A.C.E.

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

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

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

CESource

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

The remining entities of the consolidation perimeter are disclosed in note 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 2021 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2021.

The consolidated financial statements and the notes to the consolidated financial statements presented herein were approved by the Board of Directors of Banco Montepio on 30 September 2021. The condensed interim consolidated financial statements now presented refer to 30 June 2021. 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 consolidated 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 2020.

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.

Restatement of the consolidated financial statements of the previous period

Notwithstanding the aforementioned, the subsidiary Finibanco Angola failed to comply in financial year 2020 with the criteria set out in IFRS 5 to be considered as a discontinued entity, classified as Non-current assets held for sale - discontinued operations. Hence, and in accordance with the provisions of IFRS 5, Finibanco Angola was fully consolidated, line by line, retrospectively.

In 2020, Banco Montepio Geral – Cabo Verde, S.A. and Montepio Valor, S.G.O.I.C., S.A., considering the decisions taken by the Management Bodies, were reclassified to Non-current assets held for sale - discontinued operations. In this context, the contribution of these entities to the income statement, for the period 1 January 2020 through 30 June 2020, was reclassified to Income/(Loss) from discontinued operations.

(Euro thousand)

	June 2020	Net contribution FNBA	Net contribution MGCV	Net contribution MV	June 2020 Restated
Interest and similar income	146 149	7 111	(1)	-	153 259
Interest and similar charges	31 470	1 198	(706)	(4)	31 958
Net interest income	114 679	5 913	705	4	121 301
Income and equity instruments	1 719	-	-	-	1 719
Results of services and commissions	56 127	842	-	(1 524)	55 445
Results of financial assets and liabilities at fair value through profit or loss	(11 931)	-	-	-	(11 931)
Results on fair financial assets value through other comprehensive income	18 836	-	-	-	18 836
Foreign exchange revaluation results	268	6 693	(8)	-	6 953
Results of disposal of other assets	9 146	-	-	-	9 146
Other exploration results	(19 989)	(377)	(1)	10	(20 357)
Total operating income	168 855	13 071	696	(1 510)	181 112
Staff costs	78 819	2 915	(96)	(832)	80 806
General administrative expenses	32 503	1 561	(123)	(573)	33 368
Depreciation and amortization	16 176	716	(3)	(81)	16 808
Operating income	127 498	5 192	(222)	(1 486)	130 982
Credit impairment	109 381	(624)			108 757
Impairment of other financial assets	5 580	211	-	-	5 791
Impairment of other assets	5 491	-	-	(16)	5 475
Other provisions	1 766	686	-	-	2 452
Operational result	(80 861)	7 606	918	(8)	(72 345)
Equity income	(330)	-	-	-	(330)
Income before tax	(81 191)	7 606	918	(8)	(72 675)
Taxes					
Current	1 433	(1 372)	5	144	210
Deferred	23 466	-	-	-	23 466
Income after tax from continuing operations	(56 292)	6 234	923	136	(48 999)
Results of discontinued operations	6 234	(6 234)	(923)	(136)	(1 059)
Consolidated net income after taxes	(50 058)	-	-	-	(50 058)
Consolidated net profit attributable to the shareholder	(51 291)	-	-	-	(51 291)
Non-controlling Interests	1 233	-	-	-	1 233
Consolidated net income	(50 058)	-	-	-	(50 058)

b) Bases of consolidation

The condensed interim 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 2021 and 2020.

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 59. 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.

The conditions set out in IAS 29 for qualifying the Angolan economy as hyperinflationary have not been verified since 2019. 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. Sales that are closed to the maturity date and those motivated by the increased credit risk of the financial assets, or to manage credit concentration risk, among others, may be consistent with the model of holding assets to receive contractual cash flows, if those sales are infrequent (albeit significant in value) or of those sales are immaterial value, both individually or in aggregate (even if infrequent). To this purpose, Banco Montepio considers as immaterial sales of up to 10% of the nominal value of the sales of the portfolio and as infrequent 4 sales per year, regardless of the time interval between the transactions.

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. Generally, 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.

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.

c.4) <u>Subsequent valuation of financial instruments</u>

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) <u>Interest recognition</u>

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, including for the purpose of assessing whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the newly recognized financial asset is impaired on initial recognition (designating it as a financial asset acquired or originated in impairment), 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. Financial assets acquired or originated in impairment, do not have impairment on initial recognition. Instead, expected credit losses over the lifetime are incorporated into the calculation of the effective interest rate. Consequently, on initial recognition, the gross book value of this asset is equal to the net book value.

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.

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"), except for financial assets acquired or originated in impairment that are classified in Stage 3. 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.

c.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 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 balance sheet caption, which reduces the book value of the asset, while impairment of assets measured at fair value through other comprehensive income is recognized against other comprehensive income.

Impairment losses for the financial period of loans and advances to customers and of loans and advances to credit institutions, measured at amortized cost, are recognized in the income statement in the caption Impairment of loans and advances to customers and to credit institutions, while those of the remaining financial assets are recognized 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 (e.g., bank guarantees and commitments assumed) are recorded as a provision in the caption Provisions under liabilities, in the balance sheet. The charges and reversals are recorded in the caption Other provisions in the income statement.

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

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, at the effective interest rate on the date to which the financial statements refer, when the rate is variable. For financial assets acquired or originated in impairment with credit losses, the cash flows are discounted at the effective interest rate adjusted for credit quality.

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 or the behavioural maturity. 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 for operations classified in Stage 2 or 3: 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 for operations classified in Stage 1: 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, prospective macroeconomic scenarios are considered when determining ECL, which changes have an impact on expected losses.

The impairment model is applicable to the following set of financial 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.

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 the ECL

The ECL corresponds to an unbiased weighted estimate of the 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.

The main criteria for classification in default considered by the Group are the following:

- Overdue loans above the materiality limits defined for more than 90 consecutive days. For this purpose, the following materiality limits are considered: (i) relative limit of 1%; (ii) absolute limit of Euro 100 for retail exposures and Euro 500 for non-retail exposures;
- Individually significant customers with individual impairment;
- Bankruptcy/insolvency customers;
- Customers with loans written off from assets in the Group;

- Transactions with restructuring due to financial difficulties, which meet the criteria defined for the identification of defaults (e.g., decrease in the fair value of the loan).

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 (e.g., restructurings due to financial difficulties that do not meet the criteria for classification in Stage 3, overdue credit in the CRC).

In the context of the current pandemic crisis, and with the aim of anticipating the risk deterioration associated with moratoria exposures, the following adjustments at the level of classification in Stage 2 were considered:

- Customers in the corporate and self-employee segment (“ENI”): As at 31 December 2020, the operations with capital and interest under moratoria conditions were classified as Stage 2. In 2021, the Group revised this criterion considering the rating/scoring update with financial information for 2020, having maintained the capital and interest moratoria criterium solely for customers with no defined action plans;

- Customers in the individuals’ segment: worsening of the behavioural scoring, considering the adjustment of certain input variables, namely related to the evolution of the customers' resources or professional situation of unemployment.

c.10.4) *Measurement of ECL – Collective analysis*

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.

In a simplified way, the measurement of ECL through collective analysis results from the product of the PD of the financial asset, of the LGD and of the EAD, discounted at the original effective interest rate of the contract, or at the effective interest rate of the date to which the financial statements refer when the rate is variable.

For securities portfolios and other assets, given their nature, the collective impairment estimation approach considers parameters provided by external sources, which consider the characteristics of the exposures (e.g., rating, type of counterparty).

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 rating of the counterparty or the exposure occurs, the estimate of the associated PD is also changed.

The following types of PD are estimated:

- 12-month PD: the probability of a default occurring in the next 12 months, considering forward-looking information for one year (for contracts belonging to Stage 1);
- Lifetime PD: the probability of a default occurring during the remaining life of the credit (for contracts belonging to Stage 2). In this case, lifetime parameters are used, which consider forward-looking information for a horizon of up to 3 years and for the remaining years the historical PD is considered; and
- PD = 100% for all contracts belonging to Stage 3.

The risk levels, defined based on the internal master scale, 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.
The segmentation of the PDs considered by the Group is in line with the segmentation used in risk management, namely regarding the type of customer and the product (e.g., Individuals vs. Companies, home loans, consumption). Additionally, an additional segmentation level is considered for each segment supported by statistical analysis, based on risk variables, such as risk rating, economic activity code and delay indicators.

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 segmentation of LGDs considered by the Group is in line with the segmentation used in risk management, namely regarding the type of customer and the product (e.g., Individuals vs. Companies, home loans, consumption). Additionally, an additional segmentation level is considered for each segment supported by statistical analysis, based on risk variables, such as collateralization level, EAD or product type.

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. For this purpose, credit conversion factors (CCF) are estimated based on internal historical data, which are adjusted to reflect forward-looking information.

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 Banco Montepio Group calculates the ECL considering the risk of default during the maximum maturity period of the contract or, in certain specific situations, based on the behavioural maturity. For the purpose of incorporating the forward-looking component, 3 scenarios are considered, according to the following characteristics:

1. Baseline scenario, with a 60% probability of occurrence:

2. Pessimistic scenario, with a 20% probability of occurrence;

3. Optimistic scenario, with a 20% probability of occurrence.

Regarding the process of incorporating macroeconomic projections into the parameters for the impairment estimation, the established process provides for the projections to be updated at least annually.

Below is a summary of the evolution of the main macroeconomic variables considered in the models:

	2020	2021	2022
Unemployment rate (1)			
Baseline scenario	8.79	8.80	8.81
Pessimistic scenario	10.34	10.35	10.36
Optimistic scenario	8.72	8.73	8.74
GDP growth rate			
Baseline scenario	(7.99)	(7.99)	(7.99)
Pessimistic scenario	(10.97)	(10.97)	(10.97)
Optimistic scenario	(5.26)	(5.26)	(5.26)
Growth Rate of the House Price Index (2)			
Baseline scenario	(11.46)	(11.46)	(11.46)
Pessimistic scenario	(15.46)	(15.46)	(15.46)
Optimistic scenario	(9.11)	(9.11)	(9.11)

(1) Source: Eurostat; Projeções: Moody's Analytics

(2) Source: Instituto Nacional de Estatística; Projeções: Moody's Analytics

c.10.5) *Measurement of ECL – Individual analysis*

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.

For individually significant financial assets of counterparties/customers classified in Stage 3, the impairment value is determined using the discounted cash flow 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 credit loss (ECL) is attributed according to the collective analysis methodology, given that individually no impairment level is observed.

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 million 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/or 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 the mortgage/pledge, the valuation amount, the valuation date and the need for the application of haircuts in function of 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, selling and procedural costs, as applicable. For the calculation of the impairment of these customers, the annually projected cash flows, after adjustments, are discounted at the original effective interest rate of the operations;

- 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.

c.11) *Securitized loans and advances not derecognized*

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

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

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

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

c.12) *Synthetic securitization*

The Group has an operation underway that configures a synthetic securitization structure. The operation started on 18 December 2020 and is based on a loan portfolio of small and medium-sized companies (SMEs).

This operation aims to reinforce the CET1 ratio, without generating any increase in liquidity. In this operation, there was no sale of loans to third parties, issue of bonds or participation of Credit Securitization Companies, Credit Securitization Vehicles and Credit Securitization Funds, or the need to maintain Reserve Accounts. Also, there was no transfer of loan collections.

The operation has a fractioning of risk, similar to that of a traditional securitization, having been subdivided in the following tranches: senior (80.3% of the portfolio), mezzanine (18% of the portfolio), junior (1.7% of the portfolio) and synthetic Excess Spread (0.54%). For the senior and mezzanine tranches, the Group transferred the risk to third parties by contracting two financial guarantees that constitute a credit hedge that is not subject to MtM. For this purpose, the EIB and the EIF will be the guarantors of the senior and mezzanine tranches, with the Group bearing a commission of 0.3% and 4.5% to guarantee each of the tranches, respectively. The Montepio Group retained the risk of the junior and of the excess spread tranches.

With this operation, the Group reduced the risk-weighted assets (RWAs) associated with the loan and advances to customers’ portfolio; however, as most of the risks and benefits associated with these loans were not transferred, the derecognition criteria of the financial assets defined in the accounting policy presented in c.7) above are not met.

d) Derivative financial instruments and hedge accounting

The Group designates derivatives and other 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, 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. Distributions made on account of equity instruments are deducted from equity as dividends when declared.

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.

Although the Group intends to immediately sell all properties and other assets received in recovery of credit, the Group classifies these in the caption Other assets, due to their length of stay in the portfolio exceeding 12 months. The accounting method remains unchanged 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.

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.

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) Statement of cash flows

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.

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.

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.

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%, of which 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 2021 and 31 December 2020, 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 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 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 considering 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) 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 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.

x) 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.

y) Subsequent events

The Group 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. These estimates were determined considering the best information available at the date of the preparation of the financial statements, considering the context of uncertainly and the economic environment resulting from the impact of the current COVID-19 pandemic. 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.

<u>Impairment losses of financial assets at amortized cost and debt instruments at fair value through other comprehensive income</u>

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 of scenarios and respective relative weighting of prospective information for each segment 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 on risk parameters, determining impacts at the level of the expected credit loss (see notes 14 and 62).

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 2021, 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 of their fair value less selling costs and the book value of the loans on the date the assets are 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 and contingent liabilities

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.

Recoverable value of buildings held for own use

The measurement of impairment considers the principles defined in IAS 36, which require that its recoverable value be estimated.

The recoverable value is determined as the lower of its fair value and value in use, being calculated based on the present value of the future estimated cash flows expected from the continued use of the asset and its disposal.

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 2021	Dec 2020
Net interest income	114 254	121 301
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(6 546)	(11 931)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	526	18 836
	108 234	128 206

3 Net interest income

The amount of this caption has the following breakdown:

	(Euro thousand)	
	Jun 2021	Jun 2020
Interest and similar income		
Loans and advances to customers	127 376	132 020
Other financial assets at amortized cost	5 780	6 363
Financial assets held for trading	4 156	5 737
Other loans and advances to credit institutions and deposits from central bank	3 623	4 474
Hedging derivatives	3 267	3 263
Financial assets at fair value through other comprehensive income	463	1 327
Financial assets at fair value through profit or loss	66	68
Other interest and similar income	6	7
	144 737	153 259
Interest and similar expense		
Other subordinated debt	9 673	7 988
Deposits from customers	6 016	10 782
Debt securities issued	4 926	4 347
Financial liabilities held for trading	3 820	5 317
Other credit institutions deposits and Central Bank deposits	2 475	1 115
Hedging derivatives	1 024	1 801
Lease liabilities	380	604
Other interest and similar expense	2 169	4
	30 483	31 958
Net interest income	114 254	121 301

The caption Interest and similar income – Loans and advances to customers, as at 30 June 2021, includes, respectively, the amount of Euro 8,120 thousand and the amount of Euro 5,251 thousand (30 June 2020: Euro 8,382 thousand and Euro 4,243 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 2021, includes the amount of Euro 66 thousand (30 June 2020: Euro 68 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 expense – Leases refers to the interest expense related to the lease liabilities recognized in the scope of IFRS 16, as indicated in accounting policy 1 i).

The caption Interest and similar expense – Other interest and similar expense includes, as at 30 June 2021, the amount Euro 2,168 thousand related to expenses with synthetic securitization.

4 Dividends from equity instruments

As at 30 June 2021, this caption records the amount of Euro 1,747 thousand (30 June 2020: Euro 1,719 thousand) which includes Euro 1,386 thousand related to dividends received from the company Unicre, Euro 171 thousand from SIBS and Euro 161 thousand from Monteiro Aranha, S.A. (30 June 2020: Euro 950 thousand related to dividends received from the company Almina, Euro 550 thousand received from the company Monteiro Aranha, S.A. and Euro 193 thousand from SIBS).

5 Net fee and commission income

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2021	**Jun 2020**
Fee and commission income		
Banking services	46 228	47 153
Transactions on behalf of third parties	10 683	10 872
Insurance brokerage services	5 201	4 919
Guarantees provided	1 916	2 195
Commitments to third parties	790	405
Operations with financial instruments	123	171
Other fee and commission income	1 510	906
	66 451	66 621
Fee and commission expense		
Banking services rendered by third parties	9 529	9 306
Transactions with securities	441	140
Other fee and commission expense	1 574	1 730
	11 544	11 176
Net fee and commission income	54 907	55 445

As at 30 June 2021 and 2020, the caption Insurance brokerage services has the following breakdown:

		(Euro thousand)
	Jun 2021	**Jun 2020**
Life insurance	2 895	2 319
Non-life insurance	2 306	2 600
	5 201	4 919

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 2021			Jun 2020		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	884	1 157	(273)	2 574	2 331	243
Issued by other entities	140	71	69	161	8	153
Shares	798	283	515	546	1 091	(545)
Investment units	306	227	79	471	704	(233)
	2 128	1 738	390	3 752	4 134	(382)
Derivative financial instruments						
Interest rate contracts	19 402	19 806	(404)	36 121	34 754	1 367
Exchange rate contracts	12 790	13 122	(332)	17 525	18 084	(559)
Futures contracts	2 399	2 431	(32)	2 713	3 159	(446)
Option contracts	395	351	44	1 225	1 715	(490)
Commodities contracts	223	125	98	-	12 940	(12 940)
	35 209	35 835	(626)	57 584	70 652	(13 068)
Financial assets at fair value through profit or loss						
Investment units	5 743	10 098	(4 355)	1 638	520	1 118
Loans and advances to customers	75	577	(502)	87	10	77
	5 818	10 675	(4 857)	1 725	530	1 195
Other financial assets at fair value through profit or loss						
Bonds and other fixed-income securities						
Issued by other entities	1 719	2 531	(812)	-	36	(36)
Shares	-	7	(7)	17		17
Loans and advances to customers	-	70	(70)	28	14	14
	1 719	2 608	(889)	45	50	(5)
Financial liabilities at fair value through profit or loss						
Deposits from customers	23	209	(186)	-	-	-
Debt securities issued	39	-	39	149	49	100
	62	209	(147)	149	49	100
Hedging derivatives						
Interest rate contracts	2 808	5 732	(2 924)	17 229	16 214	1 015
	2 808	5 732	(2 924)	17 229	16 214	1 015
Hedged financial liabilities						
Debt securities issued	2 507	-	2 507	3 248	4 034	(786)
	2 507	-	2 507	3 248	4 034	(786)
	50 251	56 797	(6 546)	83 732	95 663	(11 931)

As at 30 June 2020, the Net gains/(losses) arising from derivative financial instruments shows the impact of the loss of value in a derivative resulting from a loan disposal operation, including the respective mortgage guarantees, as a result of the non-realization of that portfolio's performance compared with what was initially expected, with a loss of Euro 12,840 thousand having been recorded.

In Net gains/(losses) arising from financial assets at fair value through profit or loss, as at 30 June 2021, the Investment units had a negative impact of Euro 4,355 thousand (30 June 2020: positive impact of Euro 1,118 thousand), determined by the effects of the funds: Fundo Arrendamento Mais - a negative Euro 4,865 thousand, Fundo Solução Arrendamento - a negative Euro 1,457 thousand, Fundo Vega - a negative 2,137 thousand, Fundo VIP - a positive Euro 2,460 thousand and Fundo CR Revitalizar Centro - a positive Euro 1,923 thousand.

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 2021			Jun 2020		
	Gains	Losses	Total	Gains	Losses	Total
Fixed-income securities						
Bonds						
Issued by public entities	1 158	632	526	24 339	9 928	14 411
Issued by other entities	-	-	-	4 698	273	4 425
	1 158	632	526	29 037	10 201	18 836

As at 30 June 2021, the caption Bonds – Issued by public entities includes net gains obtained on the sale of Portuguese sovereign bonds in the amount of Euro 106 thousand, of Greek sovereign bonds in the amount of Euro 50 thousand and of German, Belgian, Italian and Spanish sovereign bonds in the amount of Euro 370 thousand. As at 30 June 2020, this caption included net gains generated 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.

8 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021			Jun 2020		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	21 131	18 392	2 739	81 847	74 894	6 953

This caption includes the results arising from the revaluation of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 r).

9 Net gains/(losses) arising from sale of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Disposal of financial assets at amortized cost	14 736	-
Disposal of other assets	4 459	9 316
Disposal of loans and advances to customers	(106)	(170)
	19 089	9 146

In the 1st half of 2021, the Group disposed of Portuguese sovereign debt with a nominal value of Euro 511 million classified in the hold-to-collect portfolio. This operation is framed within the limits defined in Banco Montepio's internal rules for this business model, being classified as infrequent but significant in terms of value. The gains realized arose on the sale of sovereign bonds and amounted to Euro 14,736 thousand.

In the 1st half of 2020, the caption Disposal of other assets considers the result arising on the sale of properties received in recovery of loans, registering a gain of Euro 7,096 thousand related to the sale of a plot of land in the Greater Lisbon area.

10 Other operating income/(expense)

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2021	**Jun 2020**
Other operating income		
Revaluation of investment properties	3 502	1 826
Management fees on demand deposits	2 330	3 358
Rentals of investment properties	1 934	2 283
Services rendered	1 390	1 888
Reimbursement of expenses	719	842
Repurchase of own issues	-	380
Other	2 831	4 617
	12 706	15 194
Other operating expenses		
Contributions:		
Banking sector	10 232	9 253
Ex-ante to the Single Resolution Fund	7 687	6 145
National Resolution Fund	4 713	4 441
Deposits Guarantee Fund	26	23
Revaluation of investment properties	1 899	2 216
Servicing and expenses with recovery and disposal of loans	1 842	1 595
Expenses with issuances	827	1 241
Taxes	536	580
Donations and memberships	353	614
Other	11 769	9 443
	39 884	35 551
Other operating income/(expense)	(27 178)	(20 357)

The caption Other, in the breakdown of Other operating income, includes the recovery of some customers' assets and includes, as at 30 June 2020, the amount of Euro 1,337 thousand in income from the recovery of credit.

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 (Conselho Único de Resolução ("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 2021 and in financial year 2020, 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, with reference to 30 June 2021, Banco Montepio had settled Euro 8,424 thousand (30 June 2020: Euro 7,093 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 Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are calculated annually 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 operating costs - Other includes, as at 30 June 2021, the amount of Euro 1,534 thousand related to services provided by Montepio - Gestão de Activos Imobiliários, A.C.E. As at 30 June 2020, these services were recorded under the caption General and administrative expenses – Other general and administrative expenses, in the amount of Euro 1,560 thousand, as described in note 12.

The caption Other, in the breakdown of Other operating costs, also 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 2021	Jun 2020
Remuneration	55 705	58 761
Mandatory social charges	16 249	16 228
Charges with the Pension Fund	4 062	3 619
Other staff costs	3 506	2 198
	79 522	80 806

As at 30 June 2021, within the scope of the Employee Adjustment Plan, the captions of Charges with the Pension Fund and Other costs include, respectively, the amounts of Euro 1,355 thousand and Euro 1,865 thousand, related to the resulting charges arising from early retirement and mutual-agreement termination programs.

As at 30 June 2021 and in financial year 2020, neither the members of the Corporate bodies nor Other key management personnel received any variable remuneration. First-line managers are considered Other key management personnel.

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 Boards of Directors of Banco Montepio's subsidiaries and Other key management personnel of the Group, during the 1st half of 2021, 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	145	1 659	584	2 567	4 962
Pension costs	-	-	374	1	142	517
Costs with healthcare benefits (SAMS)	-	-	10	4	54	68
Social Security charges	1	29	355	128	561	1 074
	8	174	2 398	717	3 324	6 621

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 Boards of Directors of Banco Montepio's subsidiaries and Other key management personnel 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 managemen t 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

As at 30 June 2021, loans granted to members of the Board of Directors of Banco Montepio (including the members of the Audit Committee) amounted to Euro 614 thousand (30 June 2020: Euro 639 thousand), to members of the Boards of Directors of Banco Montepio’s subsidiaries, Euro 2,742 thousand (30 June 2020: Euro 2,450 thousand) and to key management personnel, Euro 3,586 thousand (30 June 2020: Euro 4,248 thousand).

12 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Rental costs	322	482
Specialized services		
Other specialized services	10 784	9 668
IT services	6 396	6 352
Independent work	1 683	1 432
Communication costs	3 369	3 423
Maintenance and repairs	2 683	2 730
Advertising costs	1 646	1 490
Water, energy and fuel	1 585	1 738
Transportation	843	967
Consumables	589	532
Travel, accommodation and entertainment expenses	266	713
Insurance	236	427
Training	124	117
Other general and administrative costs	1 467	3 297
	31 993	33 368

The caption Rentals costs includes, as at 30 June 2021, the amount of Euro 159 thousand (30 June 2020: Euro 265 thousand) related to short-term lease agreements, of which Euro 28 thousand (30 June 2020: Euro 59 thousand) correspond to leasehold rentals and Euro 131 thousand (30 June 2020: Euro 206 thousand) to motor vehicle rentals, in both cases used by Banco Montepio Group as lessee.

As part of the development of its activity, the Group records under the caption Other specialized services the costs incurred with the hiring of external consultants, with the payment of services related to databases, with charges associated with processing carried out by SIBS and also with costs related to the payment of fees and retainer fees.

The caption Other general and administrative expenses includes, as at 30 June 2020, the amount of Euro 1,560 thousand related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.. As at 30 June 2021, these services were recorded in the caption Other operating income/(expense) – Other, in the amount of Euro 1,534 thousand, as described in note 10.

13 Depreciation and amortization

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Intangible assets (note 32)		
Software	9 055	7 905
Other tangible assets (note 31)		
Real estate		
For own use	1 903	2 160
Leasehold improvements in rented buildings	316	354
Equipment		
IT equipment	1 409	1 766
Fixtures	866	857
Furniture	126	112
Transportation	120	84
Security equipment	74	75
Machinery and tools	27	22
Right-of-use assets		
Real estate	3 027	3 446
Motor vehicles	889	27
Other tangible assets	5	-
	8 762	8 903
	17 817	16 808

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 to customers and to credit institutions

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Other loans and advances to credit institutions (note 21)		
Charge	583	1 349
Reversal	(573)	(1 349)
	10	-
Loans and advances to customers (note 22)		
Charge for the period net of reversals	57 601	109 912
Recovery of loans and interest	(2 546)	(1 155)
	55 055	108 757
	55 065	108 757

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

The Banco Montepio Group, in the 1st half of 2020, recorded an impact derived from the COVID-19 pandemic in the caption Impairment of loans and advances to customers in the amount of Euro 39.5 million.

15 Impairment of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Financial assets at fair value through other comprehensive income (note 25)		
Charge for the period net of reversals	1 173	4 009
Other financial assets at amortized cost (note 27)		
Charge for the period net of reversals	1 821	1 782
	2 994	5 791

16 Impairment of other assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Non-current assets held for sale (note 29)		
Charge for the financial year	54	-
Reversals for the financial year	(98)	-
	(44)	-
Other tangible assets (note 31)		
Charge for the financial period	3 826	-
Other assets (note 34)		
Charge for the financial period	8 786	6 515
Reversals for the financial period	(3 055)	(1 040)
	5 731	5 475
	9 513	5 475

17 Other provisions

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Provisions for guarantees and commitments (note 39)		
Charge for the period	11 723	25 273
Reversals for the period	(13 971)	(22 259)
	(2 248)	3 014
Provisions for other risks and charges (note 39)		
Charge for the period	644	185
Reversals for the period	(5 260)	(747)
	(4 616)	(562)
	(6 864)	2 452

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 2021	Jun 2020
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(233)	(330)

19 Cash and deposits at central banks

This caption is presented as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Cash	143 243	165 863
Deposits at central banks		
Banco de Portugal	2 391 801	1 282 692
Banco Nacional de Angola	18 798	17 695
	2 553 842	1 466 250

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 2021	**Dec 2020**
Credit institutions in Portugal	6 893	1 373
Credit institutions abroad	30 034	17 449
Amounts to be collected	18 943	14 838
	55 870	33 660

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:

	Jun 2021	Dec 2020
		(Euro thousand)
Loans and advances to credit institutions in Portugal		
Term deposits	35 872	5 963
Other loans and advances	420	-
	36 292	5 963
Loans and advances to credit institutions abroad		
Term deposits	125 401	63 722
CSA's	27 639	27 949
Reverse repos	6 035	62 719
Other loans and advances	101 384	132 938
	260 459	287 328
	296 751	293 291
Impairment for credit risk of loans and advances to credit institutions	(630)	(287)
	296 121	293 004

As at 30 June 2021, the caption Loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 8,424 thousand (31 December 2020: Euro 7,093 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 change in the caption Loans and advances to credit institutions abroad – Term deposits, corresponds, essentially, to very short-term loans in foreign currency.

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, as at 30 June 2021, the Group holds an amount of Euro 27,639 thousand (31 December 2020: Euro 27,949 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 – 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 2021	Jun 2020
Opening balance	287	178
Charge for the period net of reversals	10	-
Others	333	214
Closing balance	630	392

As at 30 June 2021, the Other loans and advances to credit institutions were remunerated at the average rate of 0.28% (31 December 2020: 0.27%).

22 Loans and advances to customers

This caption is presented as follows:

	Jun 2021	Dec 2020
		(Euro thousand)
Corporate		
Loans not represented by securities		
Loans	2 933 395	2 903 260
Current account loans	453 478	436 808
Finance leases	429 458	442 071
Discounted bills	27 363	35 443
Factoring	184 903	184 904
Overdrafts	814	601
Other loans	426 055	433 772
Loans represented by securities		
Commercial paper	298 252	333 963
Bonds	279 168	270 045
Retail		
Mortgage loans	5 636 047	5 580 462
Finance leases	48 711	52 211
Consumer credit and other loans	1 038 854	983 900
	11 756 498	11 657 440
Foreign credit		
Corporate	28 166	25 820
Retail	1 670	1 626
	29 836	27 446
Value correction of assets subject to hedging operations		
Other loans	(62)	8
Past due loans and advances and interest		
Less than 90 days	28 514	45 538
More than 90 days	502 824	626 784
	531 338	672 322
	12 317 610	12 357 216
Impairment for credit risks	(660 078)	(779 514)
	11 657 532	11 577 702

As at 30 June 2021, the caption Loans and advances to customers includes the amount of Euro 2,748,013 thousand (31 December 2020: Euro 2,739,544 thousand) related to the issue of covered bonds realized by the Group, as referred to in note 38.

As at 30 June 2021, the loans and advances that the Group granted to its shareholders and to related parties amounted to Euro 16,086 thousand (31 December 2020: Euro 16,346 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 513 thousand as at 30 June 2021 (31 December 2020: Euro 638 thousand).

As at 30 June 2021, the caption Loans and advances to customers includes the amount of Euro 1,673,212 thousand (31 December 2020: Euro 1,843,677 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.

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 2021 and 31 December 2020, is as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Variable-rate loans and advances	10 448 848	10 553 862
Fixed-rate loans and advances	1 868 762	1 803 354
	12 317 610	12 357 216

The analysis of Past due loans and advances and interest, by credit type, is as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Asset-backed loans	364 251	468 552
Other guaranteed loans	88 461	119 971
Finance leases	33 950	33 950
Loans represented by securities	5 695	7 021
Other loans and advances	38 981	42 828
	531 338	672 322

The analysis of Past due loans and advances and interest, by customer type and purpose, is as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Corporate		
Construction/Production	74 609	136 990
Investment	237 228	285 173
Treasury	121 620	144 853
Other	21 731	22 743
Retail		
Mortgage loans	41 518	45 058
Consumer credit	19 357	22 322
Other	15 275	15 183
	531 338	672 322

The analysis of the caption Loans and advances to customers, by maturity and by credit type, for the period ended as at 30 June 2021, is as follows:

(Euro thousand)

	Loans and advances to costumers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	384 142	167 536	328 670	88 461	968 809
Other guaranteed loans	292 301	204 336	80 783	33 950	611 370
Finance leases	129 291	615 422	8 201 885	364 251	9 310 849
Loans represented by securities	31 115	226 262	220 792	5 695	483 864
Other loans and advances	176 122	148 098	579 517	38 981	942 718
	1 012 971	1 361 654	9 411 647	531 338	12 317 610

The analysis of the caption Loans and advances to customers, by maturity and credit type, for the financial year ended as at 31 December 2020, is as follows:

(Euro thousand)

	Loans and advances to costumers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	359 267	204 167	313 768	119 971	997 173
Other guaranteed loans	333 962	188 007	82 039	33 950	637 958
Finance leases	134 299	624 873	8 035 683	468 552	9 263 407
Loans represented by securities	26 788	237 648	229 846	7 021	501 303
Other loans and advances	205 202	150 937	558 408	42 828	957 375
	1 059 518	1 405 632	9 219 744	672 322	12 357 216

The outstanding amount of Finance leases, by residual maturity, as at 30 June 2021, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	56 022	252 867	128 577	437 466
Outstanding interest	(9 116)	(30 428)	(26 834)	(66 378)
Residual values	22 437	52 675	31 969	107 081
	69 343	275 114	133 712	478 169

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2020, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	56 739	258 911	116 571	432 221
Outstanding interest	(10 202)	(33 725)	(20 537)	(64 464)
Residual values	18 848	60 488	47 189	126 525
	65 385	285 674	143 223	494 282

As regards operating leases, the Group does not have significant agreements as Lessor.

The movements in impairment for credit risk are analysed as follows:

(Euro thousand)

	Jun 2021	Jun 2020
Opening balance	779 514	782 505
Charge for the financial period net of reversals	57 601	109 912
Utilization	(178 159)	(22 806)
Exchange variation	1 122	(899)
Closing balance	660 078	868 712

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

(Euro thousand)

	Jun 2021	Dec 2020
Asset-backed loans and Finance leases	467 456	559 616
Other secured loans	124 908	150 902
Unsecured loans	67 714	68 996
	660 078	779 514

The analysis utilization of impairment losses, by credit type, is as follows:

(Euro thousand)

	Jun 2021	Jun 2020
Asset-backed loans and finance leases	113 134	4 370
Other guaranteed loans	35 016	17 385
Unsecured loans	30 009	1 051
	178 159	22 806

The Banco Montepio Group has adopted forbearance measures and practices, aligned in terms of risk, in order to adjust the disposable income or the financial capacity of customers to their debt service. On this basis, the recommendations legislated in the scope of the non-compliance regimes (Decree-Law no. 227/2012) and, for companies (SIREVE, PER), were adopted, with these being widely disclosed in the institutional website, in the internal rules and communications, to be disclosed and implemented 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.

As at 30 June 2021, 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 of the contract and these amount to Euro 733,664 thousand (31 December 2020: Euro 817,234 thousand) and has an impairment of Euro 311,143 thousand (31 December 2020: Euro 368,095 thousand).

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 2021 and 31 December 2020, by credit type, is as follows:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Corporate		
Loans not represented by securities		
Loans	59 324	175 732
Current account loans	6 419	9 669
Finance leases	3 275	1 276
Other loans	2 375	949
Retail		
Mortgage loans	3 191	2 778
Consumer credit and other loans	12 452	6 993
	87 036	197 397

As at 30 June 2021, and as regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 30,144 thousand, which corresponds to an impairment rate of 34.6% (31 December 2020: Euro 79,044 thousand, impairment rate of 40%).

Synthetic securitization

On 18 December 2020, Banco Montepio Group carried out an operation that configures a synthetic securitization structure, which is based on a portfolio of loans of small and medium-sized companies (SMEs). The legal maturity of the transaction is 25 March 2036 and the respective amount totals Euro 394,549 thousand as at 30 June 2021 (31 December 2020: Euro 415,315 thousand). As mentioned in accounting policy c.12), Banco Montepio contracted two guarantees from the EIB and the EIF to protect the senior and mezzanine tranches of the synthetic securitization operation, bearing, respectively, commissions of 0.3% and 4.0%, with quarterly payments.

23 Financial assets and liabilities held for trading

The caption financial assets and liabilities held for trading is analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Financial assets held for trading		
Securities		
Shares	2 245	3 397
Bonds	20 360	1 053
Investment Units	454	3 074
	23 059	7 524
Derivative instruments		
Derivative instruments with positive fair value	7 728	9 399
	30 787	16 923
Financial liabilities held for trading		
Derivative instruments		
Derivative instruments with negative fair value	12 174	13 598
	12 174	13 598

As provided for in IFRS 13, as at 30 June 2021, the financial instruments measured in accordance with the valuation levels described in note 49, are as follows:

(Euro thousand)

	Jun 2021			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	2 245	-	-	2 245
Bonds	20 360	-	-	20 360
Investment Units	454	-	-	454
	23 059	-	-	23 059
Derivative instruments				
Derivative instruments with positive fair value	-	1 704	6 024	7 728
	23 059	1 704	6 024	30 787
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	1 823	10 351	12 174
	-	1 823	10 351	12 174

As provided for in IFRS 13, as at 31 December 2020, the financial instruments measured in accordance with the valuation levels described in note 49, are as follows:

(Euro thousand)

	Dec 2020			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	3 397	-	-	3 397
Bonds	1 053	-	-	1 053
Investment Units	3 074	-	-	3 074
	7 524	-	-	7 524
Derivative instruments				
Derivative instruments with negative fair value	-	2 147	7 252	9 399
	7 524	2 147	7 252	16 923
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	1 997	11 601	13 598
	-	1 997	11 601	13 598

Within the scope of the loan obtained from the EIB, a set of Italian and Spanish sovereign bonds with a nominal value of Euro 13,691 thousand, as at 30 June 2021 (31 December 2020: Euro 1,000 thousand), are part of the collateral, as described in note 36.

The book value of the derivative financial instruments as at 30 June 2021 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 2021								
		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 financial year (1)	Total Fair value	Changes in fair value in the financial year	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	-	-	-	-	-	-	(9)	-	-
Interest rate swap	Deposits from customers	22 008	-	(88)	(88)	(88)	186	186	22 031	21 846
Interest rate swap	Loans and advances to customers	1 121	4	(48)	(44)	21	(62)	(70)	1 145	1 200
Interest rate swap	Others	1 562 581	7 464	(11 793)	(4 329)	21	-	-	-	-
Currency Swap (Short)	-	56 196	14	(95)	(81)	(299)	-	-	-	-
Currency Swap (Long)	-	56 079								
Future options (short)	-	14 742	-	-	-		-	-	-	-
Future options (long)	-	21 881								
Forwards (Short)	-	7 761	-	-	-	-	-	-	-	-
Forwards (Long)	-	7 766								
Options (Short)	-	80 842	246	(150)	96	98	-	-	-	-
Options (Long)	-	79 996								
		1 910 973	7 728	(12 174)	(4 446)	(247)	124	107	23 176	23 046

(1) Includes the result of derivatives disclosed in note 6

Derivatives held for risk management include the 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 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)

Dec 2020

Derivative	Related financial asset/ liability	Derivative: Notional	Derivative: Positive fair value	Derivative: Negative fair value	Derivative: fair value	Derivative: Changes in fair value in the period(1)	Related Asset/ Liability: fair value	Related Asset/ Liability: Changes in fair value in the period	Related Asset/ Liability: Book value	Related Asset/ Liability: Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	-	-	-	-	(191)	9	(8)	3 106	2 960
Interest rate swap	Deposits from customers	1 174	4	(69)	(65)	(16)	8	(38)	1 207	1 200
Interest rate swap	Others	1 644 869	9 168	(13 518)	(4 350)	(1 049)	-	-	-	-
Currency Swap (Short)	-	50 171	224	(6)	218	(85)	-	-	-	-
Currency Swap (Long)	-	50 390								
Future options (short)	-	1 776	-	-	-		-	-	-	-
Future options (long)	-	355								
Forwards (Short)	-	29 064	-	-	-	-	-	-	-	-
Forwards (Long)	-	28 889								
Options (Short)	-	59 675	3	(5)	(2)	(12 386)	-	-	-	-
Options (Long)	-	64 433								
		1 930 796	9 399	(13 598)	(4 199)	(13 727)	17	(46)	4 313	4 160

(1) Includes the result of derivatives disclosed in note 6

The fair value of the options corresponds to derivatives traded on organized markets, which market value is settled daily against the margin account and the fair value of the Forwards - Foreign exchange derivatives with short residual maturities, to be settled.

24 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Variable income securities		
Investment Units	279 770	337 226
Loans and advances to customers at fair value		
Loans not represented by securities	10 025	9 666
	289 795	346 892

The caption Variable-income securities – Investment units includes, as at 30 June 2021, the amount of Euro 62,566 thousand (31 December 2020: Euro 69,937 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 2021			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment Units	-	-	279 770	279 770
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	10 025	10 025
	-	-	289 795	289 795

(Euro thousand)

	Dec 2020			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment Units	-	-	337 226	337 226
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	9 666	9 666
	-	-	346 892	346 892

As at 30 June 2021, 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 279,770 thousand (31 December 2020: Euro 337,226 thousand), of which Euro 197,046 thousand (31 December 2020: Euro 252,621 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 2021, for the Variable-income 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 27,977 thousand (31 December 2020: Euro 33,723 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 2021	Dec 2020
Opening balance	337 226	365 669
Acquisitions	602	313
Remeasurements	(10 300)	(15 622)
Disposals	(47 758)	(13 134)
Closing balance	279 770	337 226

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 2021 and financial year 2020.

25 Financial assets at fair value through other comprehensive income

This caption, as at 30 June 2021, is presented as follows:

(Euro thousand)

	Jun 2021				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	131 473	726	(243)	(299)	131 657
Foreign	56 430	482	(285)	(109)	56 518
Bonds issued by other entities					
Domestic	17 440	1 074	(566)	(1 391)	16 557
Foreign	1 923	4	(17)	(12)	1 898
Variable income securities					
Shares					
Domestic	5 133	9 685	-	-	14 818
Foreign	6 300	1 870	(8)	-	8 162
	218 699	13 841	(1 119)	(1 811)	229 610

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

This caption, as at 31 December 2020, is presented as follows:

(Euro thousand)

	Dec 2020				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	31 693	973	-	(82)	32 584
Foreign	119 899	1 200	-	(300)	120 799
Bonds issued by other entities					
Domestic	12 735	291	(637)	(786)	11 603
Foreign	3 097	13	(25)	(13)	3 072
Variable income securities					
Shares					
Domestic	74 489	9 685	(1 750)	-	82 424
Foreign	71 598	2 045	(37 328)	-	36 315
	313 511	14 207	(39 740)	(1 181)	286 797

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

On 4 March 2021, the Banco Montepio Group participated in the tender offer for the acquisition of shares for an increased shareholding (“OPA”) launched by Sociedade Técnica Monteiro Aranha, S.A. (the “Offeror”), carried out by B3 S.A. – Brasil, Bolsa, Balcão.

In the scope of the referred tender, the Group sold its entire participation in Monteiro Aranha S.A. (the “Company”), corresponding to 1,262,743 ordinary shares, equivalent to circa 10.31% of the share capital of the Company. The sale originated proceeds of Euro 25,944 thousand (31 December 2020: the value of the shareholding was Euro 27,980 thousand).

As at 30 June 2021, the Group sold its entire shareholding in Almina Holding S.A. (“Almina”), corresponding to 9,500 ordinary shares, equivalent to 19.0% of the share capital of Almina. The sale originated proceeds of Euro 67,000 thousand (31 December 2020: the value of the shareholding was Euro 67,600 thousand).

As at 30 June 2021 and 31 December 2020, 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 2021				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	130 627	1 030	-	-	131 657
Foreign	56 518	-	-	-	56 518
Bonds issued by other entities					
Domestic	4 051	-	12 506	-	16 557
Foreign	-	1 898	-	-	1 898
	191 196	2 928	12 506	-	206 630
Variable income securities					
Shares					
Domestic	-	-	14 000	818	14 818
Foreign	-	-	7 643	519	8 162
	-	-	21 643	1 337	22 980
	191 196	2 928	34 149	1 337	229 610

(Euro thousand)

	Dec 2020				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	31 550	1 034	-	-	32 584
Foreign	120 799	-	-	-	120 799
Bonds issued by other entities					
Domestic	4 036	-	7 567	-	11 603
Foreign	1 018	2 054	-	-	3 072
	157 403	3 088	7 567	-	168 058
Variable income securities					
Shares					
Domestic	-	-	81 600	824	82 424
Foreign	27 980	-	7 818	517	36 315
	27 980	-	89 418	1 341	118 739
	185 383	3 088	96 985	1 341	286 797

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 3,415 thousand as at 30 June 2021 (31 December 2020: Euro 9,699 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the positive amount of Euro 12,038 thousand (31 December 2020: positive amount of Euro 9,630 thousand) recognized in fair value reserves.

In this caption, the Group has some securities measured at acquisition cost. 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 occurred in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Opening balance	96 985	95 581
Acquisitions	5 290	5 150
Revaluations	(133)	(2 671)
Disposals	(67 600)	-
Reimbursements	(393)	(1 075)
Closing balance	34 149	96 985

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

	(Euro thousand)	
	Jun 2021	**Jun 2020**
Balance on january 1st	1 181	5 327
Change for the financial period	1 184	4 009
Reversals for the financial period	(11)	-
Utilization	(543)	(4 675)
Closing balance	1 811	4 661

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 2021, to Euro 157,915 thousand after haircut (31 December 2020: Euro 84,750 thousand), as described in note 35;
- As at 30 June 2021, the EIB loan obtained is collateralized by a set of Portuguese, Spanish, Greek and Dutch sovereign bonds with a nominal value of Euro 12,917 thousand (31 December 2020: Euro 545,677 thousand by Portuguese, Spanish, Greek, Dutch, French and German sovereign bonds), as described in note 36.

These financial assets pledged as collateral can be executed in the event of non-compliance with contractual obligations assumed by the Group under the terms and conditions of the contracts celebrated.

26 Hedging derivatives

This caption is presented as follows:

	Jun 2021	Dec 2020
		(Euro thousand)
Assets		
Interest rate swaps	10 726	10 550
Interest rate swaps	-	143
	10 726	10 693
Liabilities		
Interest rate swaps	347	397
Net value	10 379	10 296

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 of the hedging relationships.

The analysis of the hedging derivatives' portfolio, by residual maturity, as at 30 June 2021 and 31 December 2020, is as follows:

(Euro thousand)

	Jun 2021			
	Remaining period			
	Notional by maturity		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	10 379	10 379
	750 000	750 000	10 379	10 379

(Euro thousand)

	Dec 2020			
	Remaining period			
	Notional by maturity		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	10 153	10 153
Fair value hedge derivative with interest rate risk				
Currency rate swap	27 830	27 830	143	143
	777 830	777 830	10 296	10 296

As at 30 June 2021 and 31 December 2020, the fair value hedging operations can be analysed as follows:

(Euro thousand)

Jun 2021							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivative (1)**	**Changes in fair value of derivative in the financial period**	**Fair value of hedged element(2)**	**Changes in fair value of hedged element in the financial period(2)**
Interest rate swap	Debt securities issued	Interest rate	750 000	10 379	227	(5 060)	2 507
Interest rate swap	Debt securities issued	Interest rate	-	-	(143)	-	-
			750 000	10 379	84	(5 060)	2 507

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

(Euro thousand)

Dec 2020							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivative (1)**	**Changes in fair value of derivative in the financial 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	10 153	(448)	(7 567)	1 657
Currency rate swap	Shares	Currency	27 830	143	143	-	-
			777 830	10 296	(305)	(7 567)	1 657

(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 2021	Dec 2020
Fixed income securities		
Bonds issued by public entities		
Domestic	671 237	1 360 498
Foreign	2 152 011	1 011 084
	2 823 248	2 371 582
Impairment for other financial assets at amortized cost	(9 313)	(8 966)
	2 813 935	2 362 616

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 2021, can be analysed as follows:

(Euro thousand)

Securities	Issue date	Maturity date	Interest rate	Nominal value	Book value
OT 1.000% 12APR2052	03 February 2021	12 April 2052	1.00%	7 500	7 469
OT 0.475% 18OCT2030	27 March 2020	18 October 2030	0.475%	210 000	213 935
OT 0.700% 15OCT2027	23 July 2020	15 October 2027	0.7%	25 000	26 068
OT 0.900% 12OCT2035	10 November 2020	12 October 2035	0.9%	95 000	100 950
OT 3.875% 15-FEB-2030	11 November 2020	15 February 2030	3.875%	105 000	139 312
OT 2.250% 18APR2034	12 November 2020	18 April 2034	2.25%	15 000	18 578
OT 1.950% 15JUN2029	27 March 2020	15 June 2029	1.95%	143 500	163 458
BONOS 1.950% 30JUL2030	09 April 2021	30 July 2030	1.95%	85 000	99 683
BONOS 0.750% 30JUL2021	08 July 2018	30 July 2021	0.75%	35 000	35 223
BONOS 5.350% 30JUL2033	12 November 2020	30 July 2033	5.35%	65 000	81 929
BONOS 0.350% 30JUL2023	04 June 2018	30 July 2023	0.35%	166 000	166 079
BONOS 0.500% 30APR2030	30 March 2021	30 April 2030	0.5%	105 000	107 909
BONOS 1.250% 31OCT2030	06 April 2021	31 October 2030	1.25%	70 000	76 664
BONOS 0.000% 31MAY2024	24 March2021	31 May 2024	-	250 000	252 762
BONOS 0.100% 30APR2031	24 March 2021	30 April 2031	0.1%	115 000	112 621
ADIF 1.875% 28JAN2025	30 March 2020	28 January 2025	1.875%	15 200	16 111
BTP 1.650% 01MAR2032	06 November 2020	1 March 2032	1.65%	34 000	37 145
BTP 1.250% 01-DEC-2026	10 November 2020	1 December 2026	1.25%	70 000	73 701
BTP 2.800% 01DEC2028	06 November 2020	1 December 2028	2.8%	153 800	180 389
BTP 2.500% 15NOV2025	11 November 2020	15 November 2025	2.5%	33 000	36 365
BTP 1.350% 01APR2030	10 November 2020	1 April 2030	1.35%	82 000	87 258
BTP 1.650% 01DEC2030	11 November 2020	1 December 2030	1.65%	34 000	36 998
BTP 0.950% 15SEP2027	28 October 2020	15 September 2027	0.95%	105 000	109 054
BTP 0.500% 01FEB2026	12 November 2020	2 February 2026	0.5%	14 500	14 746
BTP 0.900% 01APR2031	09 November 2020	1 April 2031	0.9%	36 000	36 558
BTP 0.250% 15MAR2028	07 April 2021	15 March 2028	0.25%	35 000	34 719
BTP 0.000% 15APR2024	18 March 2021	15 April 2024	-	495 000	496 787
OT USD 7.75% 01Nov21	-	1 November 2021	7.75%	2 548	2 405
OT USD 7.75% 02Ago21	-	2 August 2021	7.75%	2 548	2 451
OT USD 7.75% 11Out21	-	11 October 2021	7.75%	2 548	2 416
OT USD 7.75% 04Out21	-	4 October 2021	7.75%	2 548	2 420
OT USD 7.75% 25Out21	-	25 October 2021	7.75%	2 549	2 409
OT USD 7.75% 27Set21	-	27 September 2021	7.75%	2 549	2 423
OT USD 7.75% 18Out21	-	18 October 2021	7.75%	2 549	2 412
OT USD 7.75% 29Nov21	-	29 November 2021	7.75%	6 857	6 433
OT USD 7.75% 19Jul21	-	19 July 2021	7.75%	2 549	2 458
OT USD 7.75% 08Nov21	-	08 November 2021	7.75%	2 549	2 402
OT USD 7.5% 01Mar22	-	01 March 2022	7.5%	1 530	1 461
OT USD 7.5% Nov22	-	13 November 2022	7.5%	2 549	2 399
OT ME 5% Dez2022	-	10 December 2022	5.00%	13 208	11 817
OT MN 16% 10/2021	-	4 October 2021	16.00%	113	110
OT MN 16.25% 02/2022	-	28 February 2022	16.25%	156	155
BT_16/02/2022	-	16 February 2022	-	1 888	1 561
OTMN 15.75% 10/2022	-	16 October 2022	15.75%	3 907	3 457
OT MN 15.75%11/22	-	12 November 2022	15.75%	2 605	2 275
				2 655 250	**2 813 935**

The caption Other financial assets at amortized cost, as at 31 December 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 July 2008	25 October 2021	4.95%	188 000	211 802
OT APR21	23 February 2005	14 April 2021	3.85%	120 000	124 318
OT 2.200% 17-OCT-2022	9 September 2015	17 October 2022	2.2%	212 500	220 012
OT 5.65% 15-FEV-2024	14 May 2013	15 February 2024	5.65%	109 500	132 714
OT 1.950% 15JUN2029	16 January 2019	15 June 2029	1.95%	143 500	166 120
OT 0.700% 15OCT2027	8 April 2020	15 October 2027	0.7%	25 000	26 060
OT 0.475% 18OCT2030	15 January 2020	18 October 2030	0.475%	210 000	213 639
OT 2.250% 18APR2034	18 April 2018	18 April 2034	2.25%	15 000	18 885
OT 0.900% 12OCT2035	8 July 2020	12 October 2035	0.9%	95 000	100 712
OT 3.875% 15-FEB-2030	10 September 2014	15 February 2030	3.875%	105 000	143 261
BONOS 0.750% 30JUL2021	8 March 2016	30 July 2021	0.75%	35 000	35 219
BONOS 0.350% 30JUL2023	22 May 2018	30 July 2023	0.35%	166 000	165 727
BOTS ZERO COUPON 14APR2021	14 April 2020	14 April 2021	-	25 000	24 927
BOTS ZERO COUPON 14MAY2021	14 May 2020	14 May 2021	-	45 000	44 871
BOTS ZERO COUPON 14JUN2021	12 June 2020	14 June 2021	-	104 000	103 842
ADIF 1.875% 28JAN2025	4 March 2015	28 January 2025	1.75%	15 200	16 366
BONOS 1.950% 30JUL2030	1 March 2017	30 July 2030	1.95%	20 000	23 665
BONOS 5.350% 30JUL2033	14 March 2015	30 July 2033	5.35%	65 000	81 812
BTP 1.650% 01MAR2032	1 August 2016	1 March 2032	1.65%	34 000	37 286
BTP 1.250% 01-DEC-2026	1 August 2018	1 December 2026	1.25%	70 000	74 049
BTP 2.800% 01DEC2028	17 September 2018	1 December 2028	2.8%	53 800	63 566
BTP 2.500% 15NOV2025	2 September 2019	15 November 2025	2.5%	33 000	36 743
BTP 1.350% 01APR2030	10 June 2020	1 April 2030	1.35%	82 000	87 553
BTP 1.650% 01DEC2030	16 July 2020	1 December 2030	1.65%	34 000	37 159
BTP 0.950% 15SEP2027	1 September 2020	15 September 2027	0.95%	60 000	62 296
BTP 0.500% 01FEB2026	1 October 2020	2 February 2026	0.5%	14 500	14 774
BTP 0.900% 01APR2031	11 November 2020	1 April 2031	0.9%	36 000	36 587
OT USD 7.75% Mai2021	-	25 May 2021	7.75%	3 697	3 416
OT USD 7.75% 01Nov21	-	1 November 2021	7.75%	2 465	2 289
OT USD 7.75% 02Ago21	-	2 August 2021	7.75%	2 465	2 336
OT USD 7.75% 11Out21	-	11 October 2021	7.75%	2 465	2 300
OT USD 7.75% 04Out21	-	4 October 2021	7.75%	2 465	2 304
OT USD 7.75% 10Mai21	-	10 May 2021	7.75%	1 232	1 142
OT USD 7.75% 25Out21	-	25 October 2021	7.75%	2 465	2 293
OT USD 7.75% 27Set21	-	27 September 2021	7.75%	2 465	2 308
OT USD 7.75% 18Out21	-	18 October 2021	7.75%	2 465	2 296
OT USD 7.75% 19Abr21	-	19 April 2021	7.75%	2 465	2 296
OT USD 7.75% 29Nov21	-	29 November 2021	7.75%	6 632	6 118
OT USD 7.75% 19Jul21	-	19 July 2021	7.75%	2 465	2 342
OT USD 7.75% 08Nov21	-	8 November 2021	7.75%	2 465	2 285
OT USD 7.5% 01Mar22	-	1 March 2022	7.5%	1 479	1 392
OT USD 7.5% Nov22	-	13 November 2022	7.5%	2 465	2 282
OT ME 5% Dez2022	-	10 December 2022	5.00%	12 887	11 940
OT MN 16% 10/2021	-	4 October 2021	16.00%	109	91
OT MN 16.25% 02/2022	-	28 February 2022	16.25%	150	128
Bilhete do Tesouro	-	4 March 2021	-	2 254	2 192
Bilhete do Tesouro	-	22 February 2021	-	1 503	1 467
Bilhete do Tesouro	-	8 March 2021	-	2 623	2 543
Bilhete do Tesouro	-	29 March 2021	-	656	629
Bilhete do Tesouro	-	30 March 2021	-	2 361	2 262
				2 178 698	**2 362 616**

Other financial assets at amortized cost are recognized in accordance with the accounting policy described in note 1 c). As at 30 June 2021, the loan obtained from the EIB is collateralized by Portuguese, Italian and Spanish sovereign bonds with a nominal value of Euro 683,296 thousand (31 December 2020: Euro 120,000 thousand by Portuguese and Spanish sovereign bonds), provided as collateral and recorded in the caption Other financial assets at amortized cost, as disclosed in note 36.

As at 30 June 2021, the nominal value of the assets pledged as collateral to the European Central Bank under liquidity-providing operations amounts to Euro 2,442,675 thousand (31 December 2020: Euro 1,991,814 thousand) after applying a haircut, as described in note 35.

The securities pledged as collateral to the Portuguese Securities' Commission (Comissão do Mercado de Valores Mobiliários) in the scope of the Investors' Compensation System, recorded under Other financial assets at amortized cost, present a nominal value of Euro 1,000 thousand as at 30 June 2021 and 31 December 2020.

The nominal value of the securities given in guarantee to the Deposits Guarantee Fund amounted to Euro 24,000 thousand (31 December 2020: Euro 23,000 thousand) as per note 48.

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

(Euro thousand)	Jun 2021	Jun 2020
Opening balance	8 966	1 750
Charge for the period net of reversals	1 821	1 782
Utilization	(1 474)	-
Closing balance	9 313	3 532

28 Investments in associated companies

This caption is presented as follows:

(Euro thousand)	Jun 2021	Dec 2020
HTA - Hotés, Turismo e Animação dos Açores, S.A.	3 088	3 198
Montepio - Gestão de Activos Imobiliários, ACE	674	674
Naviser - Transportes Marítimos Internacionais, S.A.	150	150
	3 912	4 022
Impairment of investments in associated companies	(150)	(150)
	3 762	3 872

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 2021						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	35 211	19 768	15 443	1 151	(1 166)	3 088
Montepio Gestão de Activos Imobiliários, ACE	4 103	1 653	2 450	-	-	674
CESource, ACE	-	-	-	-	-	-
31 December 2020						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	35 646	19 653	15 993	3 755	(3 309)	3 198
Montepio Gestão de Activos Imobiliários, ACE	3 640	1 190	2 450		-	674
CESource, ACE	-	-	-	-	-	-

(Euro thousand)	Percentage held		Book value		Profit / Loss	
	Jun 2021	Dec 2020	Jun 2021	Dec 2020	Jun 2021	Jun 2020
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20%	20%	3 088	3 198	(233)	(330)
Montepio Gestão de Activos Imobiliários, ACE	29%	29%	674	674	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20%	20%	-	-	-	-
Cesource, ACE	18%	18%	-	-	-	-

The movement in this caption is analysed as follows:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Openning balance	3 872	4 439
Acquisitions	-	12
Share of profit of associated companies	(233)	(662)
Other reserves and retained earnings	123	120
Other reserves and retained earnings	-	(37)
Closing balance	3 762	3 872

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 2021 and 31 December 2020, this caption is analysed as follows:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Properties and other assets resulting from the resolution of customer loan agreements	5 599	5 573
Impairment for non-current assets held for sale	(45)	(89)
	5 554	5 484

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 period.

The movements occurred, in the period ended 30 June 2021 and financial year 2020, in non-current assets held for sale are analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Opening balance	5 573	2 021
Acquisitions	-	4 317
Disposals	-	(765)
Other movements	26	-
Closing balance	5 599	5 573

The movements in impairment of non-current assets held for sale is analysed as follows:

(Euro thousand)

	Jun 2021	Jun 2020
Opening balance	89	106
Charge for the period	54	-
Reversal for the period	(98)	-
Closing balance	45	106

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 Imobiliário Fechado para Arrendamento Habitacional”, by “Valor Arrendamento – Fundo de Investimento Imobiliário Fechado”, 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 2021, the amount of rental income received related to investment properties totalled Euro 719 thousand (30 June 2020: Euro 842 thousand) and maintenance costs of leased and non-leased properties totalled Euro 1,406 thousand (30 June 2020: Euro 1,401 thousand).

The movements in this caption are analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Opening Balance	125 893	144 868
Acquisitions	-	1 451
Revaluations	171	2 771
Disposals	(11 349)	(22 568)
Transfers	485	(629)
Closing balance	115 200	125 893

Note 55 presents additional information on Investment properties.

31 Other tangible assets

This caption is presented as follows:

	Jun 2021	Dec 2020
	(Euro thousand)	
Investments		
Real estate		
For own use	196 160	226 454
Leasehold improvements in rented buildings	29 661	29 655
Equipment		
IT equipment	97 282	96 862
Fixtures	34 555	34 210
Furniture	19 194	19 201
Security equipment	7 870	7 861
Machinery and tools	2 931	2 930
Transportation equipment	2 354	2 135
Other equipment	5	5
Works of art	2 870	2 870
Assets in operating leases	58	74
Righ-of-use assets	-	-
Real estate	34 515	34 787
Vehicles	7 303	7 161
Other tangible assets	15 011	14 520
Work in progress	8 808	8 468
	458 577	487 193
Accumulated depreciation		
Charge for the period	(8 762)	(19 060)
Accumulated charge in previous periods	(212 110)	(196 712)
	(220 872)	(215 772)
Impairment for other tangible assets	(902)	(12 259)
	236 803	259 162

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).

The movements in impairment of Other tangible assets are analysed as follows:

	Jun 2021	Jun 2020
	(Euro thousand)	
Opening Balance	12 259	469
Charge for the period	3 826	-
Utilization and others	13	-
Transfers	(15 196)	-
Closing balance	902	469

The caption Transfers refers to branches closed that were transferred to Other assets – Assets received in recovery of credit, as described in note 34.

32 Intangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Investment		
Software	162 789	156 460
Other Intagible Assets	3 150	3 109
Work in progress	3 403	3 690
	169 342	163 259
Accumulated depreciation		
Charge for the period	(9 055)	(16 058)
Accumulated charge in previous periods	(127 437)	(111 372)
	(136 492)	(127 430)
	32 850	35 829

33 Taxes

Deferred tax assets and liabilities, as at 30 June 2021 and 31 December 2020, can be analysed as follows:

(Euro thousand)

	Assets		Liabilities		Net	
	Jun 2021	Dec 2020	Jun 2021	Dec 2020	Jun 2021	Dec 2020
Deferred taxes not dependent on future profitability						
Impairment on loans granted	42 625	44 095	-	-	42 625	44 095
Benefits to employees	26 235	22 815	-	-	26 235	22 815
	68 860	66 910	-	-	68 860	66 910
Deferred taxes dependent on future profitability						
Financial instruments	8 797	5 119	(10 323)	(9 652)	(1 526)	(4 533)
Other tangible assets		-	(7)	(7)	(7)	(7)
Provisions / Impairment						
Impairment on loans granted	141 426	168 077	-	-	141 426	168 077
Other risks and charges	6 701	9 292	-	-	6 701	9 292
Impairment in securities and non-financial asse	2 973	3 653	-	-	2 973	3 653
Impairment in financial assets	2 083	1 788	-	-	2 083	1 788
Benefits to employees	47 438	48 798	-	-	47 438	48 798
Other	592	1 485			592	1 485
Taxes losses carried forward	225 032	200 760	-	-	225 032	200 760
Net deferred tax assets/ (liabilities)	503 902	505 882	(10 330)	(9 659)	493 572	496 223

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 ("Regime"), 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 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. This deposit shall be redeemed when and to the extent that the State rights are acquired by the shareholders or exercised by the State.

Bearing in mind that the Banco Montepio Group recorded a net accounting loss in 2020, and following the approval of the annual accounts by the corporate bodies and the application of the referred Special Regime applicable to Deferred tax Assets ("REAID"), in the 1st half of 2021 there was a conversion into tax credits of deferred tax assets that resulted from the non-deduction of expenses and of asset value deductions resulting from impairment losses of credits and of post-employment and long-term employee benefits, with a special reserve corresponding to 110% of its amount having been constituted for this purpose (see Note 45).

Hence, according to article 8 of Law no. 61/2014, of 26 August, in the period ended 30 June 2021, Banco Montepio constituted a special reserve in the amount of Euro 5,017 thousand, which corresponds to a tax credit of Euro 4,561 thousand, and which integrates, as at 30 June 2021, the total deferred tax assets presented above. These estimated amounts may change in function of the auditors' certification (which is to occur during financial year 2021) and that of the Tax Authority itself.

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 employee benefits includes the amount of Euro 8,192 thousand (31 December 2020: Euro 8,605 thousand) related to deferred taxes associated with the remeasurements recognized against reserves as a result of the change in accounting policy realized in 2011. As at 30 June 2021, this caption also includes the amount of Euro 2,436 thousand (31 December 2020: Euro 2,468 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 the Banco Montepio Group).

As at 30 June 2021, deferred taxes associated with Post-employment and long-term employee benefits include the amount of Euro 31,479 thousand (31 December 2020: Euro 31,479 thousand) related to employee benefits in excess of the existing limits.

In the 1st half of 2021 and financial year 2020, and in function of (i) the tax rates effective after 1 January 2018 and ii) the expectation of the conversion into tax-accepted costs and profits and the prospects of tax profits or tax losses in each one of the subsequent periods, the Group considered the rates (base rate and surcharges) used to calculate deferred taxes, depending on the specific cases associated with timing differences or tax loss carry-forwards, of 30.5% and 21.0%, respectively.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to losses carried forward are recognized only if the existence of future taxable income is probable, for which reason the uncertainty associated with the recoverability of the tax losses carried forward is considered in the calculation of deferred tax assets.

As referred in the accounting policy described in note 1 t), and in accordance with the requirements defined in IAS 12, the deferred tax assets recognized in Banco Montepio's financial statements have an underlying high expectation of recoverability. The assessment of the recoverability of deferred tax assets is based on the business plan used to draw up the budget and considers the expectations regarding the impacts of the pandemic at the level of the financial markets, economic activity, and the evolution of credit risk levels.

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 the 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 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 30 June 2021 and 31 December 2020, 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 grown 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 2021	Dec 2020
2026	13 650	13 106
2029	44 439	44 439
2030	128 830	128 830
2032	16 419	14 385
2033	21 694	-
	225 032	200 760

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, for the same tax periods 2020 and 2021, the deduction of tax losses carried forward may amount to 80% of the taxable income (previously the limit was 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.

The tax recognized in net income/(loss) and in reserves during the 1st half of 2021 and financial year 2020 originated as follows:

(Euro thousand)

	Jun 2021		Dec 2020	
	Recognized in net income/ (loss)	**Recognized to reserves and retained earnings**	**Recognized in net income/ (loss)**	**Recognized to reserves and retained earnings**
Financial instruments	2 728	276	10 973	6 892
Provisions / Impairment	(30 602)	-	(1 582)	-
Employee benefits	2 472	(413)	5 763	8 875
Tax losses carried forward	24 272	-	29 094	-
Other	(85)	-	(207)	-
Deferred taxes/ recognized as profit/ (losses)	(1 215)	(137)	44 041	15 767
Current taxes	50	-	(1 791)	-
	(1 165)	(137)	42 250	15 767

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

(Euro thousand)

	Jun 2021		Jun 2020	
	%	**Value**	**%**	**Value**
Profit before income tax		(30 735)		(72 675)
Income tax based on the current nominal tax rate	(21,0)	6 454	(23,5)	17 050
Gains and losses associated with the transfer of equity	-	-	0,2	(156)
Equity contribution fot the banking sector	6,7	(2 055)	2,7	(1 943)
Post-employement benefits and Pension Fund	(5,0)	1 525	(0,3)	196
Taxable provisions/impairment	6,9	(2 121)	1,8	(1 339)
Autonomous taxation	1,4	(436)	0,7	(498)
Corrections related to prior financial periods	(6,9)	2 113	(3,2)	2 346
Effect of differences in income tax for the period	30,4	(9 341)	(6,9)	5 045
Deductions / (add-backs) for taxable income purposes (*)	(8,4)	2 578	(5,2)	3 781
Other	(0,4)	118	1,1	(806)
Income tax for the period	3,8	(1 165)	(32,6)	23 676

(*) Corresponds to losses calculated by investment funds included in the 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 2021 and 31 December 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 ("RETGS") up to and including the 2017 tax period, with the inspection of the 2018 and 2019 tax periods 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 3,774 thousand (31 December 2020: Euro 3,584 thousand) relates, essentially, to IRC recoverable, additional payments on account, special payments on account and payments on account.

34 Other assets

This caption is presented as follows:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Assets received for credit recovery	667 003	694 438
Post-employment benefits	42 786	-
Sundry debtors	39 766	39 723
Other debtors	24 350	14 820
Deposits placed with courts	11 102	11 473
Other amounts receivable	9 111	8 054
Bonifications to be received from the Portuguese State	4 400	4 796
Deferred costs	2 295	3 443
	800 813	776 747
Impairment for other assets	(171 762)	(161 635)
	629 051	615 112

The caption Assets received in recovery of credit is presented as follows:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Assets received for credit recovery	667 003	694 438
Impairment for Assets received in recovery of credit	(145 006)	(132 536)
	521 997	561 902

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 2021, the caption Assets received in recovery of credit includes the amount of Euro 1,795 thousand (31 December 2020: Euro 1,745 thousand) related to equipment resulting from the resolution of loans and advances to customers' contracts, which have an associated impairment of Euro 1,795 thousand (31 December 2020: Euro 1,745 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 period. The referred caption includes, as at 30 June 2021, properties for which promissory contracts to buy and sell, in the amount of Euro 33,000 thousand (31 December 2020: Euro 28,659 thousand), have already been celebrated.

The movements in the 1st half of 2021 and financial year 2020 in Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Opening balance	694 438	740 584
Acquisitions	10 968	24 950
Disposals	(62 261)	(71 212)
Other movements	(4 078)	116
Transfers	27 936	-
Closing Balance	667 003	694 438

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

(Euro thousand)

	Jun 2021	Jun 2020
Opening balance	132 536	128 100
Charge for the financial period	8 183	2 990
Reversals for the financial period	(311)	(790)
Utilization and other	(10 598)	624
Transfers	15 196	-
Closing balance	145 006	130 924

The caption Transfers refers to branches closed that were transferred from Other tangible assets, as described in note 31.

The caption Post-employment benefits corresponds to the net amount of the assets and liabilities of the Pension Fund.

As at 30 June 2021 and 31 December 2020, the caption Other debtors is analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Supplementary capital contributions	14 910	14 910
Other	24 856	24 813
	39 766	39 723

The caption Supplementary capital contributions considers the value of supplementary capital contributions subscribed in the scope of a loans and advances sales operation in the amount of Euro 14,910 thousand, loans which are fully provided against as at 30 June 2021 and 31 December 2020.

The caption Recoverable grants receivable from the Portuguese State corresponds to recoverable grants in respect of mortgage and SME loans, determined 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 2021 and 31 December 2020, the caption Recoverable grants receivable from the Portuguese State are presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Bonifications overdue and not yet claimed	2 001	2 486
Bonifications claimed from State not yet settled	6 570	5 033
Bonifications processed and not yet claimed	540	535
	9 111	8 054

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

(Euro thousand)

	Jun 2021	Jun 2020
Balance on 1 january	29 099	28 997
Charge for the period	603	3 525
Reversals for the period	(2 744)	(250)
Utilization	(202)	(1 661)
Balance on 30 June	26 756	30 611

As at 30 June 2021, the impairment of Other assets includes the exposures of Supplementary capital contributions (Euro 14,910 thousand), deposits in court (Euro 4,950 thousand) and Other debtors (Euro 6,896 thousand).

35 Deposits from central banks

As at 30 June 2021 and 31 December 2020, 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.

As at 30 June 2021, these funds are composed of five operations with maturities in March 2023, in the amount of Euro 283,787 thousand, in June 2023, in the amount of Euro 896,924 thousand, in September 2023, in the amount of Euro 189,583 thousand, in December 2023, in the amount of Euro 9,987 thousand and in March 2024, in the amount of Euro 1,499,153 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 2021			Dec 2020		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	31 788	-	31 788	22 170	-	22 170
Term deposits	-	9 208	9 208	-	9 207	9 207
	31 788	9 208	40 996	22 170	9 207	31 377
Deposits from credit institutions abroad						
EIB loan	-	650 228	650 228	-	650 819	650 819
Deposits repayable on demand	18 285	-	18 285	18 781	-	18 781
Sales operations with repurchase agreement	-	-	-	-	109 712	109 712
Other deposits	3 743	-	3 743	9 949	-	9 949
	22 028	650 228	672 256	28 730	760 531	789 261
	53 816	659 436	713 252	50 900	769 738	820 638

The amount of the EIB loan is collateralized by Portuguese, Spanish and Italian sovereign bonds in the nominal amount of Euro 709,904 thousand (31 December 2020: Euro 666,677 thousand by Portuguese, Greek, Spanish, Dutch and Italian sovereign bonds), recorded in the captions Financial assets held for trading, 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 2021			Dec 2020		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	5 786 394	68	5 786 462	5 163 440	48	5 163 488
Term deposits	-	6 487 003	6 487 003	-	6 892 642	6 892 642
Saving accounts	-	131 977	131 977	-	127 809	127 809
Other deposits	217 524	-	217 524	318 034	-	318 034
Adjustments from operations at fair value options	186	-	186	-	-	-
	6 004 104	6 619 048	12 623 152	5 481 474	7 020 499	12 501 973

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.

As at 30 June 2021, deposits from customers were remunerated at the average rate of 0.10% (31 December 2020: 0.16%).

38 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(Euro thousand)

	Jun 2021	Dec 2020
Cash bonds	-	3 123
Covered bonds	1 220 025	1 218 375
Securitizations	56 214	77 690
	1 276 239	1 299 188

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

The caption Debt securities issued, as at 31 December 2020, included issues of cash bonds, in the amount of Euro 3,123 thousand, recognized at fair value through profit or loss 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 loss having been recognized as at 30 June 2021 in the amount of Euro 39 thousand (30 June 2020: gain of Euro 100 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 2021 and 31 December 2020.

As at 30 June 2021, 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	300 114	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A1/AA-/BBBh
Covered bonds - 8S	500 000	500 069	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A1/AA-/BBBh
Covered bonds - 9S	250 000	250 078	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A1/AA-/BBBh
Covered bonds - 10S	750 000	758 974	758 974	October 2017	October 2022	annually	Fixed at 0.875%	A1/AA-/BBBh
Covered bonds - 11S	500 000	461 051	461 051	November 2019	November 2024	annually	Fixed at 0.125%	A1/AA-/BBBh
	2 300 000	2 270 286	1 220 025					

As at 31 December 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	300 123	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A1/AA-/BBBh
Covered bonds - 8S	500 000	500 074	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A1/AA-/BBBh
Covered bonds - 9S	250 000	250 085	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A1/AA-/BBBh
Covered bonds - 10S	750 000	757 933	757 933	October 2017	October 2022	annually	Fixed at 0.875%	A1/AA-/BBBh
Covered bonds - 11S	500 000	460 442	460 442	November 2019	November 2024	annually	Fixed at 0.125%	A1/AA-/BBBh
	2 300 000	2 268 657	1 218 375					

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 11 October, 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 2021, the value of the loans collateralizing these issues amounted to Euro 2,748,013 thousand (31 December 2020: Euro 2,739,544 thousand), according to note 22.

The movements in Debt securities issued, outstanding as at 30 June 2021, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Reimbursements	Net purchases	Other movements [a]	Balance on 30 June
Cash bonds	3 123	(2 960)	-	(163)	-
Covered bonds	1 218 375	-	-	1 650	1 220 025
Securitisations	77 690	(21 476)	-	-	56 214
	1 299 188	(24 436)	-	1 487	1 276 239

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variatic

The movements in Debt securities issued, outstanding as at 31 December 2020, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December
Cash bonds	7 357	(4 000)	-	(234)	3 123
Covered bonds	1 255 904	-	(37 100)	(429)	1 218 375
Securitisations	126 719	(49 029)	-	-	77 690
	1 389 980	(53 029)	(37 100)	(663)	1 299 188

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variati

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 2021, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description	Issue date	Maturity	Interest rate	Book value
COVERED BONDS - 10S	17/10/2017	17/10/2022	Annual fixed rate of 0.875%	750 000
AQUA FINANCE n.º 4 A	11/07/2017	23/06/2035	Euribor 3M + 1.05%	24 023
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
				1 289 023
			Adjustments of hedging operations	5 060
				(37 100)
			Accrual based accounting, deferred income and costs	19 256
				1 276 239

As at 31 December 2020, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description of the issue	Issue date	Refund date	Interest rate	Balance value
BONDS CAIXA-MG CAPITAL CERTO 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
BONDS CAIXA-MG CAPITAL CERTO 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 Rate: Max(5.95%;Min) (IPC+2%;8.15%))	812
MORTGAGE BONDS - 10S	17/10/2017	17/10/2022	Annual Fixed Rate of 0.875%	750 000
PELICAN MORTGAGES n.º 3	30/03/2007	15/09/2054	Euribor 3M + 0.13%	38 667
AQUA FINANCE n.º 4 A	11/07/2017	23/06/2035	Euribor 3M + 1.05%	24 023
AQUA FINANCE n.º 4 B	11/07/2017	23/06/2035	Euribor 3M + 2.65%	15 000
MORTGAGE BONDS - 11S	14/11/2019	14/11/2024	Annual Fixed Rate of 0.125%	500 000
				1 330 650
			Value corrections for hedging operations	7 586
			Repurchases of Mortgage Bonds - 11S	(37 100)
			Periods, costs and deferred income	(1 948)
				1 299 188

39 Provisions

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Provisions for guarantess and commitments	18 998	21 218
Provisions for other risks and charges	11 853	17 436
	30 851	38 654

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, being revised at each reporting date in order to reflect the best estimate of the amount of the loss. This caption includes provisions for tax contingencies (Stamp Duty, Corporate income tax ("IRC"), VAT and Property taxes ("IMI")), legal cases and fraud.

The movements in provisions for guarantees and commitments assumed in the 1st half of 2021 and 2020, are analysed as follows:

(Euro thousand)

	Jun 2021	Jun 2020
Opening balance	21 218	20 660
Charge for the period	11 723	25 273
Reversal for the period	(13 971)	(22 259)
Utilization	28	(686)
Closing balance	18 998	22 988

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

(Euro thousand)

	Jun 2021	Jun 2020
Opening balance	17 436	17 887
Charge for the period net of reversals	644	185
Reversal for the period	(5 260)	(747)
Utilization	(967)	(903)
Closing balance	11 853	16 422

40 Other subordinated debt

As at 30 June 2021 and 31 December 2020, the main characteristics of subordinated debt, are analysed as follows:

(Euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Jun 2021	Dec 2020
MONTEPIO EMTN SUB 2018/2028	27 December 2018	27 December 2028	50 000	8.0% in the first 5 years and the EurSwap Rate at 5y + 7.77% in the remaining	52 027	50 044
MONTEPIO EMTN SUB 2019/2029	1 April 2019	1 April 2029	100 000	10.5% in the first 5 years and the EurSwap Rate at 5y + Fixing ICE (FFT 11:00 AM) + 10.514%	102 532	107 824
MONTEPIO EMTN SUB 2020/2030	1 June 2020	1 June 2030	50 000	9.5% in the first 5 years and the EurSwap Rate at 5y + Fixing ICE (FFT 11:00 AM) + 9.742%	50 277	52 705
FINIBANCO VALOR INVEST 2010	1 February 2010	-	15 000	7.0% on the first 4 interest payment dates and Euribor 6M plus 2.75%, with a minimum of 5% on the following	6 323	6 323
					211 159	216 896

The movements in Other subordinated debt during the 1st half of 2021 and financial year 2020, were as follows:

(Euro thousand)

	Jun 2021			
	Balance on 1 January	Issued	Other movements (a)	Balance on 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	1 983	52 027
MONTEPIO EMTN SUB 2019/2029	107 824	-	(5 292)	102 532
MONTEPIO EMTN SUB 2020/2030	52 705	-	(2 428)	50 277
FINIBANCO VALOR INVEST 2010	6 323	-	-	6 323
	216 896	-	(5 737)	211 159

(a) Includs accrued interest

	Dec 2020			
	Balance on 1 January	Issued	Other movements (a)	Balance on 31 December
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	50 044
MONTEPIO EMTN SUB 2019/2029	107 803	-	21	107 824
MONTEPIO EMTN SUB 2020/2030	-	50 000	2 705	52 705
FINIBANCO VALOR INVEST 2010	-	-	6 323	6 323
	157 847	50 000	9 049	216 896

(a) Includs accrued interest

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 43. 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 2021	**Dec 2020**
Domestic and foreign operations pending settlement	133 374	84 801
Sundry creditors	38 796	39 442
Staff costs payable	26 606	40 310
Other expenses	25 197	14 628
Lease liabilities	13 441	15 367
Administrative public sector	12 173	10 656
Suppliers	5 754	10 493
Deferred income	553	526
Post-employment benefits	-	9 630
	255 894	225 853

As at 30 June 2021, the caption Staff charges payable includes the amount of Euro 18,809 thousand (31 December 2020: Euro 19,789 thousand), related to holiday pay and subsidy. Additionally, as at 30 June 2021, this caption also includes the amount of Euro 2,492 thousand (31 December 2020: Euro 2,523 thousand) related to end-of-career awards and the amount of Euro 888 thousand (31 December 2020: Euro 13,331 thousand) for the adjustment program.

As at 30 June 2021, 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 2021	Dec 2020
Up to 1 year	-	4
1 to 5 years	12 463	13 690
More than 5 years	978	1 673
	13 441	15 367

42 Share capital

As at 30 June 2021 and 31 December 2020, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

The shareholder structure of Banco Montepio's share capital as at 30 June 2021 and 31 December 2020 is as follows:

	Jun 2021		Dec 2020	
	Number of shares	Percentage	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 830 580	99.993%	2 419 838 080	99.993%
Other shareholders	169 420	0.007%	161 920	0.007%
	2 420 000 000	100.00%	2 420 000 000	100.00%

43 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.

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 2021	**Dec 2020**
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income		
Debt instruments	1 175	1 815
Equity intruments	11 558	(27 348)
Loans and advances to costumers	-	103
Own credit risk	-	18
Foreign exchange hedge	-	1 244
	12 733	(24 168)
Taxes		
Financial assets at fair value through other comprehensive income	(3 851)	(4 096)
Loans and advances to costumers	-	(31)
	(3 851)	(4 127)
Fair value reserve net of taxes	8 882	(28 295)
Other reserves and retained earnings		
Legal reserve	193 266	193 266
Special regime applicable to deferred tax assets	5 017	-
Employee benefits	(239 557)	(301 211)
Consolidation exchange reserves	(113 242)	(112 892)
Other reserves and retained earnings	(900 491)	(772 322)
	(1 055 007)	(993 159)

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 1st half of 2021, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Revaluation	Aquisitions	Disposals	Impairment recognised in the period	Balance on 30 June
Fixed income securities						
Bonds issued by Portuguese public entities	973	(247)	(26)	-	(217)	483
Bonds issued by foreign public entities	1 200	(127)	(270)	(786)	191	208
Bonds issued by other entities:						
Domestic	(346)	50	1 431	(22)	(605)	508
Foreign	(12)	6	-	(8)	1	(13)
	1 815	(318)	1 135	(816)	(630)	1 186
Variable Income securities						
Sahres						
Domestic	7 935	-	-	1 750	-	9 685
Foreign	(35 283)	(175)	-	37 320	-	1 862
	(27 348)	(175)	-	39 070	-	11 547
	(25 533)	(493)	1 135	38 254	(630)	12 733

The movements in the fair value reserves related to financial assets at fair value through other comprehensive income, during financial year 2020, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Revaluation	Aquisitions	Disposals	Impairment recognised in the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	15 115	(200)	464	(15 684)	1 278	973
Bonds issued by foreign public entities	5 742	(3 309)	1 200	(5 742)	3 309	1 200
Bonds issued by other entities:						
Domestic	(1 785)	1 591	195	264	(611)	(346)
Foreign	1 650	(188)	-	(1 644)	170	(12)
	20 722	(2 106)	1 859	(22 806)	4 146	1 815
Variable Income securities						
Sahres						
Domestic	7 735	200	-	-	-	7 935
Foreign	(17 345)	(17 938)	-	-	-	(35 283)
	(9 610)	(17 738)	-	-	-	(27 348)
	11 112	(19 844)	1 859	(22 806)	4 146	(25 533)

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Amortised cost of financial assets	218 688	313 511
at fair value through other comprehensive income	(1 811)	(1 181)
Amortised cost of financial assets	216 877	312 330
at fair value through other comprehensive income	229 610	286 797
Potential realised gains/ (Losses) recognised in the fair value reserve	12 733	(25 533)

The movement in the 1st half of 2021 and financial year 2020 in retained earnings is presented in the Consolidated statement of changes in equity.

46 Distribution of dividends

In the 1st half of 2021 and financial year 2020, Banco Montepio did not distribute dividends.

47 Non-controlling interests

This caption is presented as follows:

(Euro thousand)

	Balance sheet		Income Statement	
	Jun 2021	Dec 2020	Jun 2021	Jun 2020
Finibanco Angola, S.A.	9 872	9 299	350	1 233

The movements in this caption are analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Opening balance	9 299	11 550
Foreign exchange differences	223	(4 132)
	9 522	7 418
Net income attributable to non-controlling interests	350	1 881
	9 872	9 299

			Percentage held by non-controlling interests	
Name	Home office	Segment	Jun 2021	Dec 2020
Finibanco Angola, S.A.	Luanda	Banca	19.78	19.78

48 Guarantees and other commitments

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Guarantees granted	503 420	507 617
Commitments to third parties	1 529 059	1 561 957
Deposit and custody of securities	8 228 213	7 639 492
	10 260 692	9 709 066

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

(Euro thousand)

	Jun 2021	Dec 2020
Garantees granted		
Guarantees	438 437	463 536
Letters of credit	64 983	44 081
	503 420	507 617
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	660 574	721 300
Securities subscription	917	1 209
Term liability to the Guarantee Deposits Fund	22 768	23 957
Potential liability with the Investor's Indemnity System	6 188	6 606
Revocable commitments		
Revocable credit facilities	838 612	808 885
	1 529 059	1 561 957

Bank guarantees and standby letters granted are financial operations that do not necessarily result in mobilization of funds by the Group.

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 the compliance with certain conditions defined at the time the commitments were contracted.

Notwithstanding the particular characteristics of these commitments, the analysis of these operations follows the same 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 2021 and 31 December 2020, 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 2021, in the scope of the Deposits Guarantee Fund, the Group had pledged treasury bonds (TB October 2024 and TB February 2030), recorded as Other financial assets at amortized cost, with a nominal value of Euro 24,000 thousand (31 December 2020: Euro 23,000 thousand), as described in note 27.

As at 30 June 2021 and 31 December 2020, 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, considering the nature of the operations and the associated period. The rate of return of funding from the European Central Bank is negative in 0.26% for live operations as at 30 June 2021 (31 December 2020: negative in 0.33%).

For the remaining deposits of credit institutions, 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 2021, the average discount rate was a negative 0.38% (31 December 2020: a negative 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 repayable on demand*

Considering the short-term maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the book value is a reasonable estimate of their fair value.

- *Loans and advances to customers with a defined maturity date*

The fair value of these financial instruments is calculated by discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. For loans in default, the value, net of impairment, of these operations is a reasonable estimate of their fair value, given the economic valuation performed for the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by the Group to similar instruments for each of the homogeneous classes of this type of instrument and with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial period) and the spread used at the reporting date, calculated based on the average production of the last quarter. As at 30 June 2021, the average discount rate was 2.078% for mortgage loans (31 December 2020: 2.067%), 7.07% for private individual loans (31 December 2020: 6.45%) and 3.11% for the remaining loans (31 December 2020: 2.89%), assuming a projection of the variable rates that is based on macroeconomic fundamentals and on market forward rates. The calculations also include the credit risk spread.

- *Deposits from customers*

  The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. The discount rate used reflects the current conditions applied by the Group to identical instruments with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial period) and the spread of the Group at the reporting date, calculated based on the average production of the last quarter. The average discount rate as at 30 June 2021 was negative in 0.01% (31 December 2020: 0.08%).

- *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 fair value was determined to reflect 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*	Cash flow update method [2]	Interest rate curves
		Exchange rate options	Black-Scholes Model	Implied Volatility
		Interest rate options	Normal model	Default probability for CVA and DVA calculation
	Financial instruments representing debt		Cash flow updating methoda [2]	Interest rate curves Risk premiums Comparable Assets [3] observable market prices
Financial assets at fair value through profit or loss	Financial instruments representing equity Financial instruments representing debt		Cash flow update method [2]	Interest rate curves Risk premiums Comparable Assets [3] Observable market prices
Financial assets at fair value through other comprehensive income	Financial instruments representing equity Financial instruments representing debt		Cash flow updating method [2]	Interest rate curves Risk premiums Comparable Assets [3]
Financial assets at amortized cost	Debt amounts Loans and amounts to be		Cash flow update method 2 [2]	Interest rate curves Comparable Assets [3] *Spreads*
Derivatives - Hedge Accounting	*Swaps* [1]		Cash flow update method [2]	Interest rate curves Implied Volatility Default probability for CVA and DVA calculation
Financial liabilities measured at amortized cost	Term deposits Amounts representing debt issued		Cash flow update 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 the CVA and DVA adjustments is presented as follows:

(Euro thousand)

	Jun 2021		Dec 2020	
	CVA	**DVA**	**CVA**	**DVA**
Adjustment	295	394	**393**	**394**
Of which: Derivatives expiry	-	(82)	1	-

Fair value of assets received in recovery of credit and of Investment properties

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 2021, 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	(0.545)	0.145	0.09	(0.75)	(0.005)
7 days	(0.575)	0.09125	0.09	(0.725)	(0.10483)
1 mês	(0.569)	0.15	0.09	(0.7)	(0.23)
2 Months	(0.555714)	0.16	0.11	(0.75)	(0.23)
3 Months	(0.542)	0.17	0.145	(0.75)	(0.22)
6 Months	(0.515)	0.2	0.195	(0.73)	(0.21)
9 Months	(0.499)	0.23	0.195	(0.73)	(0.22)
1 year	(0.483)	0.26	0.245	(0.66)	(0.22)
2 years	(0.455)	0.333	0.376	(0.6325)	(0.0625)
3 years	(0.397)	0.574	0.52	(0.56)	(0.055)
5 years	(0.255)	0.971	0.714	(0.375)	(0.0388)
7 years	(0.1101)	1.233	0.837	(0.19)	(0.01)
10 years	0.0994	1.465	0.968	0.045	0.055
15 years	0.358	1.671	1.072	0.2225	0.1788
20 years	0.473	1.695	1.072	0.2225	0.1788
30 years	0.475	1.731	1.072	0.2225	0.1788

As at 31 December 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	(0.495)	0.165	0.09	(0.725)	(0.15)
7 days	(0.578)	0.098	0.09	(0.595)	(0.33)
1 mês	(0.554)	0.17	0.09	(0.6)	(0.33)
2 Months	(0.5498)	0.18	0.09	(0.745)	(0.31)
3 Months	(0.545)	0.19	0.09	(0.6)	(0.28)
6 Months	(0.526)	0.22	0.145	(0.69)	(0.27)
9 Months	(0.5125)	0.25	0.195	(0.63)	(0.21)
1 year	(0.499)	0.28	0.195	(0.64)	(0.26)
2 years	(0.524)	0.349698	0.194905	(0.7125)	(0.260163)
3 years	(0.508)	0.419396	0.194905	(0.675)	(0.260163)
5 years	(0.4575)	0.558983	0.194905	(0.561)	(0.260163)
7 years	(0.3845)	0.698378	0.194905	(0.441)	(0.260163)
10 years	(0.265)	0.907854	0.194905	(0.2875)	(0.260163)
15 years	(0.072)	1.145451	0.194905	(0.1125)	(0.260163)
20 years	0.009	1.309	0.194905	(0.1125)	(0.260163)
30 years	(0.025)	1.39835	0.194905	(0.1125)	(0.260163)

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 2021**	**Dec 2020**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1884	1.2271	5.725	5.758	5.8	5.8	6.175
EUR/GBP	0.85805	0.89903	4.925	5.185	5.465	5.695	6.08
EUR/CHF	1.098	1.0802	3.813	4.225	4.525	4.7	5.085
EUR/JPY	131.43	126.49	5.675	5.925	6.18	6.4	7.025
EUR/AOA	774.3187	797.1291	-	-	-	-	-

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 2021 and 31 December 2020, is presented as follows:

(Euro thousand)

	Jun 2021				
	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	-	-	2 553 842	2 553 842	2 553 842
Loans and deposits to credit institutions repayable on demand	-	-	55 870	55 870	55 870
Other loans and advances to credit institutions	-	-	296 121	296 121	296 121
Loans and advances to customers	1 145	-	11 656 387	11 657 532	11 634 236
Financial assets held for trading	30 787	-	-	30 787	30 787
Financial assets at fair value	289 795	-	-	289 795	289 795
through profit or loss	-	229 610	-	229 610	229 610
Hedging derivatives	10 726	-	-	10 726	10 726
Other financial assets at amortized cost	-	-	2 813 935	2 813 935	2 813 534
	332 453	229 610	17 376 155	17 938 218	17 914 521
Financial liabilities					
Deposits from central bank	-	-	2 879 434	2 879 434	2 879 434
Deposits from other credit institutions	-	-	713 252	713 252	704 555
Deposits from customers	22 031	-	12 601 121	12 623 152	12 633 048
Debt securities issued	-	-	1 276 239	1 276 239	1 272 434
Financial liabilities held for trading	12 174	-	-	12 174	12 174
Hedging derivatives	347	-	-	347	347
Other subordinated debt	-	-	211 159	211 159	196 036
	34 552	-	17 681 205	17 715 757	17 698 028

(Euro thousand)

	Dec 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	-	-	1 466 250	1 466 250	1 466 250
Loans and deposits to credit institutions repayable on demand	-	-	33 660	33 660	33 660
Other loans and advances to credit institutions	-	-	293 004	293 004	293 004
Loans and advances to customers	1 207	-	11 576 495	11 577 702	11 494 189
Financial assets held for trading	16 923	-	-	16 923	16 923
Financial assets at fair value through profit or loss	346 892	-	-	346 892	346 892
Financial assets at fair value through other comprehensive income	-	286 797	-	286 797	286 797
Hedging derivatives	10 693	-	-	10 693	10 693
Other financial assets at amortized cost	-	-	2 362 616	2 362 616	2 412 670
	375 715	286 797	15 732 025	16 394 537	16 361 078
Financial liabilities					
Deposits from central bank	-	-	1 382 545	1 382 545	1 382 545
Deposits from other credit institutions	-	-	820 638	820 638	816 225
Deposits from customers	-	-	12 501 973	12 501 973	12 509 680
Debt securities issued	6 212	-	1 292 976	1 299 188	1 295 243
Financial liabilities held for trading	13 598	-	-	13 598	13 598
Hedging derivatives	397	-	-	397	397
Other subordinated debt	-	-	216 896	216 896	200 803
	20 207	-	16 215 028	16 235 235	44 166

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 30 June 2021:

(Euro thousand)

	Jun 2021				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial Assets					
Cash and deposits at central banks	2 553 842	-	-	-	2 553 842
Loans and deposits to credit institutions repayable on demand	55 870	-	-	-	55 870
Other loans and advances to credit institutions	-	-	296 121	-	296 121
Loans and advances to customers	-	1 145	11 633 091	-	11 634 236
Financial assets held for trading	23 059	1 704	6 024	-	30 787
Financial assets at fair value through profit or loss	-	-	289 795	-	289 795
Financial assets at fair value through other comprehensive income	191 196	2 928	34 149	1 337	229 610
Hedging derivatives	-	10 726	-	-	10 726
Other financial assets at amortized cost	2 813 534	-	-	-	2 813 534
	5 637 501	16 503	12 259 180	1 337	17 914 521
Financial liabilities					
Deposits from central bank	2 879 434	-	-	-	2 879 434
Deposits from other credit institutions	-	-	704 555	-	704 555
Deposits from customers	-	22 031	12 611 027	-	12 633 058
Debt securities issued	-	-	1 272 424	-	1 272 424
Financial liabilities held for trading	-	1 823	10 351	-	12 174
Hedging derivatives	-	347	-	-	347
Other subordinated debt	-	-	196 036	-	196 036
	2 879 434	24 201	14 794 393	-	17 698 028

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2020:

(Euro thousand)

	Dec 2020				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial Assets					
Cash and deposits at central banks	1 466 250	-	-	-	1 466 250
Loans and deposits to credit institutions repayable on demand	33 660	-	-	-	33 660
Other loans and advances to credit institutions	-	-	293 004	-	293 004
Loans and advances to customers	-	1 207	11 492 982	-	11 494 189
Financial assets held for trading	7 524	3 984	5 415	-	16 923
Financial assets at fair value through profit or loss	-	-	346 892	-	346 892
Financial assets at fair value through other comprehensive income	185 383	3 088	97 041	1 285	286 797
Hedging derivatives	-	10 693	-	-	10 693
Other financial assets at amortized cost	2 412 670	-	-	-	2 412 670
	4 105 487	18 972	12 235 334	1 285	16 361 078
Financial liabilities					
Deposits from central bank	1 382 545	-	-	-	1 382 545
Deposits from other credit institutions	-	-	816 225	-	816 225
Deposits from customers	-	-	12 509 680	-	12 509 680
Debt securities issued	-	6 212	1 289 031	-	1 295 243
Financial liabilities held for trading	-	13 598	-	-	13 598
Hedging derivatives	-	397	-	-	397
Other subordinated debt	-	-	200 803	-	200 803
	1 382 545	20 207	14 815 739	-	16 218 491

50 Post-employment and long-term benefits

Banco Montepio, Montepio Crédito and Montepio Valor assumed the responsibility to pay their employees and members of the Management Bodies old-age and disability pensions and other benefits, in accordance with the accounting policy described in note 1 s).

In accordance with the same policy, the Group calculates at least once a year, with reference to 31 December of each year, the liabilities with retirement pensions and other benefits. This also occurs whenever the changes substantiated on the main actuarial assumptions so determine.

The Group's general pension plan for employees covers liabilities for the retirement benefits provided for in the Collective Labour Agreement for the Banking Sector and is a complementary plan to the General Social Security System.

Under the Collective Labour Agreement ("ACT") for the Banking Sector, employees admitted after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria determining the amount of pension that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and remuneration.

The benefits provided by this pension plan are as follows:

- Retirement due to presumable disability (old age);

- Retirement due to disability; and

- Survival pension.

The respective beneficiaries are guaranteed all social benefits, on the terms, conditions and values included in the pension plan in the quality of employees who at their retirement date are in the service of the Group, or as employees who had been permanent employees of the Group and at their retirement date meet all the enforceability requirements defined in the pension plan.

The pension provided by the Pension Fund is that corresponding to the employee's level at retirement and respective seniority payments, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund ("Caixa Geral de Aposentações") or the National Pensions Centre ("Centro Nacional de Pensões"), same shall be deducted from the pension guaranteed by the present pension plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survival pension equal to 40% of the remuneration to which the employee would be entitled if he/she retired or the pension he/she would receive, respectively.

The Group's former employees, when attaining the situation of retirement due to old-age or disability, are entitled to the payment by the Pension Fund of a pension calculated as per the preceding paragraph, proportional to the time of service rendered to the Group.

Additionally, 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 2021	**Dec 2020**
Financial assumptions		
Salary growth rate	0.5%	0.5%
Pension growth rate	0.3%	0.3%
Rate of return of the Fund	1.5%	1.15%
Discount rate	1.5%	1.15%
Revaluation rate		
Salary growth rate - Social Security	1.25%	1.25%
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 2021, the average duration of the pension liabilities of the Group's employees is 18 years (31 December 2020: 19 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

(Euro thousand)

	Jun 2021	Dec 2020
Active	3 061	3 204
Retirees and survivors	1 516	1 473
	4 577	4 677

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

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(386 418)	(390 463)
Active	(374 529)	(409 548)
	(760 947)	(800 011)
Liabilities with healthcare benefits		
Pensioners	(26 621)	(27 022)
Active	(38 918)	(43 811)
	(65 539)	(70 833)
Liabilities with death benefits		
Pensioners	(2 159)	(2 240)
Active	(1 606)	(1 799)
	(3 765)	(4 039)
Total liabilities	(830 251)	(874 883)
Coverages		
Pension Fund value	873 459	865 523
Net assets/(liabilities) in the balance sheet	43 208	(9 360)
Accumulated actuarial remeasurements recognized in other comprehensive income	239 557	301 211

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

								(Euro thousand)
	Jun 2021				**Dec 2020**			
	Pension benefits	**Healthcare benefits**	**Death benefits**	**Total**	**Pension benefits**	**Healthcare benefits**	**Death benefits**	**Total**
Liabilities at the beginning of the financial year	800 011	70 833	4 039	874 883	780 415	66 757	3 738	850 910
Recognized in net income/(loss) (note 11)								
Current service cost	1 763	885	39	2 687	5 579	1 850	81	7 510
Interest cost	4 601	407	23	5 031	11 699	1 001	56	12 756
Early retirement	7 339	-	-	7 339	14 179	-	-	14 179
Recognized in Equity (note 45)								
Actuarial gains /(losses)								
Changes in assumptions	(46 251)	(4 817)	(329)	(51 397)	1 801	2 399	205	4 405
Not related to Changes in assumptions	5 507	(1 769)	(7)	3 731	6 881	(1 174)	(41)	5 666
Other								
Pensions paid by the Fund	(12 245)	-	-	(12 245)	(20 556)	-	-	(20 556)
Pensions paid by Banco Montepio	(986)	-	-	(986)	(2 395)	-	-	(2 395)
Participant contributions	1 208	-	-	1 208	2 408	-	-	2 408
Liabilities at the end of the financial period	760 947	65 539	3 765	830 251	800 011	70 833	4 039	874 883

The evolution of the Pension Fund's net asset value in the period ended 30 June 2021 and financial year 2020 can be analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Value of the Fund at beginning of financial year	865 523	837 103
Recognized in net income/(loss)		
Share of net interest	4 925	12 215
Recognized in equity (note 45)		
Financial deviations	13 988	9 738
Other		
Contributions from Banco Montepio	60	24 615
Participant contributions	1 208	2 408
Pensions paid by the Fund	(12 245)	(20 556)
Fund's value at the end of the period	873 459	865 523

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 2021 and 31 December 2020, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	Jun 2021				Dec 2020			
	Assets of the fund	%	Quoted	Unquoted	Assets of the fund	%	Quoted	Unquoted
Variable-income securities								
Equities	50 346	6%	50 346	-	48 386	6%	48 386	-
Equity Investment Funds	131 878	15%	-	131 878	130 640	15%	-	130 640
Bonds	591 041	68%	486 738	104 303	592 530	68%	521 857	70 673
Real estate	5 524	1%	-	5 524	5 629	1%	-	5 629
Real estate investment Funds	43 271	5%	-	43 271	34 820	4%		34 820
Venture capital Funds	4 836	1%	-	4 836	6 334	1%	-	6 334
Loans and advances to banks and other	46 563	5%	-	46 563	47 184	5%	-	47 184
Total	873 459	100%	537 084	336 375	865 523	100%	570 243	295 280

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 2021	Dec 2020
Loans and advances in banks and other	36 649	47 184
Real estate	5 451	5 629
Bonds	2 100	2 138
	44 200	54 951

The evolution of the remeasurements in the balance sheet are analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Actuarial gains/(losses) at the beginning of the financial year	301 211	300 878
Actuarial gains/(losses) in the financial period		
Changes in discount rate	(51 397)	55 079
Payroll update - Salaries	-	(22 635)
Payroll update - Pensions	-	(28 039)
Deviation on the Pension Fund return	(13 988)	(9 738)
Other changes	3 731	5 666
Actuarial gains/(losses) recognized in other comprehensive income	239 557	301 211

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

(Euro thousand)

	Jun 2021	Jun 2020
Current service cost	2 687	3 465
Net interest income/(expense) on the liabilities coverage balance	106	104
Costs with early retirement, mutually agreed termination and other	7 339	50
Costs for the financial period	10 132	3 619

The evolution of net assets/(liabilities) in the balance sheet, in the period ended 30 June 2021 and financial year 2020, can be analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
At the beginning of the financial year	(9 360)	(13 807)
Contributions by Banco Montepio	60	24 615
Current service cost	(2 687)	(7 510)
Net interest income/(expense) on the liabilities coverage balance	(106)	(541)
Actuarial gains/(losses)	47 666	(10 071)
Financial gains/(losses)	13 988	9 738
Pensions paid by Banco Montepio	986	2 395
Early retirement, mutually agreed terminations and others	(7 339)	(14 179)
At the end of the financial period	43 208	(9 360)

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 2021 Liabilities		Dec 2020 Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(34 644)	36 951	(36 803)	39 332
Salary growth rate (0.25% change)	26 345	(23 953)	28 682	(26 214)
Pension growth rate (0.25% change)	31 304	(29 821)	34 886	(33 239)
SAMS contribution (0.25% change)	3 984	(3 984)	3 741	(3 741)
Future mortality (1 year change)	(25 513)	25 492	(27 703)	26 730

As at 30 June 2021, the cost associated with the end-of-career awards amounted to Euro 2,492 thousand (31 December 2020: Euro 2,523 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 2021 and 31 December 2020, the amount of the funds for which the Group acts as depository bank is analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Securities Investment Funds	157 911	158 724
Real estate Investment Funds	600 301	594 370
Pension Funds	275 296	265 616
Bank and insurance	898	955
	1 034 406	1 019 665

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 2021, 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
Non-executive 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
Executive Committee
Chairman of the Executive Committee
Pedro Manuel Moreira Leitão
Executive members
Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Helena Catarina Gomes Soares de Moura Costa Pina
Jorge Paulo Almeida e Silva Baião (1)
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

Other Key Management Personnel

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
João Andrade Lopes
João António Morais da Costa Pinto
João Carlos Carvalho das Neves
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque (2)
João Francisco Mendes Almeida de Gouveia
Joaquim Mariano Gargana Cabaço
Jorge Manuel Santos Oliveira
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 Alice Silva de Medeiros Lima Pinto
Maria Dalila Correia Araújo Teixeira
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues
Maria Margarida Carrusca Pontes do Rosário Ribeiro de Andrade

Board of Directors of Other Related parties

Maria Rosa Almas Rodrigues
Nuno Augusto Pereira Coelho
Nuno Henrique Serra Mendes
Nuno Manuel Marques da Silva
Nuno Ribeiro Quesada Van Zeller
Paulo José Martins Jorge da Silva
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

Other Related parties
Alexandra Maria Borges Ferreira Rolo Pimenta Santos
Alexandra Melo Ponciano
Ana Maria Nascimento Sá Couto Júdice Pargana
Ana Maria Sousa Capelão Teixeira Fernandes Mendonça Neves
Ana Paula Maia Fernandes
António Carlos Santos Azevedo Miranda Machado
António Fernando Figueiredo Lopes
António José Boavista Coelho
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
Helder Ferreira Reis
Helena Maria Silva Valente
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 Eduarda Madureira Osório Botelho Fernandes
Maria Fernanda Infante Melo Costa Correia
Miguel Alexandre Teixeira Coelho
Mónica Susana Martins Ferreira Sousa Araújo
Nuno José Ladeiras Cavilhas
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
Ricardo Daniel Domingos Chorão
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) Dr. Jorge Paulo Almeida e Silva Baião was appointed by cooptation on February 18, 2021 and authorized by Banco de Portugal on February 9, 2021, having started functions as Executive Member on February 22, 2021.

(2) Dr. João Filipe Milhinhos Roque resigned as executive member of the Board of Directors of Finibanco Angola, with effect from 31 July 2021.

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
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.
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 Seguros, S.G.P.S., S.A.
NAVISER - Transportes Marítimos Internacionais, S.A.
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 entities resulting from the interest held in Finibanco Angola, S.A.

Banco de Negócios Internacional, S.A. (BNI)
Banco Terra, S.A.
Bifashion
Chamavo e Companhia
Cominder Comércio e Indústria
Consar Gestão de Empreendimentos e Serviços
Fundação Mucusso
Gelcon Holding Company
Geminas
Gesimet Indústria Siderúrgica de Angola, S.A.
Grupo Gema
Himoinsa Angola
Iberpartners Cafés
Jameg, Lda.
Medabil Angola
Novacal
Porto Seco da Mulemba
Shafaris
Vauco Automóveis e Equipamentos

As at 30 June 2021, 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 2021							
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	614	-	-	-	-	-	-	614
Board of Directors of Other Related Parties	2 742	1	-	-	-	-	-	2 741
Other Related Parties	3 586	1	-	-	-	-	-	3 585
Bolsimo - Gestão de Activos, S.A.	5 098	380	-	-	22	6 931	-	11 671
CESource, A.C.E.	-	-	-	-	42	-	-	42
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	-	-	-	13	-	-	14
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	100	-	100
Iberpartners Cafés, S.G.P.S., S.A.	1 664	42	-	-	-		-	1 622
Lusitania Vida, Companhia de Seguros, S.A.	1	1	-	-	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	1 972	646	221	46	-	1 593
Moçambique Companhia de Seguros, S.A.R.L.	-	-	415	-	-	-	-	415
Montepio Geral Associação Mutualista	4	5	-	-	1 808	120	1	1 926
Montepio Gestão de Activos - S.G.O.I.C, S.A.	-	-	1	-	5	-	-	6
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	-	1 168	-	-	1 168
Montepio Residências para Estudantes, S.A.	-	-	-	-	4	-	-	4
NovaCâmbios - Instituição de Pagamento, S.A.	732	41	-	-	-	1 543	3	2 231
Residências Montepio, Serviços de Saúde, S.A.	1 644	42	-	-	38	500	16	2 124
	16 086	513	2 388	646	3 321	9 240	20	29 856

As at 31 December 2020, 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 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	622	-	-	-	-	-	-	622
Board of Directors of Other Related Parties	2 555	2	-	-	-		-	2 553
Other Related Parties	3 905	4	-	-	-	-	-	3 901
Bolsimo - Gestão de Activos, S.A.	7 483	393	-	-	22	5 431	-	12 543
CESource, A.C.E.	-	-	-	-	48	-	-	48
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	-	-	-	26	-	-	27
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	500	-	500
Lusitania Vida, Companhia de Seguros, S.A.	-	-	-	-	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	1 867	612	86	46	-	1 387
Moçambique Companhia de Seguros, S.A.R.L.	-	-	415	-	-	-	-	415
Montepio Geral Associação Mutualista	2	8	-	-	1 947	120	1	2 060
Montepio Gestão de Activos - S.G.O.I.C, S.A.	-	-	1	-	10	-	-	11
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	-	648	-	-	648
NovaCâmbios - Instituição de Pagamento, S.A.	830	92	-	-	-	1 446	8	2 176
Residências Montepio, Serviços de Saúde, S.A.	948	139	-	-	47	500	7	1 349
	16 346	638	2 283	612	2 834	8 043	16	28 240

As at 30 June 2021, 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)

	Jun 2021		
Companies	Deposits from customers	Debt securities issued and Other subordinated liabilities	Total
Boar of Directors	1 686	-	1 686
Board of Directors of Other Related Parties	3 850	-	3 850
Other Related Parties	2 487	-	2 487
Bolsimo - Gestão de Activos, S.A.	1 450	-	1 450
Clínica CUF Belém, S.A.	14	-	14
Empresa Gestora de Imóveis da Rua do Prior S.A	120	-	120
Fundação Montepio Geral	1 392	-	1 392
Fundo de Pensões - Montepio Geral	36 229	2 108	38 337
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	564	-	564
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	356	-	356
Iberpartners Cafés, S.G.P.S., S.A.	4	-	4
In Posterum, A.C.E.	86	-	86
Leacock - Prestação de Seguros, LDA.	836	-	836
Lusitania Vida, Companhia de Seguros, S.A.	20 583	-	20 583
Lusitania, Companhia de Seguros, S.A.	3 412	-	3 412
Montepio Geral Associação Mutualista	137 676	195 810	333 486
Montepio Gestão de Activos - S.G.O.I.C., S.A.	2 525	-	2 525
Montepio Gestão de Activos Imobiliários, A.C.E.	2 942	-	2 942
Montepio Residências para Estudantes, S.A:	502	-	502
Montepio Seguros, S.G.P.S., S.A.	1 493	-	1 493
NovaCâmbios - Instituição de Pagamento, S.A.	524	-	524
Residências Montepio, Serviços de Saúde, S.A.	470	-	470
SAGIES - Segurança e Higiene no Trabalho, S.A.	9	-	9
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 536	-	2 536
Sociedade Portuguesa de Administrações, S.A.	254	-	254
	222 000	197 918	419 918

As at 31 December 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 thousand)

	Dec 2020		
Companies	**Deposits from customers**	**Debt securities issued and Other subordinated liabilities**	**Total**
Boar of Directors	1 757	-	1 757
Board of Directors of Other Related Parties	3 479	-	3 479
Other Related Parties	2 406	-	2 406
Bolsimo - Gestão de Activos, S.A.	1 902	-	1 902
Clínica CUF Belém, S.A.	10	-	10
Empresa Gestora de Imóveis da Rua do Prior S.A	166	-	166
Fundação Montepio Geral	838	-	838
Fundo de Pensões - Montepio Geral	39 188	2 103	41 291
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	493	-	493
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	89	-	89
In Posterum, A.C.E.	93	-	93
Lusitania Vida, Companhia de Seguros, S.A.	10 396	-	10 396
Lusitania, Companhia de Seguros, S.A.	4 031	-	4 031
Montepio Geral Associação Mutualista	140 129	200 388	340 517
Montepio Gestão de Activos - S.G.O.I.C., S.A.	1 600	-	1 600
Montepio Gestão de Activos Imobiliários, A.C.E.	2 450	-	2 450
Montepio Residências para Estudantes, S.A:	537	-	537
Montepio Seguros, S.G.P.S., S.A.	2 028	-	2 028
NovaCâmbios - Instituição de Pagamento, S.A.	512	-	512
Residências Montepio, Serviços de Saúde, S.A.	138	-	138
SAGIES - Segurança e Higiene no Trabalho, S.A.	45	-	45
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	3 122	-	3 122
Sociedade Portuguesa de Administrações, S.A.	148	-	148
	215 557	202 491	418 048

As at 30 June 2021, the Group's income and expenses with related parties, pursuant to article 109, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Staff costs, Other operating income/(expense) and General and administrative expenses, are analysed as follows:

(Euro thousand)

Companies	Jun 2021					
	Interest and similar income	Interest and similar expenses	Net fee and comission income /(expense)	Staff costs	Other operating income/(expense)	General administrative expenses
Board of Directors	-	1	1	-	-	-
Board of Directors of Other Related Parties	5	2	1	-	-	-
Other Related Parties	8	1	1	-	-	-
Bolsimo -Gestão de Activos, S.A.	112	-	-	(132)	-	-
CESource, A.C.E.	-	-	-	(290)	-	-
Fundo de Pensões - Montepio Geral	-	8	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 464	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	2	-	1	-	-	-
Iberpartners Cafés, S.G.P.S., S.A.	21	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	-	2 354	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	2 521	-	4	-
Montepio Geral Associação Mutualista	2	9 150	1 136	(5 423)	-	967
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	-	423	-	8	-
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	(1 129)	(1 534)	43
Montepio Residências para Estudantes, S.A.	-	-	-	(8)	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	-	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	26	-	28	-	2	-
Residências Montepio, Serviços de Saúde, S.A.	31	-	29	(57)	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	1	-	-	-	-
	207	9 163	7 959	(7 039)	(1 520)	1 010

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)

Companies	Jun 2020					
	Interest and similar income	Interest and similar expenses	Net fee and comission income /(expense)	Staff costs	Other operating income/(expense)	General administrative expenses
Board of Directors	-	3	2	-	1	-
Board of Directors of Other Related Parties	12	8	5	-	1	-
Other Related Parties	36	8	5	-	1	-
Bolsimo -Gestão de Activos, S.A.	-	-	1	-	-	-
CESource, A.C.E.	-	-	-	(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 - Sociedade Gestora de Fundos de Investimento, S.A.	-	1	5	-	-	-
Montepio - Gestão de Activos Imobiliários, A.C.E.	-	-	-	(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	-	-	-
N Seguros, S.A.	-	-	-	-	-	-
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

In the period ended 30 June 2021 and financial year 2020, there were no transactions with the Group's Pension Fund.

53 Securitization of assets

As at 30 June 2021 and 31 December 2020, there are six 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 that are live as at 30 June 2021.

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 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 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).

The Pelican Finance no. 1 loan securitization operation was cancelled on 25 March 2021.

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 2021, the securitization operations realized by the Group are presented as follows:

(Euro thousand)

Issue	Settlement date	Currency	Asset 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 2007	euro	Mortgage loans	762 375	127 791	762 375	132 350	33 911
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	429 974	1 028 600	460 514	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	72 269	236 500	74 587	-
Pelican Mortgages No. 5	March 2009	euro	Mortgage loans	1 027 500	433 833	1 027 500	459 089	-
Pelican Mortgages No. 6	February 2012	euro	Mortgage loans	1 107 000	545 431	1 107 000	623 552	-
Aqua Finance No. 4	July 2017	euro	Consumer loans and other	200 200	63 914	200 200	84 223	22 303
				4 362 175	1 673 212	4 362 175	1 834 315	56 214

* Includes nominal value, accrued interest and other adjustments.

As at 31 December 2020, the securitization operations realized by the Group are presented as follows:

(Euro thousand)

Issue	Settlement date	Currency	Asset 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 2007	euro	Mortgage loans	762 375	145 122	762 375	150 653	38 677
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	452 144	1 028 600	482 450	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	76 148	236 500	79 203	-
Pelican Mortgages No. 5	March 2009	euro	Mortgage loans	1 027 500	452 911	1 027 500	478 456	-
Pelican Mortgages No. 6	February 2012	euro	Mortgage loans	1 107 000	570 033	1 107 000	648 080	-
Pelican Finance No. 1	May 2014	euro	Consumer loans and other	308 700	74 659	308 700	85 149	-
Aqua Finance No. 4	July 2017	euro	Consumer loans and other	200 200	72 660	200 200	84 223	39 013
				4 670 875	1 843 677	4 670 875	2 008 214	77 690

* 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 2021, 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*	*Aqua Finance n.º 4*	**Total**
Domestic loans and advances							
Corporate							
Other loans	-	-	-	-	-	22 208	22 208
Retail							
Mortgage	126 826	428 176	71 510	432 806	537 671	-	1 596 989
Consumer loans and other	-	-	-	-	-	39 321	39 321
	126 826	428 176	71 510	432 806	537 671	61 529	1 658 518
Credit and overdue interest							
Less than 90 days	73	703	372	203	2 224	50	3 625
More than 90 days	892	1 095	387	824	5 536	2 335	11 069
	965	1 798	759	1 027	7 760	2 385	14 694
	127 791	429 974	72 269	433 833	545 431	63 914	1 673 212

Additionally, the detail of the securitized loans not derecognized, by securitization operation and nature of contract, as at 31 December 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	-	-	-	-	-	-	25 260	25 260
Retail								
Mortgage	143 949	450 648	75 261	451 592	561 277	-	-	1 682 727
Consumer loans and other	-	-	-	-	-	69 748	44 932	114 680
	143 949	450 648	75 261	451 592	561 277	69 748	70 192	1 822 667
Credit and overdue interest								
Less than 90 days	107	648	541	344	2 260	263	29	4 192
More than 90 days	1 066	848	346	975	6 496	4 648	2 439	16 818
	1 173	1 496	887	1 319	8 756	4 911	2 468	21 010
	145 122	452 144	76 148	452 911	570 033	74 659	72 660	1 843 677

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 and Pelican Mortgages no. 6 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 2021, the securities issued by the special purpose vehicles are analysed as follows:

Issue	Bonds	Initial nominal amount euros	Current nominal amount euros	Group's interest held (nominal amount) euros	Maturity	*Rating (initial)* Fitch	Moodys	S&P	DBRS	*Rating (current)* Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	121 068 971	87 157 677	2054	AAA	Aaa	AAA	n.a.	BBB	A2	AA	n.a.
	Class B	14 250 000	3 125 829	3 125 829	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BBB	n.a.
	Class C	12 000 000	2 632 277	2 632 277	2054	A	A3	A	n.a.	BB+	B2	BB	n.a.
	Class D	6 375 000	1 398 397	1 398 397	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	340 635 796	340 635 796	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AAA
	Class B	55 500 000	30 154 356	30 154 356	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	32 599 304	32 599 304	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	13 583 043	13 583 043	2056	BBB	n.a.	n.a.	B+	B-	n.a.	n.a.	n.a.
	Class E	27 500 000	14 941 348	14 941 348	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	300 953 932	300 953 932	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	105 405 248	105 405 248	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	14 864 843	14 864 843	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	14 864 843	14 864 843	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	268 351 554	268 351 554	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	52 963 707	52 963 707	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	18 123 494	18 123 494	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.
Aqua Finance n.º 4	Class A	140 000 000	24 023 487	-	2035	n.a.	A3	n.a.	AL	n.a.	A1	n.a.	AA
	Class B	15 000 000	15 000 000	-	2035	n.a.	Ba2	n.a.	BBBL	n.a.	Baa3	n.a.	AH
	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 2020, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	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	138 350 012	99 598 316	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	3 572 001	3 572 001	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	3 008 001	3 008 001	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	1 598 001	1 598 001	2054	BBB	Baa3	BBB	n.a.	B	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	357 936 501	357 936 501	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AA
	Class B	55 500 000	31 685 880	31 685 880	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	34 255 005	34 255 005	2056	A-	n.a.	n.a.	BBB	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	14 272 919	14 272 919	2056	BBB	n.a.	n.a.	B+	BB	n.a.	n.a.	n.a.
	Class E	27 500 000	15 700 211	15 700 211	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.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	314 319 574	314 319 574	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	110 086 392	110 086 392	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	15 525 004	15 525 004	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	15 525 004	15 525 004	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	292 879 799	292 879 799	2063	A	n.a.	A-	AA	A+	n.a.	AA	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	57 093 499	57 093 499	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A	AAA
	Class B	29 824 000	18 609 200	18 609 200	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	43 715 916	43 715 916	2028	A	n.a.	n.a.	A	A+	n.a.	n.a.	AAL
	Class B	91 100 000	26 732 717	26 732 717	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	24 023 487	-	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.

The Bank has an operation that configures a synthetic securitization structure. The operation started on 18 December 2020 and is based on a loan portfolio of small and medium-sized companies (SMEs). The legal maturity of the operation is 25 March 2036 and the respective amount totals Euro 395,000 thousand as at 31 December 2020. This operation has an estimated average maturity of 2.85 years.

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 2021, the Banco Montepio Group had (i) a domestic network of 271 branches, among which 7 branches of proximity and convenience of Banco Montepio and 7 branches for corporate clients of BEM, (ii) a credit institution in Cape Verde and (iii) a bank in Angola with 20 branches.

The information by operating segments on 30 June 2021 reflects the organizational and management model of the Banco Montepio Group, which follows the approved strategic guidance. 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 Strategic Planning and Control Department 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, presented in the financial statements as a Discontinued Operation, and Finibanco Angola;

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, except for 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 according to the equity method

Investments in associated companies consolidated according to 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.

As at 30 June 2021, the reporting by operating segment, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated										
	Commercial Banking										
	Retail	Social Economy	Specialized credit	Asset manage ment	Subtotal	Investment Banking	International Activity	Markets	Non-Core segments	Other segments	Total
Interest and similar income	80 956	2 122	10 033	-	**93 111**	21 572	4 955	14 038	7 974	3 087	**144 737**
Interest and similar expense	12 038	373	251	-	**12 662**	2 492	1 029	21 674	3 416	(10 790)	**30 483**
NET INTEREST INCOME	**68 918**	**1 749**	**9 782**	**-**	**80 449**	**19 080**	**3 926**	**(7 636)**	**4 558**	**13 877**	**114 254**
Dividends from equity instruments	-	-	-	-	**-**	-	-	-	-	1 747	**1 747**
Net fee and commission income	46 082	738	2 432	-	**49 252**	4 556	748	850	(1 470)	971	**54 907**
Net gains/(losses) arising from financing operations	-	-	(10)	-	**(10)**	(1 105)	1 437	(3 805)	-	202	**(3 281)**
Other operating income/(expense)	506	(19)	(2 023)	-	**(1 536)**	272	(833)	14 736	(768)	(19 961)	**(8 089)**
OPERATING INCOME	**115 506**	**2 468**	**10 181**	**-**	**128 155**	**22 803**	**5 279**	**4 145**	**2 320**	**(3 164)**	**159 538**
Staff costs	35173	1 553	3 325	-	**40 051**	2 960	2 238	752	3 070	30 451	**79 522**
General and administrative expenses	8 583	142	2 550	-	**11 275**	877	1 619	1 059	785	16 378	**31 993**
Depreciation and amortization	598	2	480	-	**1 080**	334	597	1	1	15 804	**17 817**
OPERATIONAL COSTS	**44 354**	**1 697**	**6 355**	**-**	**52 406**	**4 171**	**4 454**	**1 812**	**3 856**	**62 633**	**129 332**
Total provisions and impairment	(1 248)	(23)	1 396	-	**125**	1 070	(980)	3 381	63 749	(6 637)	**60 708**
Share of profit/(loss) of associated companies under the equity method	-	-	-	-	**-**	-	-	-	-	(233)	**(233)**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**72 400**	**794**	**2 430**	**-**	**75 624**	**17 562**	**1 805**	**(1 048)**	**(65 285)**	**(59 393)**	**(30 735)**
Taxes	18 462	203	717	-	**19 382**	4 370	38	(267)	(15 778)	(6 580)	**1 165**
Non-controlling interests	-	-	-	-	**-**	-	350	-	-	-	**350**
Net income/(loss) from discontinued operations	-	-	-	(10)	**(10)**	-	42	-	-	(784)	**(752)**
NET INCOME/LOSS	**53 938**	**591**	**1 713**	**(10)**	**56 232**	**13 192**	**1 459**	**(781)**	**(49 507)**	**(53 597)**	**(33 002)**
Assets	8 564 760	198 147	566 943	6 086	**9 335 936**	2 009 694	296 726	6 269 961	1 781 444	(233 353)	**19 460 408**
Liabilities	11 068 619	756 341	507 353	1 156	**12 333 469**	525 008	238 897	5 080 084	-	(67 795)	**18 109 663**
Investments in associated companies	-	-	-	-	**-**	-	-	3 762	-	-	**3 762**

The caption Income/(loss) from discontinued operations includes the contribution of Banco Montepio Geral – Cabo Verde, S.A., and Montepio Valor, S.G.O.I.C., 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 2020, the reporting by operating segment, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated										
	Commercial banking										
	Retail	Social Economy	Specialized credit	Asset manage ment	Subtotal	Investment Banking	International Activity	Markets	Non-Core segments	Other segments	Total
Interest and similar income	94 727	2 335	9 334	-	**106 396**	23 403	7 111	16 299	7 103	(7 053)	**153 259**
Interest and similar expense	17 974	511	90	-	**18 575**	3 508	1 198	19 955	4 645	(15 923)	**31 958**
NET INTEREST INCOME	**76 753**	**1 824**	**9 244**	**-**	**87 821**	**19 895**	**5 913**	**(3 656)**	**2 458**	**8 870**	**121 301**
Dividends from equity instruments	-	-	-	-	**-**	0	-	-	-	1 719	**1 719**
Net fee and commission income	47 821	607	1 863	-	**50 291**	4590	842	1 185	(1 262)	(201)	**55 445**
Net gains/(losses) arising from financing operations	-	-	1	-	**1**	(49)	6 693	8 132	(3)	(916)	**13 858**
Other operating income/(expense)	(120)	(64)	(1 287)	-	**(1 471)**	(99)	(377)	-	8 911	(18 175)	**(11 211)**
OPERATING INCOME	**124 454**	**2 367**	**9 821**	**-**	**136 642**	**24 337**	**13 071**	**5 661**	**10 104**	**(8 703)**	**181 112**
Staff costs	37 638	1 307	3 091	-	**42 036**	2 719	2 915	713	3 308	29 115	**80 806**
General and administrative expenses	9 162	147	2 321	-	**11 630**	1 078	1 561	931	933	17 235	**33 368**
Depreciation and amortization	561	2	389	-	**952**	253	716	1	2	14 884	**16 808**
OPERATIONAL COSTS	**47 361**	**1 456**	**5 801**	**-**	**54 618**	**4 050**	**5 192**	**1 645**	**4 243**	**61 234**	**130 982**
Total provisions and impairment	34 291	2 262	1 639	-	**38 192**	5 926	273	5 503	80 650	(8 069)	**122 475**
Share of profit/(loss) of associated companies under the equity method	-	-	-	-	**-**	-	-	-	-	(330)	**(330)**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**42 802**	**(1 351)**	**2 381**	**-**	**43 832**	**14 361**	**7 606**	**(1 487)**	**(74 789)**	**(62 198)**	**(72 675)**
Taxes	10 915	(344)	469	-	**11 040**	3 489	1 372	(379)	(18 593)	(20 605)	**(23 676)**
Non-controlling interests	-	-	-	-	**-**	-	1 233	-	-	-	**1 233**
Net income/(loss) from discontinued operations	-	-	-	(136)	**(136)**	-	141	-	-	(1 064)	**(1 059)**
NET INCOME/LOSS	**31 887**	**(1 007)**	**1 912**	**(136)**	**32 656**	**10 872**	**5 142**	**(1 108)**	**(56 196)**	**(42 657)**	**(51 291)**
Assets	8317587	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**

As at 30 June 2021, 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	139 782	4 955	144 737
Interest and similar expense	29 978	505	30 483
Inter-segment	524	(524)	-
Net interest income	110 328	3 926	114 254
Dividends from equity instruments	1 747	-	1 747
Net fee and commission income	54 158	749	54 907
Net gains/(losses) arising from financial assets and liabilities	(6 546)	-	(6 546)
at fair value through profit or loss	526	-	526
Net gains/(losses) arising from financial assets at fair value	1 302	1 437	2 739
through other comprehensive income	19 089	-	19 089
Net gains/(losses) arising from foreign exchange differences	(26 345)	(833)	(27 178)
Operating income	154 259	5 279	159 538
Staff costs	77 284	2 238	79 522
General and administrative expenses	30 374	1 619	31 993
Depreciation and amortization	17 220	597	17 817
	124 878	4 454	129 332
Impairment of loans and advances	55 770	(705)	55 065
Impairment of other financial assets	3 381	(387)	2 994
Impairment of other assets	9 513	-	9 513
Other provisions	(6 976)	112	(6 864)
Operating profit/(loss)	(32 307)	1 805	(30 502)
Share of profit/(loss) of associated companies under the equity	(233)	-	(233)
Profit/(loss) before taxes and non-controlling interests	(32 540)	1 805	(30 735)
Current taxes	(88)	38	(50)
Deferred taxes	1 215	-	1 215
Profits/(losses) from discontinued operations	(10)	(742)	(752)
Result of discontinued operations - Inter segment	(784)	784	-
Non-controlling interests	-	350	350
Attributable consolidated net income	(34 461)	1 459	(33 002)

As at 30 June 2021, 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	2 720 037	185 796	2 905 833
Loans and advances to customers	11 630 077	27 455	11 657 532
Investments in financial assets and associated companies	3 327 092	51 523	3 378 615
Non-current assets held for sale -	12	5 542	5 554
Investment properties	115 200	-	115 200
Non-current assets held for sale - discontinued operations	1 452	172	1 624
Other assets	1 369 812	26 238	1 396 050
Total Assets	19 163 682	296 726	19 460 408
Deposits from central banks and other credit institutions	3 591 974	712	3 592 686
Deposits from customers	12 499 101	124 051	12 623 152
Debt securities issued and Other subordinated debt	1 487 398	-	1 487 398
Non-current liabilities held for sale - discontinued operations	1 109	104 349	105 458
Other liabilities	291 184	9 785	300 969
Total Liabilities	17 870 766	238 897	18 109 663
Non-controlling interests	-	9 872	9 872
Total Equity attributable to the Shareholders	1 292 916	47 957	1 340 873
Total Shareholders' Equity	1 292 916	57 829	1 350 745
Total Liabilities and Sahreholders' Equity	19 163 682	296 726	19 460 408

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	146 148	7 111	153 259
Interest and similar expense	31 424	534	31 958
Inter-segment	664	(664)	-
Net interest income	115 388	5 913	121 301
Income from equity instruments	1 719	-	1 719
Results of services and commissions	54 603	842	55 445
Results of assets and liabilities valued at fair value through profit or loss	(11 931)	-	(11 931)
Income from financial assets at fair value through other comprehensive income	18 836	-	18 836
Foreign exchange revaluation results	260	6 693	6 953
Results of disposal of other assets	9 146	-	9 146
Other exploration results	(19 980)	(377)	(20 357)
Operating income	168 041	13 071	181 112
Staff costs	77 891	2 915	80 806
General and administrative expenses	31 807	1 561	33 368
Depreciation and amortization	16 092	716	16 808
	125 790	5 192	130 982
Impairment of loans and advances	109 381	(624)	108 757
Impairment of other financial assets	5 580	211	5 791
Impairment of other assets	5 475	-	5 475
Other provisions	1 766	686	2 452
Operating profit/(loss)	(79 951)	7 606	(72 345)
Share of profit/(loss) of associated companies under the equity method	(330)	-	(330)
Profit/(loss) before taxes and non-controlling interests	(80 281)	7 606	(72 675)
Current taxes	(1 582)	1 372	(210)
Deferred taxes	(23 466)	-	(23 466)
Profits/(losses) from discontinued operations	(136)	(923)	(1 059)
Result of discontinued operations - Inter segment	(1 064)	1 064	-
Non-controlling interests	1 233	-	1 233
Attributable consolidated net income to holders of share capital	(57 666)	6 375	(51 291)

As at 31 December 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	1 606 272	186 642	1 792 914
Loans and advances to customers	11 552 262	25 440	11 577 702
Investments in financial assets and associated companies	2 969 087	58 706	3 027 793
Non-current assets held for sale	154	5 330	5 484
Investment properties	125 893	-	125 893
Non-current assets held for sale - discontinued operations	-	1 310	1 310
Other assets	1 382 235	27 675	1 409 910
Total Assets	17 635 903	305 103	17 941 006
Deposits from central banks and other credit institutions	2 202 514	669	2 203 183
Deposits from customers	12 373 421	128 552	12 501 973
Debt securities issued and Other subordinated debt	1 516 084	-	1 516 084
Non-current liabilities held for sale - discontinued operations	-	109 619	109 619
Other liabilities	271 602	11 386	282 988
Total Liabilities	16 363 621	250 226	16 613 847
Non-controlling interests	-	9 299	9 299
Total Equity attributable to the Shareholders	1 272 282	45 578	1 317 860
Total Shareholders' Equity	1 272 282	54 877	1 327 159
Total Liabilities and Sahreholders' Equity	17 635 903	305 103	17 941 006

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 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, always, 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 Banco Montepio Group’s Risk Management 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 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 Group'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).

The Banco Montepio Group uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the 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 using revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. Most of the physical collaterals are revalued at least annually. 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.

The expected loss measurement process follows the general principles defined in IFRS 9. The accounting policies considered in this process are described in note 1 c.10.4).

As part of the calculation of the estimated impairment losses, sensitivity analyses were carried out on the macroeconomic variables considered in the forward-looking models and the following results were obtained:

1. Macroeconomic projection degradation scenario of 10%: impact of 1.06% of total impairment of the loan portfolio;
2. Macroeconomic projection improvement scenario of 10%: impact of -1.15% of total impairment of the loan portfolio.

In addition, sensitivity analyses were also performed directly on the PD and LGD parameters, with the following results being obtained:

1. Parameter degradation scenario of 5%: impact of 7.30% of total impairment of the loan portfolio;
2. Parameter improvement scenario of 5%: impact of -6.99% of total impairment of the loan portfolio.

The Group's credit risk exposure can be analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Loans and deposits at credit institutions repayable on demand	55 870	33 660
Other loans and advances to credit institutions	296 121	293 004
Loans and advances to customers	11 657 532	11 577 702
Financial assets held for trading	28 088	10 452
Financial assets at fair value through profit or loss	10 025	9 666
Financial assets at fair value through other comprehensive income	206 630	168 058
Hedging derivatives	10 726	10 693
Other financial assets at amortized cost	2 813 935	2 362 616
Investments in associated companies	3 762	3 872
Other assets	60 170	48 103
Guarantees and standby letters provided	503 420	507 617
Irrevocable credit lines	660 574	721 300
	16 306 853	15 746 743

The analysis of the main credit risk exposures by sector of activity, as at 30 June 2021, can be analysed as follows:

(Euro thousand)

Jun 2021																	
Activity	Loans and deposits at other credit institutions repayable on demand	Other and 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
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Book value	Off-balance sheet value		Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	101 907	4 759	-	-	5 176	54	-	-	-	-	895	6 098	124
Extractive Industries	-	-	-	15 052	554	-	-	-	-	-	-	-	-	1 304	1 803	16
Manufacturing industries	-	-	-	1 016 077	100 279	-	960	-	-	-	-	-	-	32 546	117 812	1 401
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	57 817	4 905	-	-	-	-	-	-	-	-	1 441	9 897	19
Water supply	-	-	-	73 873	2 427	-	-	-	-	-	-	-	-	1 859	1 319	14
Construction	-	-	-	559 380	116 628	793	545	-	-	-	-	-	-	103 848	106 950	5 918
Wholesale and retail trade	-	-	-	904 752	104 903	-	5 198			-	-	-	-	56 618	135 182	6 722
Transport and storage	-	-	-	383 551	18 932	-		-	-	-	-	-	-	5 914	16 843	190
Accommodation and catering activities	-	-	-	606 967	29 275	-	-	-	-	-	-	-	3 088	11 942	31 194	426
Information and Communication	-	-	-	64 320	3 892	-	-	-	-	10 726	-	-	-	2 119	21 071	256
Financial and insurance activities	55 870	296 751	630	549 086	94 205	7 728	150	2 803	709	-		-	-	218 719	16 244	262
Real estate activities	-	-	-	654 396	45 318	495	88	-	-	-	-	-	-	22 149	107 201	1 190
Consulting, scientific, technical and similar	-	-	-	256 540	9 316	-	2 912	-	-	-	-	-	-	17 916	28 407	365
Administrative and supporting service activities	-	-	-	116 729	5 880	-	46	-	-	-	-	-	674	6 179	21 972	282
Public administration and defence, compulsory social security	-	-	-	42 292	257	19 072	-	188 584	408	-	2 823 248	9 313	-	147	955	13
Educação	-	-	-	63 914	2 931	-	-	-	-	-	-	-	-	476	5 248	39
Human Health Services and Social action activities	-	-	-	260 936	9 362	-	-	4 075	25	-	-	-	-	2 942	15 890	334
Artistic activities, shows and recreational	-	-	-	69 232	11 718	-	-	-	-	-	-	-	-	9 724	6 098	350
Other services	-	-	-	66 676	18	-	126	-	-	-	-	-	-	3 187	10 330	71
Retail																
Mortgage Loans	-	-	-	5 687 572	52 929	-	-	1 910	12	-	-	-	-	-	-	-
Others	-	-	-	766 541	41 590	-	-	5 893	603	-	-	-	-	3 495	60	1 006
	55 870	**296 751**	**630**	**12 317 610**	**660 078**	**28 088**	**10 025**	**208 441**	**1 811**	**10 726**	**2 823 248**	**9 313**	**3 762**	**503 420**	**660 574**	**18 998**

The analysis of the mains credit risk exposures by sector of activity, as at 31 December 2020, can be analysed as follows:

(Euro thousand)

Activity	Dec 2020															
	Loans and deposits at other credit institutions repayable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Investments in associated companies	Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Gross value	Impairment	Gross value	Impairment	Book value	Book value	Gross value	Impairment	Book value	Gross value	Impairment	Book value	Off-balance sheet value		Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	97 319	4 045	-	-	5 204	54	-	-	-	-	652	6 071	241
Extractive Industries	-	-	-	14 704	625	-	-	-	-	-	-	-	-	1 477	1 928	21
Manufacturing industries	-	-	-	980 759	94 182		1 440			-	-	-	-	20 155	120 572	1 477
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	68 620	4 558		-			-	-	-	-	1 057	9 789	21
Water supply	-	-	-	69 130	2 623	-	-	-	-	-	-	-	-	2 219	4 854	40
Construction	-	-	-	626 502	167 744		588	-	-	-	-	-	-	100 554	106 874	5 798
Wholesale and retail trade	-	-	-	914 706	107 021	-	3 364			-	-	-	-	50 476	152 587	6 527
Transport and storage	-	-	-	404 431	46 455	-	6	-	-	-	-	-	-	5 290	16 637	285
Accommodation and catering activities	-	-	-	532 779	23 429	-	-	-	-	-	-	-	3 198	14 814	33 665	606
Information and Communication	-	-	-	58 844	3 394	-	-	-	-	10 693	-	-	-	1 769	22 845	112
Financial and insurance activities	33 660	293 291	287	627 449	102 668	9 399	150	4 143	708	-		-	-	236 663	49 054	403
Real estate activities	-	-	-	736 415	86 826	-	85	-	-	-	-	-	-	24 524	109 396	1 595
Consulting, scientific, technical and similar	-	-	-	263 921	10 082	-	2 943	-	-	-	-	-	-	20 908	29 126	654
Administrative and supporting service activities	-	-	-	109 996	6 848	-	47	-	-	-	-	-	674	5 927	21 492	313
Public administration and defence, compulsory social security	-	-	-	45 737	272	1 053	904	153 765	382	-	2 371 582	8 966	-	116	557	14
Educação	-	-	-	63 262	2 922	-	-	-	-	-	-	-	-	254	4 809	34
Human Health Services and Social action activitie	-	-	-	236 059	9 356	-	-	4 060	24	-	-	-	-	4 301	15 525	404
Artistic activities, shows and recreational	-	-	-	66 829	10 590	-	-	-	-	-	-	-	-	9 172	5 303	179
Other services	-	-	-	62 884	381	-	139	-	-	-	-	-	-	3 674	10 148	74
Retail																
Mortgage Loans	-	-	-	5 636 438	55 782	-	-	2 067	13	-	-	-	-	-	-	-
Others	-	-	-	740 432	39 711	-	-	-	-	-	-	-	-	3 615	68	2 420
	33 660	**293 291**	**287**	**12 357 216**	**779 514**	**10 452**	**9 666**	**169 239**	**1 181**	**10 693**	**2 371 582**	**8 966**	**3 872**	**507 617**	**721 300**	**21 218**

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 503,420 thousand (31 December 2020: Euro 507,617 thousand) and the irrevocable credit facilities amounting to Euro 606,574 thousand (31 December 2020: Euro 721,300 thousand), broken down between loans with impairment and loans without impairment, is presented as follows:

(Euro thousand)

	Jun 2021			Dec 2020		
Impacts by stage	**Grosse value**	**Impairment**	**Net value**	**Grosse value**	**Impairment**	**Net value**
Collective analysis	**9 067 538**	**223 322**	**8 844 216**	**8 892 593**	**235 950**	**8 656 643**
Stage 1	7 156 168	16 944	7 139 224	6 462 170	14 105	6 448 065
Stage 2	1 582 601	44 524	1 538 077	2 110 739	60 661	2 050 078
Stage 3	328 769	161 854	166 915	319 684	161 184	158 500
Individual analysis	**4 414 066**	**455 754**	***3 958 312***	**4 693 540**	**564 782**	**4 128 758**
	13 481 604	**679 076**	**12 802 528**	**13 586 133**	**800 732**	**12 785 401**

As at 30 June 2021 and 31 December 2020, the detail of the application of Stages to other financial assets is presented as follows:

(Euro thousand)

	Jun 2021			Dec 2020		
Impacts by stage	**Grosse value**	**Impairment**	**Net value**	**Grosse value**	**Impairment**	**Net value**
Amortizado cost (AC)	**2 823 248**	**9 313**	**2 813 935**	**2 371 582**	**8 966**	**2 362 616**
Stage 1	2 804 736	7 527	2 797 209	2 371 582	8 966	2 362 616
Stage 2	18 512	1 786	16 726	-	-	-
Fair value (FVOIC)	**208 442**	**1 811**	**206 631**	**169 239**	**1 181**	**168 058**
Stage 1	205 744	1 153	204 591	165 570	556	165 014
Stage 2	2 698	658	2 040	3 669	625	3 044
Loans to credit institutions	**296 751**	**630**	**296 121**	**293 291**	**287**	**293 004**
Stage 1	290 105	178	289 927	293 291	287	293 004
Stage 2	6 646	452	6 194	-	-	-
	3 328 441	**11 754**	**3 316 687**	**2 834 112**	**10 434**	**2 823 678**

As at 30 June 2021 and 31 December 2020, the detail of the loans and advances subject to collective analysis, structured by segment and by Stage, is as follows:

(Euro thousand)

	Jun 2021			Dec 2020		
Segment	**Grosse value**	**Impairment**	**Net value**	**Grosse value**	**Impairment**	**Net value**
Retail	**6 427 636**	**87 273**	**6 340 363**	**6 353 311**	**90 275**	**6 263 036**
Mortgage loans	5 674 316	51 578	5 622 738	5 623 950	54 989	5 568 961
Stage 1	4 656 926	1 201	4 655 725	4 361 981	1 211	4 360 770
Stage 2	910 910	11 340	899 570	1 158 396	15 052	1 143 344
Stage 3	106 480	39 037	67 443	103 573	38 726	64 847
Consumer credit	704 393	33 019	671 374	677 683	31 147	646 536
Stage 1	581 427	2 941	578 486	530 212	2 376	527 836
Stage 2	81 610	6 016	75 594	109 131	8 312	100 819
Stage 3	41 356	24 062	17 294	38 340	20 459	17 881
Credit cards	48 927	2 676	46 251	51 678	4 139	47 539
Stage 1	39 203	784	38 419	27 637	714	26 923
Stage 2	7 076	217	6 859	20 573	1 012	19 561
Stage 3	2 648	1 675	973	3 468	2 413	1 055
Corporate	**2 639 902**	**136 049**	**2 503 853**	**2 539 282**	**145 675**	**2 393 607**
Non-Construction	2 391 146	121 179	2 269 967	2 306 550	131 308	2 175 242
Stage 1	1 697 934	11 001	1 686 933	1 397 666	8 938	1 388 728
Stage 2	548 281	25 320	522 961	765 164	33 714	731 450
Stage 3	144 931	84 858	60 073	143 720	88 656	55 064
Construction	248 756	14 870	233 886	232 732	14 367	218 365
Stage 1	180 678	1 017	179 661	144 673	867	143 806
Stage 2	34 724	1 631	33 093	57 475	2 571	54 904
Stage 3	33 354	12 222	21 132	30 584	10 929	19 655
	9 067 538	**223 322**	**8 844 216**	**8 892 593**	**235 950**	**8 656 643**

As at 30 June 2021 and 31 December 2020, impairment is detailed as follows:

(Euro thousand)

	Jun 2021						
	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	4 387 590	448 508	2 639 902	136 048	7 027 492	584 556	6 442 936
Retail - mortgage loans	13 256	1 351	5 674 316	51 579	5 687 572	52 930	5 634 642
Retail - other loans	13 220	5 895	753 320	35 695	766 540	41 590	724 950
	4 414 066	455 754	9 067 538	223 322	13 481 604	679 076	12 802 528

(Euro thousand)

	Dec 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	4 670 560	559 562	2 538 703	145 676	7 209 263	705 238	6 504 025
Retail - mortgage loans	12 489	794	5 623 950	54 988	5 636 439	55 782	5 580 657
Retail - other loans	10 491	4 426	729 940	35 286	740 431	39 712	700 719
	4 693 540	564 782	8 892 593	235 950	13 586 133	800 732	12 785 401

As at 30 June 2021, the transfer between Stages, related to loans and advances to customers, is presented as follows:

(Euro thousand)

	Jun 2021					
	Transfer between stages					
	From 2 to 1	From 1 to 2	From 3 to 2	From 2 to 3	From 3 to 1	From 1 to 3
Exposure	991 033	396 478	11 041	92 868	5 286	16 226

As at 31 December 2020, the transfer between Stages, related to loans and advances to customers, is presented as follows:

(milhares de euros)

	Dec 2020					
	Transfer etween stages					
	From 2 to 1	From 1 to 2	From 3 to 2	From 2 to 3	From 3 to 1	From 1 to 3
Exposure	284 251	1 700 599	31 563	58 935	6 764	21 527

As at 30 June 2021 and 31 December 2020, the fair value analysis of collaterals associated with the Group's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collateral	Jun 2021	Dec 2020
Individual analysis		
Securities and other financial assets	*177 220*	*188 701*
Real Estate - Mortgage loans	*29 915*	*17 902*
Real Estate - Construction and CRE	*2 492 045*	*2 463 666*
Other real estate	*2 182 433*	*2 056 725*
Other guarantees	*500 481*	*518 479*
Collective analysis - Stage 1		
Securities and other financial assets	*186 560*	*144 592*
Real Estate - Mortgage loans	*10 512 603*	*9 722 902*
Real Estate - Construction and CRE	*319 830*	*177 846*
Other real estate	*603 529*	*455 927*
Other guarantees	*425 747*	*345 403*
Collective analysis - Stage 2		
Securities and other financial assets	*47 315*	*66 706*
Real Estate - Mortgage loans	*1 720 976*	*2 172 996*
Real Estate - Construction and CRE	*124 128*	*143 358*
Other real estate	*401 039*	*527 784*
Other guarantees	*31 342*	*44 433*
Collective analysis - Stage 3		
Securities and other financial assets	*2 397*	*1 941*
Real Estate - Mortgage loans	*167 281*	*155 858*
Real Estate - Construction and CRE	*56 294*	*63 409*
Other real estate	*83 074*	*66 588*
Other guarantees	*20 321*	*12 016*
	20 084 529	**19 347 231**

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 2021 and 31 December 2020, is presented as follows:

(Euro thousand)

	Jun 2021		Dec 2020	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate	5 482 950	415 126	5 512 991	442 887
Construction and CRE	1 544 542	169 430	1 696 272	262 351
Retail - Mortgage loans	5 687 572	52 930	5 636 439	55 782
Retail - Other loans	766 540	41 590	740 431	39 712
	13 481 604	679 076	13 586 133	800 732

The live loans and advances portfolio, by segment and by production year, as at 30 June 2021, 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 previous	719	37 740	1 881	715	74 303	28 572	41 370	1 209 724	12 975	21 147	6 584	691
2005	209	13 074	825	174	16 358	4 647	10 285	490 561	6 129	5 488	2 739	238
2006	320	25 412	2 545	193	35 468	10 150	12 555	609 238	9 190	14 203	12 435	2 773
2007	508	28 683	1 624	238	42 831	13 178	12 866	620 299	9 615	38 636	14 660	1 141
2008	1 403	45 598	5 828	415	19 012	4 849	6 717	325 317	4 845	60 845	16 655	820
2009	2 231	72 190	4 322	484	35 625	12 807	3 646	197 419	1 938	48 154	14 998	2 070
2010	2 020	86 422	9 858	360	32 045	7 432	3 672	225 889	2 303	34 958	8 848	1 243
2011	2 626	95 308	6 664	424	16 639	3 538	1 394	82 583	593	28 583	8 260	1 939
2012	2 614	82 159	5 769	391	26 306	8 134	856	51 010	510	20 528	5 801	1 119
2013	4 756	261 998	38 350	418	26 488	2 495	1 094	64 174	298	20 401	13 964	2 133
2014	6 546	390 212	40 407	1 395	70 484	9 304	1 304	81 003	298	24 281	25 050	3 976
2015	7 108	317 810	86 162	768	30 553	2 399	1 531	97 387	304	22 212	30 616	3 385
2016	9 004	515 186	37 676	1 552	137 554	17 327	2 140	157 887	586	35 607	48 317	3 717
2017	12 268	439 499	31 732	1 222	252 630	14 978	2 949	232 889	712	29 531	61 391	3 573
2018	13 059	506 444	53 696	1 892	134 596	16 097	3 115	256 020	818	41 715	90 822	3 232
2019	13 414	697 555	39 680	2 160	199 477	7 188	3 743	318 503	1 166	35 663	118 733	3 630
2020	17 181	1 106 391	37 303	2 257	269 989	4 968	3 951	354 021	400	35 961	168 712	3 452
2021	11 180	761 269	10 804	1 389	124 184	1 367	3 442	313 648	250	23 073	117 955	2 458
	107 166	5 482 950	415 126	16 447	1 544 542	169 430	116 630	5 687 572	52 930	540 986	766 540	41 590

The live loans and advances portfolio, by segment and by production year, as at 31 December 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 previous	722	34 306	1 899	722	104 534	49 993	43 356	1 290 591	13 504	24 721	7 431	742
2005	219	13 603	997	183	33 980	21 320	10 605	514 350	6 580	8 180	3 716	238
2006	355	26 263	2 415	200	72 120	44 618	13 018	639 510	10 057	18 426	13 850	2 846
2007	542	30 704	1 564	243	45 214	13 401	13 290	650 172	10 048	43 156	16 635	1 318
2008	1 467	47 180	5 829	433	20 868	5 689	6 933	340 173	5 111	64 762	18 387	1 267
2009	2 377	75 660	4 800	514	41 083	17 155	3 767	207 113	2 279	50 099	16 339	2 146
2010	2 008	98 222	12 687	377	37 083	10 708	3 796	236 546	2 278	36 198	9 290	1 277
2011	2 900	99 163	6 858	447	19 519	5 932	1 446	86 627	587	29 800	9 250	2 136
2012	3 119	97 822	10 885	323	28 243	10 061	886	53 770	521	21 315	6 531	1 227
2013	5 258	311 127	69 487	484	29 572	3 619	1 146	69 600	457	21 521	13 859	2 371
2014	7 277	413 707	41 303	1 592	113 071	14 531	1 361	86 147	341	25 780	29 788	4 628
2015	7 934	369 696	83 661	854	36 301	5 994	1 600	103 279	290	24 015	36 925	4 021
2016	10 179	607 233	51 659	1 884	161 442	19 042	2 242	167 242	660	38 303	58 411	4 085
2017	12 902	461 700	33 770	1 330	275 310	9 085	3 077	246 503	732	32 126	73 819	3 411
2018	13 610	535 885	51 222	1 795	149 430	16 877	3 247	268 258	826	43 773	104 807	2 913
2019	14 062	744 688	37 529	1 896	232 185	8 150	3 841	325 728	1 096	37 967	134 287	3 163
2020	21 693	1 546 032	26 322	2 464	296 317	6 176	4 003	350 830	415	37 447	187 106	1 923
	106 624	5 512 991	442 887	15 741	1 696 272	262 351	117 614	5 636 439	55 782	557 589	740 431	39 712

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 30 June 2021 and 31 December 2020, is analysed as follows:

(Euro thousand)

	Jun 2021									
	Corporate		**Construction and CRE**		**Retail - Mortage loans**		**Retail - Other**		**Total**	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 259 806	299 031	1 127 784	149 477	13 256	1 351	13 220	5 895	4 414 066	455 754
Collective	2 223 144	116 095	416 758	19 953	5 674 316	51 579	753 320	35 695	9 067 538	223 322
	5 482 950	415 126	1 544 542	169 430	5 687 572	52 930	766 540	41 590	13 481 604	679 076

(Euro thousand)

	Dec 2020									
	Corporate		**Construction and CRE**		**Retail - Mortage loans**		**Retail - Other**		**Total**	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 339 730	317 800	1 330 829	241 761	12 489	794	10 491	4 426	4 693 539	564 781
Collective	2 173 261	125 087	365 443	20 590	5 623 950	54 988	729 940	35 286	8 892 594	235 951
	5 512 991	442 887	1 696 272	262 351	5 636 439	55 782	740 431	39 712	13 586 133	800 732

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for the companies, as at 30 June 2021 and 31 December 2020, is analysed as follows:

(Euro thousand)

	Jun 2021											
	Construction		**Industry**		**Trade**		**Real Estate activities**		**Other activities**		**Total**	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	529 326	109 357	626 188	68 688	317 504	55 551	610 164	41 037	2 304 408	173 875	4 387 590	448 508
Collective	248 756	14 869	561 228	34 449	712 418	40 531	168 647	5 497	948 853	40 702	2 639 902	136 048
	778 082	124 226	1 187 416	103 137	1 029 922	96 082	778 811	46 534	3 253 261	214 577	7 027 492	584 556

(Euro thousand)

	Dec 2020											
	Construction		**Industry**		**Trade**		**Real Estate activities**		**Other activities**		**Total**	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	594 823	159 530	619 407	57 933	323 281	56 726	736 006	82 231	2 397 043	203 142	4 670 560	559 562
Collective	232 732	14 367	527 918	39 289	727 097	43 464	132 774	6 222	918 182	42 334	2 538 703	145 676
	827 555	173 897	1 147 325	97 222	1 050 378	100 190	868 780	88 453	3 315 225	245 476	7 209 263	705 238

The gross exposure of performing and non-performing loans and advances, as at 30 June 2021 and 31 December 2020, is analysed as follows:

(Euro thousand)

	Jun 2021												
	Gross carrying amounts of performing and non-performing							**Accumulated impairment and other negative fair value adjustments related to credit risk**				**Collaterals and financial guarantees received**	
		Of which performing but past due >30 days and <= 90 days	**Of which performing loans**	**of which non-performing**				**on performing exposure**		**on non-performing exposure**		**on non-performing exposure**	**of which forborne**
					of which in default	**of which impaired**	**of which forborne**		**of which forborne**		**of which forborne**		
Loans represented by securities (a)	3 643 059	-	-	33 950	33 950	33 950	-	14 399	-	15 147	-	45	-
Other balance sheet credit exposures (b)	14 479 485	31 017	67 100	1 110 034	1 110 034	1 108 850	661 539	108 156	2 766	534 129	308 079	436 605	325 343
Off-balance sheet exposures (c)	2 002 606	1 657	184	123 189	123 189	123 189	3 902	6 973	3	12 025	295	-	-

(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 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 impaired**	**of which forborne**		**of which forborne**		**of which forborne**		
Loans represented by securities (a)	3 178 778	-	-	33 950	33 950	33 950	-	13 633	-	15 147	-	45	-
Other balance sheet credit exposures (b)	13 356 649	35 436	86 159	1 255 605	1 248 476	1 253 943	729 736	123 782	3 882	637 386	364 235	419 956	319 659
Off-balance sheet exposures (c)	2 037 802	1 757	199	127 061	94 223	127 061	571	10 374	5	10 844	41	-	-

(a) Includes Debt instruments of the Financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.
(b) Includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, Guarantees and Documentary credit provided.

The fair value of the collateral underlying the loans and advances portfolio of the Corporate, Construction and Commercial Real Estate ("CRE") and Mortgage segments, as at 30 June 2021, is presented as follows:

(Euro thousand)

Fair value	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	5 524	704 724	8 927	294 104	92 625	12 052 278	270	7 429
>= 0,5 M€ and <1M€	523	364 646	122	80 420	471	291 615	1	500
>= 1 M€ and <5M€	572	1 247 397	112	212 199	51	74 066	-	-
>= 5 M€ and <10M€	74	519 078	16	117 383	2	12 816	-	-
>= 10 M€ and <20M€	52	713 650	1	10 000	-	-	-	-
>= 20 M€ and <50M€	21	641 038	3	116 000	-	-	-	-
>= 50M€	14	1 859 794	3	201 080	-	-	-	-
	6 780	6 050 327	9 184	1 031 186	93 149	12 430 775	271	7 929

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 2020, is presented as follows:

(Euro thousand)

Fair value	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	5 791	720 350	8 928	274 255	92 015	11 734 884	287	8 123
>= 0,5 M€ and <1M€	503	353 890	112	70 366	416	258 140	1	500
>= 1 M€ and <5M€	545	1 161 105	111	214 268	43	62 434	-	-
>= 5 M€ and <10M€	72	500 621	16	116 787	2	13 781	-	-
>= 10 M€ and <20M€	53	718 575	2	23 318	-	-	-	-
>= 20 M€ and <50M€	22	677 071	3	116 000	-	-	-	-
>= 50M€	11	1 612 389	3	201 080	-	-	-	-
	6 997	5 744 001	9 175	1 016 074	92 476	12 069 239	288	8 623

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE and Mortgage segments, as at 30 June 2021 and 31 December 2020, is presented as follows:

(Euro thousand)

Segment/ Ratio	Jun 2021			Dec 2020		
	Number of properties	Total exposure	Impairment	Number of properties	Total exposure	Impairment
Corporate						
Without associated property (*)	-	4 089 847	281 467	-	4 123 392	284 115
< 60%	2 610	483 123	42 625	2 691	419 880	39 732
>= 60% and < 80%	761	428 464	36 331	820	430 289	35 688
>= 80% and < 100%	889	434 785	50 704	816	482 124	52 432
>= 100%	17	46 731	4 001	17	57 306	30 921
Construction and CRE						
Without associated property (*)	-	481 201	42 278	-	537 061	56 507
< 60%	1 236	569 151	47 220	1 231	552 292	84 485
>= 60% and < 80%	461	222 695	20 996	494	304 564	33 903
>= 80% and < 100%	680	229 790	38 971	781	247 982	49 170
>= 100%	126	41 705	19 966	147	54 373	38 287
Mortgage						
Without associated property (*)	-	38 904	3 256	-	40 224	2 692
< 60%	61 104	2 482 172	11 897	61 293	2 460 086	11 662
>= 60% and < 80%	23 891	1 985 752	11 538	23 684	1 934 460	12 495
>= 80% and < 100%	7 695	1 131 119	16 195	7 053	1 152 730	17 748
>= 100%	459	49 624	10 043	446	48 937	11 185

(*) 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 2021 and 31 December 2020, are presented as follows:

(Euro thousand)

Assets	Jun 2021 Number of properties	Jun 2021 Fair value of assets	Jun 2021 Book value
Land	**1 676**	**324 259**	**290 195**
Urban	1 398	274 386	243 705
Rural	278	49 873	46 490
Buildings under construction	**463**	**66 798**	**58 685**
Commercial	53	6 602	6 142
Residual	305	59 461	51 844
Other	105	735	699
Constructed buildings	**1 609**	**195 573**	**173 117**
Commercial	749	121 742	109 057
Residual	438	66 055	57 048
Other	422	7 776	7 012
	3 748	586 630	521 997

(Euro thousand)

Assets	Dec 2020 Number of properties	Dec 2020 Fair value of assets	Dec 2020 Book value
Land	**1 754**	**345 776**	**306 503**
Urban	1 467	292 982	257 527
Rural	287	52 794	48 976
Buildings under construction	**491**	**71 661**	**63 933**
Commercial	53	6 716	6 193
Residual	332	64 191	57 024
Other	106	754	716
Constructed buildings	**1 633**	**218 334**	**191 466**
Commercial	747	131 513	115 693
Residual	502	78 847	68 840
Other	384	7 974	6 933
	3 878	635 771	561 902

The time elapsed since the receipt in recovery/execution of real estate, recorded in the caption Other assets (note 34), as at 30 June 2021 and 31 December 2020, is presented as follows:

(Euro thousand)

	Jun 2021				
Elapsed time since recovery/execution	< 1 year	>= 1 year and	>= 2.5 years and	>= 5 years	Total
Land	**4 559**	**9 069**	**97 563**	**179 004**	**290 195**
Urban	3 615	7 759	86 791	145 540	243 705
Rural	944	1 310	10 772	33 464	46 490
Buildings under construction	**57**	**5 533**	**22 241**	**30 854**	**58 685**
Commercial	57	667	2 625	2 793	6 142
Residual	-	4 691	19 607	27 546	51 844
Other	-	175	9	515	699
Constructed buildings	**22 512**	**14 135**	**40 722**	**95 748**	**173 117**
Commercial	17 364	6 455	27 178	58 060	109 057
Residual	4 634	5 206	11 056	36 152	57 048
Other	514	2 474	2 488	1 536	7 012
	27 128	28 737	160 526	305 606	521 997

(Euro thousand)

	Dec 2020				
Elapsed time since recovery/execution	< 1 year	>= 1 year and	>= 2.5 years and	>= 5 years	Total
Land	**9 287**	**17 629**	**116 369**	**163 218**	**306 503**
Urban	8 571	14 587	101 766	132 603	257 527
Rural	716	3 042	14 603	30 615	48 976
Buildings under construction	**5 444**	**13 398**	**14 580**	**30 511**	**63 933**
Commercial	667	1 755	1 657	2 114	6 193
Residual	4 594	11 624	12 892	27 914	57 024
Other	183	19	31	483	716
Edifícios construídos	**20 784**	**16 798**	**53 274**	**100 610**	**191 466**
Commercial	10 115	10 085	35 867	59 626	115 693
Residual	8 156	6 385	14 903	39 396	68 840
Other	2 513	328	2 504	1 588	6 933
	35 515	47 825	184 223	294 339	561 902

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 operational 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 of Banco Montepio. 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 2021 this represented 90.9% (31 December 2020: 84.6%) 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 2021 and 31 December 2020.

Regarding the credit quality of debt securities, circa 97.6% of the portfolio is investment grade (31 December 2020: 96.8%). Of note are the Portuguese and Italian sovereign bonds with a rating of BBB- and that represent 65.6% (31 December 2020: 84.1%) of the portfolio. Concerning the composition of the portfolio, one verifies a decrease in the sovereign debt exposure, offset by the increased exposure to Italian and Spanish 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 and Other financial assets at amortized cost, is presented as follows:

(Euro thousand)

Rating	Jun 2021		Dec 2020		Change	
	Value	%	Value	%	Value	%
AAA	7 320	0.2	-	-	7 320	-
AA+	707	-	779	-	(72)	(9.2)
AA	-	-	-	-	-	-
AA-	-	-	-	-	-	-
A+	1 018	-	1 090	-	(72)	(6.6)
A	-	-	1 018	-	(1 018)	(100.0)
A-	793	-	-	-	793	-
BBB+	951 326	31.3	306 424	12.1	644 902	210.5
BBB	16 111	0.5	16 366	0.6	(255)	(1.6)
BBB-	1 994 961	65.6	2 128 612	84.1	(133 651)	(6.3)
BB +	-	-	-	-	-	-
BB	173	-	185	-	(12)	(6.5)
BB-	-	-	7 001	0.3	(7 001)	(100.0)
CCC	51 465	1.7	58 650	2.3	(7 185)	(12.3)
NR	17 051	0.7	11 602	0.5	5 449	47.0
Total	3 040 925	100.0	2 531 727	100.0	509 198	20.1

The position in bonds recognized in the portfolio of Financial assets at fair value through other comprehensive income stood at Euro 206,630 thousand (31 December 2020: Euro 168,058 thousand), the position in Other financial assets at amortized cost stood at Euro 2,813,935 thousand (31 December 2020: Euro 2,362,616 thousand), and the position in Financial assets held for trading stood at Euro 20,360 thousand (31 December 2020: Euro 1,053 thousand).

Regarding the trading portfolio, as at 30 June 2021, the main VaR indicators are as follows:

(Euro thousand)

	Jun 2021	Average	Minimum	Maximum	Dec 2020
Market VaR	349	1 058	271	2 411	1 545
Interest rate risk	235	354	206	589	30
Exchange risk	116	112	123	201	155
Price risk	211	522	230	1 494	1 548
Spread Risk	119	680	100	886	55
Diversification effect	(332)	(610)	(388)	(759)	*(243)*

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 2021 and 31 December 2020:

(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 2021					
Assets					
Debt securities	66 906	21 340	40 942	1 125 043	1 824 361
Loans and advances	6 749 373	3 152 787	1 110 332	853 838	339 221
Others	133 618	-	-	-	44 952
Off-balance sheet	1 095	6 654	-	778 662	-
Total	6 950 992	3 180 781	1 151 274	2 757 543	2 208 534
Liabilities					
Debt securities issued	6 323	7 287	54 817	1 408 516	19 137
Term deposits	2 802 427	1 278 959	1 918 946	737 774	-
Others	349 148	392	390	3 100 038	306 354
Off-balance sheet	755 983	6 654	16	125	1 220
Total	3 913 881	1 293 292	1 974 169	5 246 454	326 710
GAP (Assets - Liabilities)	3 037 111	1 887 489	(822 895)	(2 488 911)	1 881 824
31 December 2020					
Assets					
Debt securities	89 347	287 945	59 950	920 554	1 168 720
Loans and advances	6 740 103	3 010 619	1 171 148	775 080	305 812
Others	89 290	-	-	-	38 945
Off-balance sheet	1 148	-	6 654	756 654	-
Total	6 919 888	3 298 564	1 237 752	2 452 288	1 513 477
Liabilities					
Debt securities issued	8 584	812	57 283	1 408 516	19 398
Term deposits	2 803 388	1 491 623	2 133 847	720 428	-
Others	460 548	54 245	392	1 609 929	301 096
Off-balance sheet	750 008	-	16	131	1 295
Total	4 022 528	1 546 680	2 191 538	3 739 004	321 789
GAP (Assets - Liabilities)	2 897 360	1 751 884	(953 786)	(1 286 716)	1 191 688

The following table present the interest rate gaps, in the 1st half of 2021 and financial year 2020:

(Euro thousand)

	Jun 2021				Dec 2020			
	June	Annual Average	Maximum	Minimum	December	Annual Average	Maximum	Minimum
Interest Rate Gap	3 494 618	3 547 523	3 600 429	3 494 618	3 600 429	3 834 051	4 067 673	3 600 429

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 2021, 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 82,266 thousand (31 December 2020: decrease of Euro 55,508 thousand).

The following table presents the average interest rates, in relation to the Group's major asset and liability categories for the 1st half of 2021 and financial year 2020, as well as the respective average balances and the income and expenses for the financial year:

(Euro thousand)

	Jun 2021			Dec 2020		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest- generating assets						
Deposits at central banks and other credit institutions	1 799 407	-0.26	(2 388)	888 935	-0.07	(618)
Loans and advances to other credit institutions	340 285	0.28	479	303 081	0.27	841
Loans and advances to customers	12 421 202	2.04	127 376	12 416 349	2.12	267 459
Securities portfolio	2 908 413	0.43	6 338	2 680 256	0.55	15 108
Other assets at fair value	9 557	1.37	66	9 937	1.52	154
Other (includes derivatives)	-	-	7 334	-	-	14 209
	17 478 864	**1.58**	**139 205**	**16 298 558**	**1.79**	**297 153**
Interest-generating liabilities						
Deposits from ECB	2 238 299	-0.28	(3 112)	1 452 221	-0.38	(5 620)
Deposits from other credit institutions	813 960	0.01	55	586 711	0.35	2 094
Deposits from customers	12 429 924	0.10	6 016	12 344 078	0.16	19 454
Senior debt	1 289 266	0.76	4 926	1 337 543	0.68	9 287
Subordinated debt	216 486	8.89	9 673	188 656	9.11	17 468
Other (includes derivatives)	-	-	7 393	-	-	11 676
	16 987 935	**0.29**	**24 951**	**15 909 209**	**0.34**	**54 359**
Net interest income		**1.30**	**114 254**		**1.47**	**242 794**

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 2021 and 31 December 2020, is analysed as follows:

(Euro thousand)

	Jun 2021						
	Euro	**U. S. Dollar**	**Angolan Kwanza**	**Swiss Franc**	**Pound Sterling**	**Other foreign currencies**	**Total amount**
Assets by currency							
Cash and deposits at central banks	2 533 064	2 249	16 717	817	576	419	2 553 842
Loans and advances to credit institutions repayable on demand	12 677	32 859	-	3 180	1 205	5 949	55 870
Other loans and advances to credit institutions	153 124	110 909	32 088	-	-	-	296 121
Loans and advances to customers	11 590 139	40 184	27 203	-	6	-	11 657 532
Financial assets held for trading	27 268	3 519	-	-	-	-	30 787
Other financial assets at fair value	289 795	-	-	-	-	-	289 795
value through profit or loss	229 610	-	-	-	-	-	229 610
Financial assets at fair value	10 726	-	-	-	-	-	10 726
through other comprehensive income	2 762 468	43 384	8 083	-	-	-	2 813 935
Hedging derivatives	3 762	-	-	-	-	-	3 762
Other financial assets at amortized cost	5 554	-	-	-	-	-	5 554
Repurchase agreement assets	1 603	11	-	-	1	9	1 624
Non current assets held for sale	115 200	-	-	-	-	-	115 200
Non-current assets held for sale -	206 742	-	30 061	-	-	-	236 803
- Discontinued Operations	32 850	-	-	-	-	-	32 850
Investment properties	3 774	-	-	-	-	-	3 774
Other tangible assets	493 572	-	-	-	-	-	493 572
Intangible assets	597 141	30 121	1 787	-	2	-	629 051
Total Assets	**19 069 069**	**263 236**	**115 939**	**3 997**	**1 790**	**6 377**	**19 460 408**
Liabilities by currency							
Deposits from central banks	2 879 434	-	-	-	-	-	2 879 434
Deposits from other credit institutions	684 261	28 611	-	30	122	228	713 252
Deposits from customers	12 368 475	165 567	53 269	3 455	11 139	21 247	12 623 152
Debt securities issued	1 276 239	-	-	-	-	-	1 276 239
Financial liabilities held for trading	12 174	-	-	-	-	-	12 174
Hedging derivatives	347	-	-	-	-	-	347
Non current liabilities held for sale - Discontinued operations	91 980	10 446	-	-	3 032	-	105 458
Provisions	25 821	-	5 030	-	-	-	30 851
Current tax liabilities	1 703	-	-	-	-	-	1 703
Other subordinated debt	211 159	-	-	-	-	-	211 159
Other liabilities	248 665	1 414	3 926	230	169	1 490	255 894
Total Liabilities	**17 800 258**	**206 038**	**62 225**	**3 715**	**14 462**	**22 965**	**18 109 663**
Exchange forward transactions	-	(56 196)	-	-	13 985	42 060	
Exchange gap	-	1 002	53 714	282	1 313	25 472	-
Stress Test	-	**(200)**	**(10 743)**	**(56)**	**(262)**	**(974)**	-

(Euro thousand)

	Dec 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	1 440 072	5 534	17 043	1 931	908	-	762	1 466 250
Loans and advances to credit institutions repayable on demand	791	29 226	-	2 377	426	-	840	33 660
Other loans and advances to credit institutions	206 888	55 657	30 459	-	-	-	-	293 004
Loans and advances to customers	11 500 506	51 481	25 706	-	9	-	-	11 577 702
Financial assets held for trading	12 722	3 600	-	134	467	-	-	16 923
Other financial assets at fair value	346 892	-	-	-	-	-	-	346 892
value through profit or loss	258 817	-	-	-	-	27 980	-	286 797
Financial assets at fair value	10 693	-	-	-	-	-	-	10 693
through other comprehensive income	2 303 815	58 801	-	-	-	-	-	2 362 616
Hedging derivatives	3 872	-	-	-	-	-	-	3 872
Other financial assets at amortized cost	5 484	-	-	-	-	-	-	5 484
Repurchase agreement assets	1 292	10	-	-	1	-	7	1 310
Non current assets held for sale	125 893	-	-	-	-	-	-	125 893
Non-current assets held for sale -	227 813	-	31 349	-	-	-	-	259 162
- Discontinued Operations	35 829	-	-	-	-	-	-	35 829
Investment properties	3 584	-	-	-	-	-	-	3 584
Other tangible assets	496 223	-	-	-	-	-	-	496 223
Intangible assets	557 484	55 308	2 319	-	1	-	-	615 112
Total Assets	**17 538 670**	**259 617**	**106 876**	**4 442**	**1 812**	**27 980**	**1 609**	**17 941 006**
Liabilities by currency								
Deposits from central banks	1 382 545	-	-	-	-	-	-	1 382 545
Deposits from other credit institutions	788 975	31 246	-	29	124	-	264	820 638
Deposits from customers	12 246 044	162 281	60 375	3 972	9 926	-	19 375	12 501 973
Debt securities issued	1 299 188	-	-	-	-	-	-	1 299 188
Financial liabilities held for trading	13 598	-	-	-	-	-	-	13 598
Hedging derivatives	397	-	-	-	-	-	-	397
Non current liabilities held for sale - Discontinued operations	95 774	10 253	-	-	3 592		-	109 619
Provisions	33 765	-	4 889	-	-	-	-	38 654
Current tax liabilities	4 486	-	-	-	-	-	-	4 486
Other subordinated debt	216 896	-	-	-	-	-	-	216 896
Other liabilities	218 082	776	5 812	412	438	-	333	225 853
Total Liabilities	**16 299 750**	**204 556**	**71 076**	**4 413**	**14 080**	**-**	**19 972**	**16 613 847**
Exchange forward transactions	-	(50 171)	-	(69)	12 013	(28 007)	38 377	
Exchange gap	-	4 890	35 800	(40)	(255)	(27)	20 014	-

The result of the stress test performed corresponds to the estimated impact (before tax) on equity, including minority interests, due to a devaluation of 20.0% in the exchange rate of each currency against the Euro.

Liquidity risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring in significant losses arising from a deterioration in financing conditions (financing risk) and/or the sale of its assets at values lower than market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined, as well as other internal metrics for which internal limits are defined. This control is reinforced with the monthly execution of stress tests, 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 2021, the LCR value was 261.0% (31 December 2020: 200.7%).

As regards the stable financing ratio, designated NSFR, same stood at 120.6% (31 December 2020: 109.8%).

As at 30 June 2021, the Group's financing structure was as follows:

(Euro thousand)

Liabilities	Jun 2021	Undetermined	Up 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 879 434	-	-	-	-	2 879 434
Deposits from other credit institutions	713 252	-	53 816	4 507	4 701	650 228
Deposits from customers	12 623 152	-	7 662 198	971 785	1 706 341	2 282 827
Debt securities issued	1 276 239	-	5 060	-	4 964	1 266 215
Financial liabilities held for trading	12 174	-	170	-	-	12 004
Financial liabilities held for sale -	105 458	105 458	-	-	-	-
- Discontinuing operations	211 159	-	-	-	4 836	206 323
Other subordinated debt	255 894	255 894	-	-	-	-
Total de financiamento	**18 076 762**	**361 352**	**7 721 244**	**976 292**	**1 720 842**	**7 297 031**

As at 31 December 2020, the Group's financing structure was as follows:

(Euro thousand)

Liabilities	Dec 2020	Undetermined	Up 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 382 545	-	-	-	-	1 382 545
Deposits from other credit institutions	820 638	-	50 901	114 416	4 502	650 819
Deposits from customers	12 501 973	-	7 201 482	1 237 465	1 852 201	2 210 825
Debt securities issued	1 299 188	-	9 852	837	1 423	1 287 076
Financial liabilities held for trading	13 598	-	10			13 588
Financial liabilities held for sale - - Discontinuing operations	109 619	109 619	-	-	-	-
Other subordinated debt	216 896	-	-	-	10 573	206 323
Other liabilities	225 853	225 853	-	-	-	-
Total funding	**16 570 310**	**335 472**	**7 262 245**	**1 352 718**	**1 868 699**	**5 751 176**

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 2021 and 31 December 2020, on the assets and related collaterals:

(Euro thousand)

Assets	Jun 2021 Carrying amount of encumbered assets	Jun 2021 Fair value of encumbered assets	Jun 2021 Carrying amount of unencumbered assets	Jun 2021 Fair value of unencumbered assets
Assets from the reporting institutions	5 466 973	-	13 993 435	-
Equity instruments	-	-	305 449	305 389
Debt securities	1 806 088	2 119 060	1 827 786	860 344
Other assets	-	-	1 683 885	-

(Euro thousand)

Assets	Dec 2020 Carrying amount of encumbered assets	Dec 2020 Fair value of encumbered assets	Dec 2020 Carrying amount of unencumbered assets	Dec 2020 Fair value of unencumbered assets
Assets from the reporting institutions	3 103 517	-	14 837 489	-
Equity instruments	-	-	462 435	462 374
Debt securities	783 897	880 019	2 367 154	1 596 005
Other assets	-	-	1 732 038	-

(Euro thousand)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2021	Dec 2020
	Carrying amount of selected financial liabilities	
Associated liabilities, contingent liabilities and securities borrowed	3 727 721	1 800 701
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	5 439 063	3 076 570

The encumbered assets are mostly related to the Group's funding operations, namely of the ECB, of repo operations, of the issuance of covered bonds and of securitization programs. The type of assets used as collateral for securitization programs and for the issuance of covered bonds, whether those placed outside the Group, or those used to reinforce the collateral pool with the ECB, are constituted by customers' loans contracts. Repo transactions in the money market are collateralized, essentially, by covered bonds and securitization programs, of which Banco Montepio is the originator, and by securitized credit operations.

The amounts presented in the previous tables correspond to the position in the 1st half of 2021 and financial year 2020 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 2021 and 31 December 2020, to Euro 1,705,570 thousand.

It should be noted that the total value of collaterals available at the European Central Bank (ECB), as at 30 June 2021, amounts to Euro 3,630,498 thousand (31 December 2020: Euro 3,107,546 thousand) with a usage of Euro 2,906,150 thousand (31 December 2020: Euro 1,407,650 thousand):

		(Euro thousand)
	Jun 2021	**Dec 2020**
Total eligible collateral	**4 606 588**	**4 296 080**
Total collateral in the pool	3 630 498	3 107 546
Collateral outside the pool	976 090	1 188 534
Used collateral	**3 858 389**	**2 590 510**
Collateral used for ECB	2 906 150	1 407 650
Collateral committed to other financing operations	952 239	1 182 860
Collateral available for ECB	**724 348**	**1 699 896**
Total available collateral	**748 199**	**1 705 570**

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 2021 and 31 December 2020, the exposure to real estate and investment units in real estate funds presented the following values:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Non-current assets held for sale	5 554	5 484
Real estate received as loan guarantee	527 551	567 386
Investment properties	115 200	125 893
Investment units in Real Estate Funds	201 020	252 621
	849 325	951 384
Stress test	(84 933)	(95 138)

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.

Notwithstanding that described in the accounting policy disclosed in note 1 h) in relation to properties, the net realizable value of the inventories is determined based on a valuation made by an independent appraiser. Real estate appraisals are based on assumptions on which the influence of the economic and financial situation and the market's ability to transact the available offer, at each moment, are decisive. In this way, the realization of the appraisal value determined by the independent appraisers is dependent on the verification of the assumptions used in the respective appraisals, meaning that the evolution of the macroeconomic conditions and the real estate market may translate into changes in these same assumptions, and, consequently, have an impact on the recoverability of the appraised value of the properties. The real estate appraisal reports, considered for the valuation of said inventories, consider the global pandemic situation experienced at the moment, with no additional uncertainty factors having been identified in same.

Operational risk and Going concern

Operational risk corresponds to the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events. Banco Montepio adopted the standard method to quantify its own capital requirements for operational risk, supported on the existence of an operational risk management system based on the identification, assessment, monitoring, measurement, mitigation and reporting of this type of risk.

The operational risk management model implemented complies with the 3-lines-of-defence principle.

The Risk Department exercises the corporate function of operational risk management of Banco Montepio which is supported by the existence of participants in different organic units that ensure the proper implementation of the operational risk management.

The operational 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 operational risk situations.

Regarding operational risk monitoring in the period ended 30 June 2021, the collection and analysis of operational risk loss events were continued.

One of the essential aspects in the management of this specific type of risk is the prior identification of the relevant operational risks whenever a product, process or system is implemented or revised, as well as the monitoring of action plans aimed at avoiding or mitigating the effects of materialization of risks with greater frequency/severity of loss events or with greater residual value, within the scope of the self-assessment process.

Monitoring

Within the scope of Banco Montepio's Operational Risk Management System, the key risk indicators (KRIs) aim to monitor the exposure factors associated with the main risks, allowing to measure and monitor the risk appetite and anticipate the occurrence of losses through preventive actions.

In this sense, the defined limits were regularly monitored and action plans were promoted in cases where they were exceeded.

These indicators are part of the Operational Risk Reports presented to the Risk Committee and the Executive Committee.

Operational Risk Self-Assessment

The operational risk management cycle implemented at Banco Montepio is based on the preparation of a table of activities and respective operational risks and controls, allowing the identification of the potential exposure of each body/organic unit to operational risk, determining its risk profile and prioritizing eventual risk mitigation actions. Operational risks are mapped considering seven main categories: internal fraud; external fraud; employment and occupational safety practices; Customer, product and commercial practices; damage to physical assets; activity disruptions and system failures; and execution, delivery and management of processes. Operational risks and the respective controls are regularly self-assessed, usually in the form of workshops with the representatives of each body/organic unit and with the support of the Risk Department.

Based on the results of the self-assessments - carried out in terms of impacts and frequencies for risks and the percentage of effectiveness for controls - a residual risk tolerance matrix is established, which will support the level of risk considered acceptable to the institution and which will allow to identify the risks for which additional mitigation measures will have to be considered.

Business Continuity Management

The business continuity management cycle is supported by a set of assessment, design, implementation and monitoring activities, integrated in a continuous improvement cycle that aims to make business processes more resilient, allowing to ensure the continuity of operations in the case occurrence of events that cause the interruption of activity.

The epidemiological situation related to the COVID-19 pandemic continued to mark the activity of the 1st half of 2021. Banco Montepio accompanied the rules issued by the Portuguese General Health Department permanently, adapting itself to those rules, whenever necessary.

The Crisis Management Office, 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 continued to function with a biweekly periodicity, assuming an operational continuity and business recovery monitoring stance.

The Banco Montepio Group always followed a conservative strategy that had as its fundamental principle to safeguard the safety and health of its Customers and its Employees.

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

Regarding 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. 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. As regards the assets associated with software integrating the intangible assets, the deduction of same is made based on Regulation 2020/2176. 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. Deductions are also made under article 36 paragraph k) in alternative to applying the risk weighting of 1,250%. 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 some deductions, with, as at this reference date, the transitory plan only being applicable to the deferred tax assets that do not depend on future profitability and in the balance sheet as at 1 January 2014. This plan permits a gradual recognition of the amount determined as subject to deduction, with same attaining, in 2021, 70%. 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 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, as at 30 June 2021, 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 1 January 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.

As referred, as at 30 June 2021, 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 2021, the Bank of Portugal defined a 0% Counter-Cyclical Reserve for exposures to non-financial Portuguese companies. 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 2021 and 0.25% in 2022.

Pursuant to these provisions, as at 30 June 2021 and 31 December 2020, the regulatory ratios, considering all the reserves, for Common Equity Tier 1, Tier 1 and Total were 9.02%, 11.13% and 13.94%, 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 2021 and 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 2021 and 31 December 2020, under phase-in, is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Common Equity Tier 1 Capital		
Realized share capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(1 079 127)	(1 102 140)
Non-controlling interests eligible for CET1	3 209	3 064
Other regulatory adjustments	(275 937)	(206 736)
	1 068 145	1 114 188
Tier 1 Capital		
Non-controlling interests eligible for Tier 1	211	225
	1 068 356	1 114 413
Tier 2 Capital		
Subordinated debt	206 323	206 323
Non-controlling interests eligible for Tier 2	211	225
	206 534	206 548
Total own funds	1 274 890	1 320 961
Own funds requirements		
Credit risk	646 379	667 306
Market risk	6 822	4 402
Operating risk	55 046	55 046
Other requirements	41 879	39 401
	750 126	766 155
Prudential Ratios		
Common Equity Tier 1 Ratio	11.4%	11.6%
Tier 1 Ratio	11.4%	11.6%
Total Capital Ratio	13.6%	13.8%

It should be noted that the ratios, as at 30 June 2021 and 31 December 2020, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 33.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the 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 2021 and 31 December 2020 would be:

(Euro thousand)	Jun 2021	Dec 2020
Capital Common Equity Tier 1	959 944	958 502
Capital Tier 1	960 156	958 727
Total own funds	1 166 690	1 165 275
Own funds requirements	742 270	754 937
Prudential Ratios		
Common Equity Tier 1 Ratio	10.35%	10.16%
Tier 1 Ratio	10.35%	10.16%
Total Capital Ratio	12.57%	12.35%

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 2021 and 31 December 2020, would be:

(Euro thousand)	Jun 2021	Dec 2020
Capital Common Equity Tier 1	1 028 272	1 055 057
Capital Tier 1	1 028 484	1 055 282
Total own funds	1 235 018	1 261 830
Own funds requirements	747 515	762 280
Prudential Ratios		
Common Equity Tier 1 Ratio	11.00%	11.07%
Tier 1 Ratio	11.01%	11.08%
Total Capital Ratio	13.22%	13.24%

56 Recently issued accounting policies

1. Impact of the adoption of new standards and amendments to the standards that became effective for annual periods beginning on 1 January 2021:

IFRS 16 (amendment), ‘Leases – COVID-19 related rent concessions’. This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether the rent concessions granted by lessors due to the COVID-19 pandemic are a modification to the lease contract, when three criteria are cumulatively met: i) the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change; ii) any reduction in lease payments only affects payments due on or before June 30, 2021; and iii) there are no substantive changes to other lease terms and conditions. Lessees that elect to apply this practical expedient, recognise the change in rent payments, as variable rents in the period(s) in which the event or condition that triggers the reduced payment occurs. This amendment is applied retrospectively with the impacts 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 this amendment for the first time.

- **IFRS 4 (amendment)**, 'Insurance contracts – deferral of IFRS 9'. This amendment addresses the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contracts. In particular, the amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17.

- **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments)**, 'Interest rate benchmark reform - phase 2'. These amendments address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one, providing exemptions like: i) changes to designations and hedging documentation; ii) amounts accumulated in the cash flow hedge reserve; iii) assessment of retrospective effectiveness on a hedge relationship under IAS 39; iv) amendments to hedge relationships for groups of items; v) presumption that an alternative benchmark rate designated as a non-contractually specified risk component is separately identifiable and qualifies as a hedged risk; and vi) update the effective interest rate, with no gain or loss recognized, for financial instruments measured at amortized cost with changes in the contractual cash flows as a result of IBOR reform, including leases that are indexed to an IBOR.

These amendments had no material impact on Banco Montepio Group's financial statements.

2. Standards (new and amended) published, the application of which is mandatory for annual periods beginning after 1 January 2021, not yet endorsed by the European Union:

- **IAS 1 (amendment)**, 'Presentation of financial statements – classification of liabilities' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. This amendment intends to clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its 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 should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as the non-compliance with a given "covenant". This amendment also introduces a new definition of "settlement" of a liability. This amendment is applied retrospectively

- **IAS 16 (amendment)**, 'Proceeds before intended use' (effective for annual periods beginning on or after 1 January 2022). This amendment is still subject to endorsement by the European Union. This amendment changes the accounting treatment of the proceeds obtained from the sale of products that resulted from the production test phase of property, plant and equipment, prohibiting their deduction to the acquisition cost of assets. This amendment is applied retrospectively without restating comparatives.

- **IAS 37 (amendment)**, 'Onerous Contracts – Cost of Fulfilling a Contract' (effective for annual periods beginning on or after 1 January 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 expenses directly related to the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment must be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without restating comparatives.

- **IFRS 3 (amendment)**, 'Reference to the Conceptual framework' (effective for annual periods beginning on or after 1 January 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, without changing the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be given to contingent liabilities and liabilities under IAS 37 and IFRIC 21, incurred separately versus within a business combination. This amendment is applied prospectively.

- **Improvements to the 2018 - 2020 standards**, (effective for annual periods beginning on or after 1 January 2022). These improvements are still subject to endorsement by the European Union. The 2018-2020 annual improvements impact: IFRS 1, IFRS 9, IFRS 16 and IAS 41. This standard is still subject to endorsement by the European Union.

- **IAS 1 (amendment)**, 'Disclosure of accounting policies' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. Amendment to the requirement to disclose the accounting policies based on "material" instead of "significant". The amendment specifies that an accounting policy information is expected to be material if, in its absence, the users of the financial statements would be unable to understand other material information in those same financial statements. Immaterial accounting policy information need not be disclosed. The IFRS Practice Statement 2 was also amended to provide guidance for the application of the concept of material" to accounting policy disclosures

- **IAS 8 (amendment)**, 'Disclosure of accounting estimates' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. Introduction of the concept of accounting estimate and the way it is distinct from changes to accounting policies. The accounting estimates are defined as corresponding to monetary amounts that are subject to measurement uncertainty, used to achieve an accounting policy's objective(s).

- **IFRS 16 (amendment)**, 'Leases – COVID-19 related rent concessions beyond 30 June 2021' (effective for annual periods beginning on or after 1 April 2021). This amendment is still subject to endorsement by the European Union. This amendment extends the date of application of the IFRS 16 – 'Leases – COVID-19 related rent concessions' amendment from 30 June 2021 to 30 June 2022. The conditions required to apply the practical expedient remain unchanged, such that: i) if the lessee already applied the 2020 practical expedient it is required to continue to apply the practical expedient consistently, to all lease contracts with similar characteristics and in similar circumstances; and ii) If the lessee did not apply the 2020 practical expedient to eligible lease concessions, it is prohibited from applying the extension of the practical expedient, as per this amendment. This amendment is applied retrospectively with the impacts reflected as an adjustment to the opening balance of retained earnings of the annual reporting period in which the lessee applies this amendment for the first time.

- **IAS 12 (amendment)**, 'Deferred tax related to assets and liabilities arising from a single transaction' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. IAS 12 will require entities to recognize deferred tax on specific transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These applies to the recognition of: i) right-of-use assets and lease liabilities; and ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related asset, when not relevant for tax purposes. Such temporary differences are no longer subject to the initial recognition exemption for deferred taxes. The cumulative effect of initially applying the amendment is recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the earliest comparative period presented.

- **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 applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a general model "building block approach" or a simplified one "premium allocation approach". The "building block approach" is based on discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM'), which represents the unearned profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin, unless it becomes negative. IFRS 17 is applied retrospectively.

- **IFRS 17 (amendment)**, '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 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 ease transition. IFRS 17 is applied retrospectively. On the issue this amended the end date for applying IFRS 9 (temporary exemption or overlay approach) under the IFRS 4 standard, was extended to 1 January 2023, aligned with the effective date of IFRS 17.

The Banco Montepio Group does not anticipate any significant impact on the application of these amendments 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 profit or loss and are measured 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 2021			**Dec 2020**		
	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 2021 and 31 December 2020, the assets received under these operations are as follows (see note 24):

(Euro thousand)

	Jun 2021	**Dec 2020**
	Senior securities	
Fundo Vega, FCR	23 194	25 107
Discovery Portugal Real Estate Fund	12 745	15 844
Fundo Aquarius, FCR	11 290	11 748
Fundo de Reestruturação Empresarial, FCR	15 337	17 238
	62 566	69 937

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 2021, the periodic contribution made by the Group amounted to Euro 4,713 thousand (30 June 2020: Euro 4,441 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.

With the presentation of the results for financial year 2020, Novo Banco will request compensation in the amount of Euro 598.3 million under the CCA due to the losses of protected assets and the regulatory capital requirements.

This mechanism is valid until 31 December 2025 (and may be extended until 31 December 2026) and is limited to an absolute maximum of Euro 3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of the Bank of Portugal deliberated, on 19 December 2015, to declare that Banif – Banco Internacional do Funchal, S.A. ("Banif") was "at risk or in a situation of insolvency" and to start the urgent resolution of the institution through the mode of the partial or total disposal of its activity, and which materialized, on 20 December 2015, with the disposal of the rights and obligations, representing assets, liabilities, off-balance sheet items and assets under management of Banif to Banco Santander Totta S.A. ("Santander Totta") for Euro 150 million.

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. ("Oitante"), created specifically for this purpose, which has as sole shareholder the Resolution Fund. Oitante issued debt securities in the amount of Euro 746 million, with a guarantee being provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved public support estimated at Euro 2,255 million that aimed to cover future contingencies and that was financed in Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

On 21 July 2016, the Resolution Fund made a payment to the State, amounting to Euro 163,120 thousand, as an early partial repayment of the resolution measure applied to Banif, bringing the outstanding amount down from Euro 489 million to Euro 353 million.

As of this date, the conclusions of the independent assessment exercise to estimate the level of credit recovery for each class of lender in the hypothetical scenario of the normal insolvency process of Banif as at 20 December 2015 are not yet known. As noted above for BES, if lenders are found to assume a greater loss than they hypothetically would have had Banif entered into a liquidation process immediately prior to the application of the resolution measure, those creditors are entitled to receive the difference from the Resolution Fund.

Liabilities and funding of the Resolution Fund

Following the resolution measures applied to BES and Banif and the sale agreement of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities resulting from:

- the effects of the application of the principle that no creditor of an institution under resolution may assume a greater loss than it would have assumed had that institution entered into liquidation;
- the negative effects arising from the resolution process resulting in additional liabilities or contingencies for Novo Banco, which must be neutralized by the Resolution Fund;
- legal proceedings against the Resolution Fund;
- the guarantee provided to the bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- the contingent capitalization mechanism associated with the sale process of Novo Banco to Lone Star.

In order to preserve the financial stability through the promotion of conditions that provide predictability and stability to the contributory effort to the Resolution Fund, the Portuguese Government has agreed with the European Commission to change the conditions of the financing provided by the Portuguese State and the participating banks to the Resolution Fund. To this end, an amendment to the Resolution Fund's financing agreements have been formalized, introducing a number of changes to the repayment plans, remuneration rates, and other terms and conditions associated with these loans, to adjust them to the Resolution Fund's ability to fully meet its obligations on the basis of its regular revenues, i.e., without the need for any charges to be made to the participating banks for special contributions or any other type of extraordinary contribution.

According to the Resolution Fund's announcement of 31 March 2017, the revision of the conditions of the financing granted by the Portuguese State and the participating banks was aimed at ensuring the sustainability and financial equilibrium of the Resolution Fund, based on a stable, predictable and affordable burden for the banking sector. Based on this revision, the Resolution Fund considered that the full payment of its liabilities as well as their respective remuneration was ensured, without the need for special contributions or any other extraordinary contributions from the banking sector.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the Portuguese State and by a bank syndicate, in which the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Minister of Finance, these consolidated financial statements reflect the expectation of the Board of Directors that the Bank will not be called upon to make special contributions or any other extraordinary contributions to finance the Resolution Fund.

Any significant changes in this regard could have material implications on these financial statements.

Competition Authority

On 9 September 2019, Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio) was notified of the final decision of the Competition Authority on the administrative process PRC-2012/9 ("Decision"), in which it 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. Following the lodging of the appeal with the Court of Competition, Regulation and Supervision, same decided on the provision of a deposit with a view to suspending the obligation to pay the fine immediately, with Banco Montepio having placed such deposit with that Court.

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 2021 and 31 December 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, even though the Court of Competition, Regulation and Supervision reduced the fine to be applied in respect of one of the processes.

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 2021 and 31 December 2020.

59 Subsidiary and associated companies

As at 30 June 2021 and 31 December 2020, the companies consolidated under the full consolidation method in the Group are as follows:

					Group	
Subsidiary	**Head office**	**Share capital**	**Currency**	**Activity**	**% of control**	**% of effective part**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verde Escudo	Banking	100.00&	100.00%
Finibanco Angola, S.A.	Luanda	7 516 296 830	Kwanza	Banking	51.00%	80.22%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Oporto	30 000 000	Euro	Specialised loans	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisbon	175 000 000	Euro	Managements of shareholding	100.00%	100.00%
Montepio Investimento, S.A.	Lisbon	180 000 000	Euro	Banking	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Organismos de Investimento Coletivo, S.A.	Lisbon	1 550 000	Euro	Managements of investment funds	100.00%	100.00%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisbon	100 000	Euro	Management of real estate	100.00%	100.00%

As at 30 June 2021 and 31 December 2020, the Group´s associated companies accounted for under the equity method, are as follows:

(Euro thousand)

Subsidiary	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	S. Miguel Island	10 000 000	Accomodation, catering and similar/Hotels with restaurant	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisbon	2 449 707	Management of real estate	29.00%
CESource, ACE	Lisbon	-	Management of IT systems	18.00%

NAVISER – Transportes Marítimos Internacionais, S.A. is, since 30 July 2018, in the process of dissolution and liquidation.

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 recognize 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, in 2020, failed to comply with the criteria set out in IFRS 5 to be considered as a discontinued entity. Hence, and in accordance with the provisions of IFRS 5, it was fully consolidated, line by line, retrospectively.

In September 2021, the rating agency Moody's revised the Republic of Angola's risk rating to B3, with a favourable impact being expected in terms of the PD levels and the stages considered for the purposes of determining the impairment of Finibanco Angola.

As at 30 June 2021 and 31 December 2020, 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
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	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
Aqua Finance No 4	2017	2017	Lisbon	100%	Full

60 Non-current assets and liabilities held for sale – Discontinued operations

With reference to 30 June 2021 and 31 December 2020, the discontinued operations are presented as follows:

(Euro thousand)

	Jun 2021			Dec 2020		
	Banco Montepio Geral - Cabo Verde	Montepio Valor	Total	Banco Montepio Geral - Cabo Verde	Montepio Valor	Total
Cash and deposits at central banks	73	-	73	152	-	152
Other tangible assets	62	245	307	64	325	389
Repurchase agreement assets	-	37	37	-	-	-
Deferred Tax Assets	-	141	141	-	140	140
Other assets	37	1 029	1 066	29	600	629
Total Assets	**172**	**1 452**	**1 624**	**245**	**1 065**	**1 310**
Deposits from customers	104 245	-	104 245	108 462	-	108 462
Provisions	-	46	46	-	46	46
Current tax liabilities	-	-	-	8	-	8
Other liabilities	104	1 063	1 167	138	965	1 103
Total Liabilities	**104 349**	**1 109**	**105 458**	**108 608**	**1 011**	**109 619**

The main income statement captions related to these discontinued operations are analysed as follows:

(Euro thousand)

	Jun 2021			Jun 2020		
	Banco Montepio Geral - Cabo Verde	Montepio Valor	Total	Banco Montepio Geral - Cabo Verde	Montepio Valor	Total
Net interest income	(497)	(2)	(499)	(705)	(4)	(709)
Fee and commission income	-	1 722	1 722	-	1 524	1 524
Net gains/ (losses) arising from financing activities	(21)	-	(21)	8	-	8
Other operating income/ (expense)	-	(6)	(6)	1	(10)	(9)
Total operating income	**(518)**	**1 714**	**1 196**	**(696)**	**1 510**	**814**
Staff costs	91	947	1 038	96	832	928
General and administrative expenses	145	502	647	123	573	696
Depreciation and amortisation	2	80	82	3	81	84
Total operating expense	**238**	**1 529**	**1 767**	**222**	**1 486**	**1 708**
Loans, other assets and other provisions impairment	(20)	13	(7)	-	16	16
Operating profit	**(736)**	**172**	**(564)**	**(918)**	**8**	**(910)**
Profit before income tax	**(736)**	**172**	**(564)**	**(918)**	**8**	**(910)**
Taxes	(7)	(181)	(188)	(5)	(144)	(149)
Net profit/ (loss) for the period	**(743)**	**(9)**	**(752)**	**(923)**	**(136)**	**(1 059)**

Within the scope of the decisions taken by the Management and Administration Bodies of Banco Montepio, namely the analysis of a set of strategic options for Banco Montepio Geral Cabo Verde as a result of the change in the legal framework for banking entities operating in Cape Verde, the financial shareholding in this entity was reclassified to Non-current assets held for sale.

In view of this legal imposition, the competent Bodies of the Banco Montepio Group deliberated the voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde, having, to that end, started the respective proceedings with the Cape-Verdean authorities.

The shareholding in the subsidiary Montepio Valor, considering the decisions taken by the Management and Administration Bodies for its disposal, was reclassified to non-current assets held for sale.

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 which, as at 30 June 2021, are as follows:

Credit quality of restructured exposures

(Euro thousand)

	Gross carrying amount / nominal amount of exposures with forbearance measures				Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions		Collateral and financial guarantees received on exposures with forbearance measures	
	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures			Performing exposures with forbearance measures	Non-performing exposures with forbearance measures		Of which, collateral and financial guarantees received on non-productive exposures with restructuring measures
			Of which: default	Of which: impairment				
Loans and advances	67 100	661 539	661 539	661 539	(2 766)	(308 080)	325 343	275 097
Other financial companies	365	52 935	52 935	52 935	(20)	(8 309)	44 809	44 641
Non-financial corporations	36 236	519 964	519 964	519 964	(2 194)	(262 695)	210 767	186 890
Households	30 499	88 640	88 640	88 640	(552)	(37 076)	69 767	43 566
Loan commitments given	184	3 867	3 867	3 867	(3)	(291)	-	-
	67 284	**665 406**	**665 406**	**665 406**	**(2 769)**	**(308 371)**	**325 343**	**275 097**

(NPE) Information on performing and non-performing exposures

(Euro thousand)

	Gross carrying amount											
	Productive exhibitions			Non-productive exhibitions								
		No past due or Past due <= 30 days <= 90 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 years <= 2 years	Past due > 2 years <= 5 years	Overdue > 5 years <= 7 years	Past due > 7 years	Of which, in default
Loans and advances	**13 369 451**	**13 338 434**	**31 018**	**1 110 035**	**528 093**	**22 340**	**20 213**	**129 875**	**177 038**	**134 791**	**97 685**	**1 110 035**
Central banks	2 447 156	2 447 156	-	-	-	-	-	-	-	-	-	-
General government	111 339	111 339	-	-	-	-	-	-	-	-	-	-
Credit institutions	316 064	316 064	-	-	-	-	-	-	-	-	-	-
Other financial companies	23 248	23 210	38	54 187	54 116	-	11	60	-	-	-	54 187
Non-financial corporations	3 867 072	3 853 523	13 549	847 398	365 591	14 700	11 016	108 117	144 699	119 662	83 613	847 398
Of which SMEs	3 352 821	3 339 905	12 916	782 461	309 571	14 699	10 593	103 844	144 610	115 545	83 599	782 461
Households	6 604 572	6 587 142	17 431	208 450	108 386	7 640	9 186	21 698	32 339	15 129	14 072	208 450
Debt securities	**3 609 110**	**3 609 110**	**-**	**33 950**	**-**	**-**	**-**	**950**	**33 000**	**-**	**-**	**33 950**
General government	2 995 707	2 995 707	-	-	-	-	-	-	-	-	-	-
Other financial companies	11 214	11 214	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	602 189	602 189	-	33 950	-	-	-	950	33 000	-	-	33 950
Off-balance sheet exposures	**1 879 417**			**123 190**								**-**
General government	3 872			-								-
Credit institutions	215 805			-								-
Other financial companies	20 178			5								-
Non-financial corporations	1 147 978			119 871								-
Households	491 584			3 314								-
	18 857 978	**16 947 544**	**31 018**	**1 267 175**	**528 093**	**22 340**	**20 213**	**130 825**	**210 038**	**134 791**	**97 685**	**1 143 985**

Credit quality of productive and non-performing exposures and respective provisions

(Euro thousand)

	Carrying amount					Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions					Deduction of accumulated partial assets	Collateral and financial guarantees and received	
	Productive exhibitions			Non-productive exhibitions		Productive exposures - accumulated impairments and provisions			Non-productive exposures - Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions			About productive exhibitions	About non-productive exhibitions
		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	13 369 451	10 994 003	2 355 994	1 110 035	923 573	(108 157)	(25 927)	(81 551)	(534 129)	(440 487)	(196 928)	8 453 284	436 605
Central banks	2 447 156	2 447 156	-	-	-	-	-	-	-	-	-	-	-
General government	111 339	108 683	2 656	-	-	(264)	(196)	(67)	-	-	-	586	-
Credit institutions	316 064	316 064	-	-	-	(630)	(630)	-	-	-	-	-	-
Other financial companies	23 248	21 003	2 215	54 187	20 421	(225)	(78)	(143)	(8 645)	(1 230)	-	15 649	45 446
Non-financial corporations	3 867 072	2 625 969	1 222 736	847 398	710 255	(79 187)	(19 876)	(58 704)	(440 426)	(358 696)	(196 928)	2 333 069	290 120
Of which SMEs	3 352 821	2 308 491	1 031 559	782 461	657 809	(67 079)	(18 130)	(48 355)	(402 182)	(332 762)	-	2 157 760	273 377
Households	6 604 572	5 475 128	1 128 387	208 450	192 897	(27 851)	(5 147)	(22 637)	(85 058)	(80 561)	-	6 103 980	101 039
Debt securities	3 609 110	3 603 812	5 298	33 950	33 950	(14 398)	(13 682)	(717)	(15 147)	(15 147)	-	10 041	45
General government	2 995 707	2 995 707	-	-	-	(9 707)	(9 707)	-	-	-	-	-	-
Other financial companies	11 214	8 516	2 698	-	-	(729)	(72)	(658)	-	-	-	-	-
Non-financial corporations	602 189	599 589	2 600	33 950	33 950	(3 962)	(3 903)	(59)	(15 147)	(15 147)	-	10 041	45
Off-balance sheet exposures	1 879 415	1 430 432	448 902	123 189	120 534	(6 973)	(3 830)	(3 143)	(12 025)	(11 856)	-	-	-
General government	3 872	3 862	10	-	-	(2)	(2)	-	-	-	-	-	-
Credit institutions	215 805	-	215 805	-	-	(7)	-	(7)	-	-	-	-	-
Other financial companies	20 178	12 366	7 812	5	5	(230)	(5)	(225)	-	-	-	-	-
Non-financial corporations	1 147 978	962 868	185 066	119 871	117 351	(5 117)	(2 771)	(2 346)	(12 022)	(11 853)	-	-	-
Households	491 582	451 336	40 209	3 313	3 178	(1 617)	(1 052)	(565)	(3)	(3)	-	-	-
	18 857 976	**16 028 247**	**2 810 194**	**1 267 174**	**1 078 057**	**(129 528)**	**(43 439)**	**(85 411)**	**(561 301)**	**(467 490)**	**(196 928)**	**8 463 325**	**436 650**

Guarantees obtained by taking possession and execution processes

(Euro thousand)

	Guarantees obtained by acquisition of ownership	
	Initial recognition value	Accumulated negative changes
Tangible fixed assets	5 542	-
Others, except tangible fixed assets	673 364	(143 256)
Housing real estate	125 690	(16 798)
Commercial real estate	537 123	(123 629)
Movable goods (car, vessel, etc.)	57	(45)
Others, except tangible fixed assets	10 494	(2 784)
	678 906	**(143 256)**

This caption, as at 31 December 2020, is presented as follows:

Credit quality of restructured exposures

(Euro thousand)

	Gross carrying amount/ nominal amount of exposures with forbearance measures				Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions		Collateral and financial guarantees received on restructured exposures	
	About productive restructured exhibitions	About non-productive restructured exhibitions			About productive restructured exhibitions	About non-productive restructured exhibitions		Of which, collateral and financial guarantees received on non-productive exposures with restructuring measures
			Of which, in default	Of which, in situations of impairment				
Loans and advances	86 159	729 736	727 451	729 694	(3 881)	(364 235)	319 658	254 830
Other financial companies	-	55 265	55 265	55 265	-	(8 359)	46 903	46 903
Non-financial corporations	47 324	598 937	596 698	598 895	(3 011)	(323 420)	204 011	172 574
Households	38 835	75 534	75 488	75 534	(870)	(32 456)	68 744	35 353
	86 159	**729 736**	**727 451**	**729 694**	**(3 881)**	**(364 235)**	**319 658**	**254 830**

(NPE) Information on performing and nom-performing exposures

(Euro thousand)

	Gross carrying amount											
	Productive exhibitions			Non-performing exposures								
		Not past due or Past due <= 30 days	Past due > 3o days <= 90 days		Reduced probability of payment that has not been overdue or overdue for <=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 wich: defaulted
Loans and advances	**12 101 045**	**12 065 609**	**35 436**	**1 255 605**	**469 039**	**15 415**	**138 165**	**126 590**	**223 528**	**188 800**	**94 070**	**1 248 477**
Central banks	1 317 306	1 317 306	-	-	-	-	-	-	-	-	-	-
General governments	114 610	114 610	-	-	-	-	-	-	-	-	-	-
Credit institutions	310 419	310 419	-	-	-	-	-	-	-	-	-	-
Other financial corporations	28 259	28 217	43	55 324	55 257	10	8	46	3	-	-	55 324
Non-financial corporations	3 810 050	3 800 104	9 946	1 012 143	333 041	8 406	123 629	104 328	189 536	171 195	82 009	1 005 120
Of wich: SME	3 316 916	3 306 970	9 946	906 868	266 928	7 983	118 242	104 108	156 697	170 901	82 009	899 845
Households	6 520 401	6 494 953	25 447	188 138	80 741	6 999	14 528	22 216	33 989	17 605	12 061	188 033
Debt securities	**3 144 828**	**3 144 828**	**-**	**33 950**	**-**	**-**	**-**	**950**	**33 000**	**-**	**-**	**33 950**
General governments	2 508 967	2 508 967	-	-	-	-	-	-	-	-	-	-
Credit institutions	1 018	1 018	-	-	-	-	-	-	-	-	-	-
Other financial corporations	21 032	21 032	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	613 811	613 811	-	33 950	-	-	-	950	33 000	-	-	33 950
Off-balance sheet exposures	**1 910 740**			**127 060**								**94 223**
General governments	1 453			-								-
Credit institutions	218 444			-								-
Other financial corporations	50 000			2								2
Non-financial corporations	1 187 709			122 713								89 878
Households	453 134			4 345								4 343
	17 156 613	**15 210 437**	**35 436**	**1 416 615**	**469 039**	**15 415**	**138 165**	**127 540**	**256 528**	**188 800**	**94 070**	**1 376 650**

Credit stage of performing and non-performing and provisions

(Euro thousand)

	Gross carrying amount					Acucumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Accumulated partial write-offs	Collateral and financial guarantees received	
	Performing			Non-performing		Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, 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	12 101 045	8 994 330	3 098 710	1 255 605	1 255 605	(123 782)	(21 995)	(101 787)	(637 386)	(637 386)	(69 151)	8 284 180	419 956
Central banks	1 317 306	1 317 306	-	-	-	-	-	-	-	-	-	-	-
General governments	114 610	111 176	2 530	-	-	(295)	(226)	(68)	-	-	-	1 344	-
Credit institutions	310 419	310 419	-	-	-	(287)	(287)	-	-	-	-	-	-
Other financial corporations	28 259	19 589	8 670	55 324	55 324	(478)	(88)	(390)	(8 398)	(8 398)	-	19 681	46 903
Non-financial corporations	3 810 050	2 147 966	1 655 184	1 012 143	1 012 143	(89 495)	(16 633)	(72 863)	(549 517)	(549 517)	(69 151)	2 265 336	286 899
Of wich: SME	3 316 916	1 846 466	1 467 011	906 868	906 868	(78 417)	(14 608)	(63 808)	(480 083)	(480 083)	-	2 099 698	262 961
Households	6 520 401	5 087 874	1 432 326	188 138	188 138	(33 227)	(4 761)	(28 466)	(79 471)	(79 471)	-	5 997 819	86 154
Debt securities	3 144 828	3 140 661	4 167	33 950	33 950	(13 633)	(13 002)	(631)	(15 147)	(15 147)	-	6 835	45
General governments	2 508 967	2 508 967	-	-	-	(9 334)	(9 334)	-	-	-	-	-	-
Credit institutions	1 018	-	1 018	-	-	-	-	-	-	-	-	-	-
Other financial corporations	21 032	18 381	2 651	-	-	(736)	(112)	(624)	-	-	-	-	-
Non-financial corporations	613 811	613 313	498	33 950	33 950	(3 563)	(3 556)	(7)	(15 147)	(15 147)	-	6 835	45
Off-balance sheet exposures	1 910 741	1 270 046	640 695	127 061	127 060	(10 375)	(3 546)	(6 830)	(10 844)	(10 844)	-	-	-
General governments	1 453	1 399	54	-	-	(1)	(1)	-	-	-	-	-	-
Credit institutions	218 444	66 338	152 107	-	-	(12)	-	(12)	-	-	-	-	-
Other financial corporations	50 000	42 379	7 621	2	2	(366)	(28)	(338)	-	-	-	-	-
Non-financial corporations	1 187 709	905 014	282 695	122 713	122 713	(7 084)	(2 783)	(4 301)	(10 834)	(10 834)	-	-	-
Households	453 135	254 916	198 218	4 346	4 345	(2 912)	(734)	(2 179)	(10)	(10)	-	-	-
	17 156 614	**13 405 037**	**3 743 572**	**1 416 616**	**1 416 615**	**(147 790)**	**(38 543)**	**(109 248)**	**(663 377)**	**(663 377)**	**(69 151)**	**8 291 015**	**420 001**

Warranties obtained by swearing-in and enforcement proceedings

(Euro thousand)

	Guarantees obtained by acquisition of ownership	
	Value at initial recognition	**Accumulated negative changes**
Tangible fixed assets	5 330	-
Others, except tangible fixed assets	304 650	(86 506)
Real estate	62 593	(14 480)
Comercial real estate	221 254	(67 966)
Others, except tangible fixed assets	20 803	(4 060)
	309 980	**(86 506)**

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, with reference to 30 June 2021:

Information on loans and advances subject to legislative and non-legislative moratoriums

(Euro thousand)

	Gross carrying amount							Accumulated impairments, accumulated negative fair value variations resulting from credit risk and provisions							Gross carrying amount
		Productive exhibitions			Non-productive exhibitions				Productive exhibitions			Non-productive exhibitions			
			Of which: exposures subject to restructuring measures	Of which: Instruments with a significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: exposures subject to restructuring measures	Of which: Reduced probability of payments that are not overdue or have been overdue for <= 90 days			Of which: exposures subject to restructuring measures	Of which: Instruments with significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: exposures subject to restructuring measures	Of which: Reduced probability of payments that are not overdue or have been overdue for <= 90 days	Tickets for non-productive exhibitions
Loans and advances subject to a moratorium	2 715 797	2 420 992	39 781	1 420 173	294 806	213 225	284 221	(165 814)	(53 077)	(1 853)	(48 650)	(112 737)	(86 237)	(108 895)	86 716
Of which: retail	1 112 682	1 061 476	10 982	620 467	51 206	33 777	45 834	(25 582)	(10 301)	(153)	(9 981)	(15 282)	(11 041)	(13 966)	17 627
Of which: secured by residential properties	990 464	954 520	10 540	547 714	35 944	20 363	30 957	(16 887)	(7 376)	(139)	(7 212)	(9 511)	(5 983)	(8 401)	11 733
Of which: non-financial corporations	1 600 433	1 358 027	28 780	798 805	242 406	179 448	237 198	(139 850)	(42 691)	(1 699)	(38 593)	(97 158)	(75 196)	(94 634)	67 900
Of which: SMEs	1 363 684	1 173 819	26 915	660 681	189 865	127 576	184 657	(103 328)	(34 526)	(1 598)	(30 721)	(68 802)	(47 201)	(66 278)	66 227
Of which: secured by commercial properties	947 693	776 611	16 319	486 532	171 082	127 104	169 252	(80 237)	(22 081)	(714)	(20 247)	(58 156)	(45 575)	(57 581)	40 122

Breakdown of loans and advances subject to legislative and non-legislative moratoriums due to the residual term of the moratoriums

(Euro thousand)

	Number of debtors	Gross carrying amount						
			Of which: legislative moratoria	Of which: expired	Residual term of moratoria			
					<= 3 months	>3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
Loans and advances for which it was requested moratorium	36 467	2 978 606						
Loans and advances for which it has been accepted the moratorium	35 545	2 953 607	2 712 681	237 810	233 477	2 718 081	2 050	-
of which: retail		1 218 086	1 109 665	105 404	72 625	1 144 375	1 087	-
of which: secured by residential properties		1 042 819	990 464	52 356	6 389	1 035 605	826	-
of which: non-financial corporations		1 732 707	1 600 334	132 274	160 610	1 571 134	963	-
of which: SMEs		1 462 490	1 363 585	98 806	159 232	1 302 295	963	-
of which: secured by commercial properties		994 981	947 693	47 289	19 565	975 417	-	-

This caption, with reference to 31 December 2020, is presented as follows:

Information on loans and advances subject to legislative and non-legislative moratoriums

(Euro thousand)

	Gross carrying amount							Accumulated impairments, accumulated negative fair value variations resulting from credit risk and provisions							Gross carrying amount
		Productive exhibitions			Non-productive exhibitions				Productive exhibitions			Non-productive exhibitions			
			Of which: exposures subject to restructuring measures	Of which: Instruments with a significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: exposures subject to restructuring measures	Of which: Reduced probability of payments that are not overdue or have been overdue for <= 90 days			Of which: exposures subject to restructuring measures	Of which: Instruments with significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: exposures subject to restructuring measures	Of which: Reduced probability of payments that are not overdue or have been overdue for <= 90 days	Tickets for non-productive exhibitions
Loans and advances subject to a moratorium	2 938 388	2 690 743	51 560	2 040 479	247 645	177 906	234 470	(157 813)	(70 969)	(2 373)	(68 560)	(86 844)	(70 734)	(82 009)	43 003
Of which: retail	1 194 139	1 156 054	15 611	820 095	38 086	29 183	33 488	(26 938)	(14 961)	(347)	(14 690)	(11 977)	(9 711)	(10 540)	4 232
Of which: secured by residential properties	1 027 040	1 001 055	11 413	700 374	25 985	19 966	22 055	(16 320)	(9 512)	(164)	(9 402)	(6 808)	(5 412)	(5 916)	2 342
Of which: non-financial corporations	1 741 469	1 531 909	35 948	1 217 614	209 559	148 723	200 982	(130 745)	(55 877)	(2 026)	(53 739)	(74 868)	(61 023)	(71 470)	38 771
Of which: SMEs	1 456 568	1 309 770	34 095	1 046 412	146 798	88 548	139 470	(91 300)	(46 918)	(1 927)	(45 062)	(44 382)	(31 879)	(41 709)	37 118
Of which: secured by commercial properties	992 171	838 929	21 601	651 584	153 242	112 504	150 322	(75 624)	(28 201)	(932)	(27 139)	(47 423)	(41 201)	(46 251)	23 984

Breakdown of loans and advances subject to legislative and non-legislative moratoriums due to the residual term of the moratoriums

(Euro thousand)

	Number of debtors	Gross carrying amount						
			Of which: legislative moratoria	Of which: expired	Residual term of moratoria			
					<= 3 months	>3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
Loans and advances for which it was requested moratorium moratória	41 275	3 379 003						
Loans and advances for which it has been accepted the moratorium a moratória	38 229	3 208 626	2 898 484	270 238	473 493	33 638	2 018	2 699 478
of which: retail		1 263 129	1 154 236	68 990	99 866	33 100	2 018	1 128 145
of which: secured by residential properties		1 068 630	1 024 083	41 590	63 749	39	-	1 004 842
of which: non-financial corporations		1 942 581	1 741 469	201 112	373 317	537	-	1 568 726
of which: SMEs		1 646 033	1 456 568	189 465	350 951	537	-	1 294 545
of which: secured by commercial properties		1 109 925	992 171	117 753	204 333	-	-	905 592

63 Subsequent events

The Banco Montepio Group analyses events occurring after the balance sheet date, i.e., the favourable and unfavourable events that occur between the balance sheet date and the date on which the financial statements are authorized for issue. Consequently, two types of events can be identified:

- Those that provide proof of conditions that existed at the balance sheet date (adjusting events);

- Those that are indicative of conditions that arose after the balance sheet date (non-adjusting events occurring after the balance sheet date).

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

There were no relevant transactions and/or events, after 30 June 2021, that merit disclosure and/or adjustment in the financial statements.

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.

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

Banco Montepio

Banco Montepio

Interim Condensed Individual Income Statement for the six months periods ended on 30 June 2021 and 2020

(Euro thousand)

	Notes	June 2021	June 2020
Interest and similar income	3	128 340	137 458
Interest and similar expense	3	36 228	40 820
Net interest income		92 112	96 638
Dividends from equity instruments	4	1 747	1 719
Net fee and commission income	5	53 531	54 626
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	6	(2 720)	(6 361)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	525	18 833
Net gains/ (losses) arising from exchange differences	8	1 174	1 177
Net gains/ (losses) arising from sale of other financial assets	9	19 556	10 204
Other operating income/ (expense)	10	(25 881)	(21 157)
Total operating income		140 044	155 679
Staff costs	11	72 053	73 190
General and administrative expenses	12	27 066	28 363
Depreciation and amortization	13	16 268	16 135
Total operating cost		115 387	117 688
Impairment of loans and advances	14	54 868	111 996
Impairment of other financial assets	15	3 381	5 503
Impairment of other assets	16	8 204	5 774
Other provisions	17	(7 385)	2 334
Profit before income tax		(34 411)	(87 616)
Income Tax			
Current	30	1 167	1 858
Deferred	30	(2 864)	19 797
Net profit/ (loss) for the period		(36 108)	(65 961)
Earnings per share			
Basic		(0.015)	(0.0027)
Diluted		(0.015)	(0.0027)

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 six months periods ended on 30 June 2021 and 2020

(Euro thousand)

	Notes	Jun 2021	Jun 2020
Items that may be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income			
Debt instruments	43	(461)	(22 730)
Loans and advances to customers	43	(103)	(269)
Own credit risk	43	(19)	(99)
Taxes related to fair value changes	30 and 43	230	6 948
		(353)	(16 150)
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	37 653	(12 859)
Profit / (loss) with equity instruments	43	(39 310)	-
Acturial gains/ (losses) for the period	47	61 160	5 218
Taxes	30	(413)	(188)
		59 090	(7 829)
Other comprehensive income/ (loss) for the period		58 737	(23 979)
Net profit/ (loss) for the period		(36 108)	(65 961)
Total comprehensive income/ (loss) for the period		22 629	(89 940)

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

Banco Montepio

Interim condensed Individual Balance Sheet on 30 June 2021 and 31 December 2020

(Euro thousand)

	Notes	Jun 2021	Dec 2020
Assets			
Cash and deposits at central banks	18	2 533 643	1 446 314
Loans and deposits to credit institutions payable on demand	19	71 794	53 498
Other loans and advances to credit institutions	20	885 758	858 704
Loans and advances to customers	21	10 775 782	10 732 604
Financial assets held for trading	22	25 515	11 508
Financial assets at fair value through profit or loss	23	473 826	569 612
Financial assets at fair value through other comprehensive income	24	209 214	265 320
Hedging derivatives	25	10 726	10 693
Other financial assets at amortized cost	26	4 314 239	3 981 949
Investments in associated companies	27	319 648	319 648
Non-current assets held for sale	27	8 997	8 997
Other tangible assets	28	192 302	215 839
Intangible assets	29	30 585	33 104
Current tax assets	30	5 128	2 313
Deferred tax assets	30	507 319	510 364
Other assets	31	715 928	694 024
Total Assets		21 080 404	19 714 491
Liabilities			
Deposits from central banks	32	2 869 447	1 372 546
Deposits from other credit institutions	33	895 044	1 006 828
Deposits from customers	34	12 624 912	12 549 423
Debt securities issued	35	1 220 025	1 221 498
Financial liabilities associated to transfered assets	36	1 593 885	1 721 697
Financial liabilities held for trading	22	10 634	11 761
Hedging derivatives	25	347	397
Provisions	37	24 506	33 000
Current tax liabilities	-	1 220	812
Other subordinated debt	38	211 159	216 896
Other liabilities	39	233 198	206 235
Total Liabilities		19 684 377	18 341 093
Equity			
Share capital	40	2 420 000	2 420 000
Fair value reserves	43	8 433	(28 867)
Other reserves and Retained earnings	42 and 43	(996 298)	(901 114)
Net profit / (loss) for the period		(36 108)	(116 621)
Total Equity		1 396 027	1 373 398
Total Liabilities and Equity		21 080 404	19 714 491

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Banco Montepio

Interim Condensed Individual Statement of Cash Flows
for the six months periods ended on 30 June 2021 and 2020

(Euro thousand)

	Jun 2021	Jun 2020
Cash flows arising from operating activities		
Interest income received	122 384	108 685
Interest expense paid	(44 558)	(23 096)
Comission income received	63 391	63 735
Comission expense paid	(9 860)	(8 773)
Payments to employees and suppliers	(94 118)	(106 817)
Loans and Interest recovery	1 962	765
Other payments and receivables	21 210	(66 043)
Income tax payment	(1 246)	6 250
	59 165	(25 294)
(Increases)/ decreases in operating assets		
Loans and advances to credit institutions and customers	(110 625)	(213 129)
Deposits held for monetary control purposes	(1 109 109)	55 442
(Purchase) / Sale of financial assets held-for-trading	73 560	10 392
(Purchase) / Sale of financial assets at fair value through other comprehensive income	52 369	538 521
Interest received from financial assets at fair value through other comprehensive income	19	3 420
(Purchase) / Sale of Hedging derivatives	-	(1 382)
(Purchase) / Sale of other financial assets at amortized cost	(456 511)	(682 607)
Other assets	29 019	6 936
	(1 521 278)	(282 407)
(Increases) / decreases in operating liabilities		
Deposits from customers	78 182	(103 971)
Deposits from credit institutions	(111 176)	(2 582)
Deposits from central banks	1 500 000	335 000
	1 467 006	228 447
	4 893	(79 254)
Cash from investing activities		
Dividends received	1 747	1 719
(Purchase) / Sale of other financial assets	-	481
Purchase of fixed assets	(7 164)	10 351
	(5 417)	12 551
Cash from financing activities		
Other equity instruments	-	(162)
Issuance of cash bonds and subordinated debt	-	50 000
Repayment of cash bonds and subordinated debt	(2 960)	(3 900)
Leases	-	5 058
	(2 960)	50 996
Effect of changes in cash exchange rate and cash equivalents	-	795
Net change in cash and cash equivalents	(3 484)	(14 912)
Cash and cash equivalents at the beginning of the period:		
Cash (note 18)	163 622	194 529
Loans and advances to credit institutions repayable on demand (note 19)	53 498	51 993
	217 120	246 522
Cash and cash equivalents at the beginning of the period:		
Cash (note 18)	141 842	161 078
Loans and advances to credit institutions repayable on demand (note 19)	71 794	70 532
	213 636	231 610

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Banco Montepio

Interim condensed individual Statement of Changes in Equity
for the six months periods ended on 30 June 2021 and 2020

(Euro thousand)

	Share capital (note 40)	Other equity instruments (note 41)	Legal reserve (note 42)	Fair value reserves (nota 45)	Acumulated results (note 43)	Total equity
Balances on 31 December 2019	**2 420 000**	**6 323**	**191 968**	**145**	**(1 105 141)**	**1 513 295**
Other comprehensive income:						
Remeasurements of post-employment and long-term benefits (note 47)	-	-	-	-	5 218	5 218
Taxes (note 30)	-	-	-	-	(188)	(188)
Fair value changes (note 43)	-	-	-	(35 957)	-	(35 957)
Taxes related to changes in fair value (note 30)	-	-	-	6 948	-	6 948
Net income for the period	-	-	-	-	(65 961)	(65 961)
Total comprehensive income for the period	-	-	-	(29 009)	(60 931)	(89 940)
Financial cost related to the issuance of securities perpetual securities (note 41)	-	-	-	-	(162)	(162)
Reclassification of perpetual securities	-	(6 323)	-	-	-	(6 323)
Constitution of legal reserve	-	-	1 297	-	(1 297)	-
Balances on 30 June 2020	**2 420 000**	**-**	**193 265**	**(28 864)**	**(1 167 531)**	**1 416 870**
Other comprehensive income:						
Remeasurements of post-employment and long-term benefits (note 47)	-	-	-	-	(5 492)	(5 492)
Taxes (note 30)	-	-	-	-	9 063	9 063
Fair value changes (note 43)	-	-	-	77	-	77
Realized reserves - equity	-	-	-	-	3 750	3 750
Taxes related to changes in fair value (note 30)	-	-	-	(80)	-	(80)
Net income for the period	-	-	-	-	(50 660)	(50 660)
Total comprehensive income for the period	-	-	-	(3)	(43 339)	(43 342)
Financial cost related to the issuance of securities perpetual securities (note 41)	-	-	-	-	(130)	(130)
Balances on 31 December 2020	**2 420 000**	**-**	**193 265**	**(28 867)**	**(1 211 000)**	**1 373 398**
Other comprehensive income:						
Remeasurements of post-employment and long-term benefits (note 47)	-	-	-	-	61 160	61 160
Taxes (note 30)	-	-	-	-	(413)	(413)
Fair value changes (note 43)	-	-	-	37 070	-	37 070
Reservations made - Shares	-	-	-	-	(39 310)	(39 310)
Taxes related to changes in fair value (note 30)	-	-	-	230	-	230
Net income for the period	-	-	-	-	(36 108)	(36 108)
Total comprehensive income for the period	-	-	-	37 300	(14 671)	22 629
Balances on 30 June 2021	**2 420 000**	**-**	**193 265**	**8 433**	**(1 225 671)**	**1 396 027**

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Introduction

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 2021 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2021.

The interim separate financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 30 September 2021. The interim separate financial statements now presented refer to 30 June 2021. 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 2020. 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 y).

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. Sales that are closed to the maturity date 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, or if those sales are infrequent (albeit significant in value) or of an immaterial value, both individually or in aggregate (even if infrequent). To this purpose, Banco Montepio considers as immaterial sales of up to 10% of the nominal value of the sales of the portfolio and as infrequent 4 sales per year, regardless of the time interval between the transactions.

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. Generally, 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.

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.

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, including for the purpose of assessing whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the newly recognized financial asset is impaired on initial recognition (designating it as a financial asset acquired or originated in impairment) 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. Financial assets acquired or originated in impairment, do not have impairment on initial recognition. Instead, expected credit losses over the lifetime are incorporated into the calculation of the effective interest rate. Consequently, on initial recognition, the gross book value of this asset is equal to the net book value.

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.

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”), except for financial assets acquired or originated in impairment that are classified in Stage 3. This situation can only occur when the performance of the modified asset is in accordance with the new contract terms for a period of twelve consecutive months. Additionally, the Bank continues to monitor whether there has been a significant increase in the credit risk of these assets, applying specific models for modified assets.

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

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

The Bank engages in transactions in which it has the contractual right to receive cash flows from assets but assumes a contractual obligation to 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 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 for the financial period of loans and advances to customers and of loans and advances to credit institutions, measured at amortized cost, are recognized in the income statement in the caption Impairment of loans and advances to clients and to credit institutions, while those of the remaining financial assets are recognized 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 (e.g., bank guarantees and commitments assumed) are recorded as a provision in the caption Provisions under liabilities, in the balance sheet. The charges and reversals are recorded in the caption Other provisions in the income statement.

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

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

   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 or the behavioural maturity.

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

d) Expected credit losses: correspond to the weighted average of credit losses, using as weighting factor the probability of the occurrence of default events. The following distinction shall be taken into account: (i) expected credit losses over the lifetime of the operation for operations classified in Stage 2 or 3: 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 for operations classified in Stage 1: 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, prospective macroeconomic scenarios are considered when determining ECL, which changes have an impact on expected losses.

The impairment model is applicable to the following financial 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 and the gains or losses resulting on their disposal are recognized in other comprehensive income.

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 ECL

The ECL corresponds to an unbiased weighted estimate 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.

The main criteria for classification in default considered by Banco Montepio are the following:

- Overdue loans above the materiality limits defined for more than 90 consecutive days. For this purpose, the following materiality limits are considered: (i) relative limit of 1%; (ii) absolute limit of Euro 100 for retail exposures and Euro 500 for non-retail exposures

- Individually significant customers with individual impairment

- Bankruptcy/insolvency customers

- Customers with loans written off from assets in Banco Montepio in the last 5 years

- Transactions with restructuring due to financial difficulties, which meet the criteria defined for the identification of defaults (e.g., decrease in the fair value of the loan).

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 as 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 Banco Montepio and/or the financial system (e.g., restructurings due to financial difficulties that do not meet the criteria for classification in Stage 3, overdue credit in the CRC).

In the context of the current pandemic crisis, and with the aim of anticipating the risk deterioration associated with moratoria exposures, the following adjustments at the level of classification in Stage 2 were considered:

- Customers in the corporate and self-employed individual segment: As at 31 December 2020, the operations with capital and interest under moratoria conditions were classified as Stage 2. In 2021, the Bank revised this criterion considering the rating/scoring update with financial information for 2020, having maintained the capital and interest moratoria criterium solely for customers with no defined action plans;

- Customers of the individuals' segment: worsening of the behavioural scoring, considering the adjustment of certain input variables, namely related to the evolution of the customers' resources or professional situation of unemployment.

b.10.4) *Measurement of ECL – Collective analysis*

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.

In a simplified way, the measurement of ECL through collective analysis results from the product of the PD of the financial asset, of the LGD and of the EAD, discounted at the original effective interest rate of the contract, or at the effective interest rate of the date to which the financial statements refer when the rate is variable.

For securities portfolios and other assets, given their nature, the collective impairment estimation approach considers parameters provided by external sources, which consider the characteristics of the exposures (e.g., rating, type of counterparty).

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 rating of the counterparty or the exposure occurs, the estimate of the associated PD is also changed.

The following types of PD are estimated:

- 12-month PD: the probability of a default occurring in the next 12 months, considering forward-looking information for one year (for contracts belonging to Stage 1);

- Lifetime PD: the probability of a default occurring during the remaining life of the credit (for contracts belonging to Stage 2). In this case, lifetime parameters are used, which consider forward-looking information for a horizon of up to 3 years and for the remaining years the historical PD is considered; and

- PD = 100% for all contracts belonging to Stage 3.

The risk levels, defined based on the internal master scale, 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.

The segmentation of the PDs considered by the Bank is in line with the segmentation used in risk management, namely regarding the type of customer and the product (e.g., Individuals vs. Companies, home loans, consumption). Additionally, an additional segmentation level is considered for each segment supported by statistical analysis, based on risk variables, such as risk rating, economic activity code and delay indicators.

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 segmentation of LGDs considered by the Bank is in line with the segmentation used in risk management, namely regarding the type of customer and the product (e.g., Individuals vs. Companies, home loans, consumption). Additionally, an additional segmentation level is considered for each segment supported by statistical analysis, based on risk variables, such as collateralization level, EAD or product type.

The EAD represents the expected loss if the exposure and/or customer enters 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. For this purpose, credit conversion factors (CCF) are estimated based on internal historical data, which are adjusted to reflect forward-looking information.

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. For the purpose of incorporating the forward-looking component, 3 scenarios are considered, according to the following characteristics:

4. Baseline scenario, with a 60% probability of occurrence:

5. Pessimistic scenario, with a 20% probability of occurrence;

6. Optimistic scenario, with a 20% probability of occurrence.

Regarding the process of incorporating macroeconomic projections into the parameters for the impairment estimation, the established process provides for the projections to be updated at least annually.

Below is a summary of the evolution of the main macroeconomic variables considered in the models:

	2020	2021	2022
Unemployment rate [1]			
Baseline scenario	8.79%	7.15%	5.53%
Pessimistic scenario	10.34%	11.48%	10.46%
Optimistic scenario	8.72%	6.75%	5.07%
GDP growth rate			
Baseline scenario	(7.99%)	3.90%	4.47%
Pessimistic scenario	(10.97%)	2.48%	4.77%
Optimistic scenario	(5.26%)	3.06%	4.22%
Growth Rate of the House Price Index [2]			
Baseline scenario	(11.46%)	5.77%	6.40%
Pessimistic scenario	(15.46%)	(10.1%)	6.55%
Optimistic scenario	(9.11%)	7.33%	6.78%

[1] Source: Eurostat; Projections: Moody's Analytics

b.10.5) Measurement of ECL – Individual analysis

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.

For individually significant financial assets of counterparties/customers classified in Stage 3, the impairment value is determined using the discounted cash flow 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 credit loss (ECL) is attributed according to the collective analysis methodology, given that individually no impairment level is observed.

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 million 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/or 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 the mortgage/pledge, the valuation amount, the valuation date and the need for the application of haircuts in function of 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, selling and procedural costs, as applicable. For the calculation of the impairment of these customers, the annually projected cash flows, after adjustments, are discounted at the original effective interest rate of the operations;

- 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.

b.11) *Securitized loans and advances not derecognized*

Banco Montepio does not derecognize from assets the credits sold in securitization operations when:

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

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

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

b.12) *Synthetic securitization*

The Bank has an operation underway that configures a synthetic securitization structure. The operation started on 18 December 2020 and is based on a loan portfolio of small and medium-sized companies (SMEs).

This operation aims to reinforce the CET1 ratio, without generating any increase in liquidity. In this operation, there was no sale of loans to third parties, issue of bonds or participation of Credit Securitization Companies, Credit Securitization Vehicles and Credit Securitization Funds, or the need to maintain Reserve Accounts. Also, there was no transfer of loan collections.

The operation has a fractioning of risk, similar to that of a traditional securitization, having been subdivided in the following tranches: senior (80.3% of the portfolio), mezzanine (18% of the portfolio), junior (1.7% of the portfolio) and synthetic Excess Spread (0.54%). For the senior and mezzanine tranches, the Bank transferred the risk to third parties by contracting two financial guarantees that constitute a credit hedge that is not subject to MtM. For this purpose, the EIB and the EIF will be the guarantors of the senior and mezzanine tranches, with the Bank bearing a commission of 0.3% and 4.5% to guarantee each of the tranches, respectively. Banco Montepio retained the risk of the junior and of the excess spread tranches.

With this operation, the Bank reduced the risk-weighted assets (RWAs) associated with the loan and advances to customers' portfolio; however, as most of the risks and benefits associated with these loans were not transferred, the derecognition criteria of the financial assets defined in the accounting policy presented in b.7) above are not met.

c) Derivative financial instruments and hedge accounting

Banco Montepio designates derivatives and other 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 (if 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.

Distributions made on account of equity instruments are deducted from equity as dividends when declared.

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, the Bank classifies these in the caption Other assets, due to their length of stay in the portfolio exceeding 12 months. The accounting method remains unchanged 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:

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

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

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

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

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

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

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

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

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

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) Statement of cash flows

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.

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.

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.

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%, of which 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 several 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 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) 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:

6. 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;

7. 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.

w) 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.

x) 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:

iii) 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

iv) 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.

y) 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. These estimates were determined considering the best information available at the date of the preparation of the financial statements, considering the context of uncertainly and the economic environment resulting from the impact of the current COVID-19 pandemic. 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 of scenarios and respective relative weighting of prospective information for each segment 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 each 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 on risk parameters, determining impacts at the level of the expected credit loss (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 consider 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 the estimated taxable income 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 2021, 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 other 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 of their fair value less selling costs and the book value of the loans on the date the assets are 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.

Recoverable value of buildings held for own use

The measurement of impairment considers the principles defined in IAS 36, which require that its recoverable value be estimated.

The recoverable value is determined as the lower of its fair value and value in use, being calculated based on the present value of the future estimated cash flows expected from the continued use of the asset and its disposal.

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 2021	Jun 2020
Net interest income	92 112	96 638
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(2 720)	(6 361)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	525	18 833
	89 917	109 110

3 Net interest income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Interest and similar income		
Loans and advances to customers	112 513	118 498
Other financial assets at amortized cost	3 456	4 407
Other loans and advances to credit institutions and deposits from central bank	4 724	4 545
Financial assets held for trading	4 156	5 737
Hedging derivatives	3 267	3 263
Financial assets at fair value through other comprehensive income	214	992
Financial assets at fair value through profit or loss	3	9
Other interest and similar income	7	7
	128 340	137 458
Interest and similar expense		
Deposits from customers	5 656	10 325
Other subordinated debt	9 673	7 494
Financial liabilities related to transferred assets	6 155	9 036
Debt securities issued	4 204	4 347
Financial liabilities held for trading	3 820	5 317
Other credit institutions deposits and Central Bank deposits	3 214	2 058
Hedging derivatives	1 024	1 801
Lease liabilities	312	440
Other interest and similar expense	2 170	2
	36 228	40 820
Net interest income	92 112	96 638

The caption Interest and similar income – Loans and advances to customers, as at 30 June 2021, includes, respectively, the amount of Euro 6,599 thousand and the amount of Euro 858 thousand (30 June 2020: Euro 7,097 thousand and Euro 722 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 2021, includes the amount of Euro 3 thousand (30 June 2020: 9 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 expense – Other interest and similar expenses includes, as at 30 June 2021, the amount Euro 2,168 thousand related to expenses with synthetic securitization.

The caption Interest and similar expense – Leases refers to the interest expense 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 2021, this caption records the amount of Euro 1,747 thousand (30 June 2020: Euro 1,719 thousand) which includes Euro 1,386 thousand related to dividends received from the company Unicre, Euro 171 thousand from SIBS and Euro 161 thousand from Monteiro Aranha, S.A. (30 June 2020: Euro 950 thousand related to dividends received from the company Almina, Euro 550 thousand received from the company Monteiro Aranha, S.A. and Euro 193 thousand received from SIBS).

5 Net fee and commission income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Fee and commission income		
Banking services	45 701	46 016
Transactions on behalf of third parties	10 757	10 806
Insurance brokerage services	3 832	4 048
Guarantees provided	1 888	2 147
Other fee and commission income	1 213	732
	63 391	63 749
Fee and commission expense		
Banking services rendered by third parties	8 386	7 861
Transactions with securities	438	137
Other fee and commission expense	1 036	1 125
	9 860	9 123
Net fee and commission income	53 531	54 626

As at 30 June 2021 and 2020, the caption Insurance brokerage services has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Life insurance	1 970	1 783
Non-life insurance	1 862	2 265
	3 832	4 048

The remuneration of insurance brokerage services was received in full and all the commissions resulted from insurance intermediation for Lusitania, Companhia de Seguros, S.A. and for Lusitania Vida, Companhia de Seguros, S.A.

6 Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021			Jun 2020		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	884	1 157	(273)	2 574	2 331	243
Issued by other entities	140	71	69	161	8	153
Shares	798	283	515	546	1 091	(545)
Investment units	306	227	79	471	704	(233)
	2 128	1 738	390	3 752	4 134	(382)
Derivative financial instruments						
Interest rate contracts	19 402	19 637	(235)	36 121	35 922	199
Exchange rate contracts	12 790	13 122	(332)	17 525	18 084	(559)
Futures contracts	2 399	2 431	(32)	2 713	3 159	(446)
Option contracts	395	476	(81)	1 225	1 813	(588)
Commodities contracts and others	223	-	223	-	12 840	(12 840)
	35 209	35 666	(457)	57 584	71 818	(14 234)
Financial assets at fair value through profit or loss						
Investment units	5 662	12 307	(6 645)	2 560	3 137	(577)
Loans and advances to customers	75	567	(492)	86	10	76
	5 737	12 874	(7 137)	2 646	3 147	(501)
Other financial assets at fair value through profit or loss						
Shares	-	7	(7)	-	(17)	17
Securitization units	6 391	1 266	5 125	8 668	273	8 395
Loans and advances to customers	-	70	(70)	28	14	14
	6 391	1 343	5 048	8 696	270	8 426
Financial liabilities at fair value through profit or loss						
Deposits from customers	23	209	(186)	-	-	-
Debt securities issued	39	-	39	149	49	100
	62	209	(147)	149	49	100
Hedging derivatives						
Interest rate contracts	2 808	5 732	(2 924)	17 229	16 214	1 015
	2 808	5 732	(2 924)	17 229	16 214	1 015
Hedged financial liabilities						
Debt securities issued	2 507	-	2 507	3 248	4 033	(785)
	2 507	-	2 507	3 248	4 033	(785)
	54 842	57 562	(2 720)	93 304	99 665	(6 361)

As at 30 June 2020, the Net gains/(losses) arising from derivative financial instruments shows the impact of the loss of value in a derivative resulting from a loan disposal operation, including the respective mortgage guarantees, as a result of a non-realization of that's portfolio performance compared to what was initially expected, with a loss of Euro 12,840 thousand having been recorded.

In Net gains/(losses) arising from financial assets at fair value through profit or loss, as at 30 June 2021, the Investment units had a negative impact of Euro 6,566 thousand (30 June 2020: negative impact of Euro 810 thousand), determined by the effects of the funds: Fundo Arrendamento Mais - a negative Euro 4,865 thousand, Fundo Solução Arrendamento - a negative Euro 1,368 thousand, Fundo Vega - a negative Euro 2,137 thousand, Carteira Imobiliária – a negative Euro 2,126 thousand, Fundo VIP - a positive Euro 2,806 thousand and Fundo CR Revitalizar Centro - a positive Euro 1,501 thousand.

As at 30 June 2021, the Net gains/(losses) arising from the securitization fund units reflect the evolution of the securitized loan volume in the amount of Euro 1,609,256 thousand (30 June 2020: Euro 1,839,189 thousand).

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 2021			Jun 2020		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Fixed-income securities						
Bonds						
Issued by public entities	1 157	632	525	24 336	9 928	14 408
Issued by other entities	-	-	-	4 698	273	4 425
	1 157	632	525	29 034	10 201	18 833

As at 30 June 2021, the caption Bonds – Issued by public entities includes net gains obtained on the sale of Portuguese sovereign bonds in the amount of Euro 105 thousand, of Greek sovereign bonds in the amount of Euro 50 thousand and of German, Belgian, Italian and Spanish sovereign bonds in the amount of Euro 370 thousand. As at 30 June 2020, this caption included net gains generated 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.

8 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021			Jun 2020		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Foreign exchange differencies	12 471	11 297	1 174	23 613	22 436	1 177

This caption includes the results arising from the revaluation of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 q).

9 Net gains/(losses) arising from sale of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)	Jun 2021	Jun 2020
Disposal of financial assets at amortized cost	14 736	-
Disposal of other assets	4 926	10 374
Disposal of loans and advances to customers	(106)	(170)
	19 556	10 204

In the 1st half of 2021, Banco Montepio disposed of Portuguese sovereign debt with a nominal value of Euro 511 million classified in the hold-to-collect portfolio. This operation is framed within the limits defined in Banco Montepio's internal rules for this business model, being classified as infrequent but significant in terms of value. The gains realized arose on the sale of Portuguese sovereign bonds in the amount of Euro 14,736 thousand.

In the 1st half of 2020, the caption Disposal of other assets considers the result arising on the sale of properties received in recovery of loans, registering a gain of Euro 7,096 thousand related to the sale of a plot of land in the Greater Lisbon area.

10 Other operating income/(expense)

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Other operating income		
Management fees on demand deposits	1 390	1 888
Services rendered	2 435	2 709
Reimbursement of expenses	1 016	989
Repurchase of own issues	-	380
Others	1 234	1 811
	6 075	7 777
Other operating expenses		
Contributions:		
Banking sector	9 536	8 882
Ex-ante to the Single Resolution Fund	7 591	6 083
National Resolution Fund	4 357	4 263
Deposits Guarantee Fund	26	22
Revaluation of investment properties	2 984	2 511
Servicing and expenses with recovery and disposal of loans	1 842	1 595
Expenses with issuances	536	580
Taxes	274	232
Donations and memberships	340	598
Others	4 470	4 168
	31 956	28 934
Other net operating income/(expense)	(25 881)	(21 157)

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 (Conselho Único de Resolução), in cooperation with the Bank of Portugal, in its quality as national resolution authority, to calculate these contributions on an annual basis, pursuant to and for the purposes of article 70(2) of the MUR Regulation. Banco Montepio opted, in the 1st half of 2021 and in financial year 2020, 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, as at 30 June 2021, Banco Montepio settled Euro 8,424 thousand (30 June 2020: Euro 7,093 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 Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are calculated annually 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.

The caption Other operating costs – Expenses with properties held for trading includes, as at 30 June 2021, the amount of Euro 1,475 thousand related to services provided by Montepio - Gestão de Activos Imobiliários, A.C.E.. As at 30 June 2020, these services were recorded under the caption General and administrative expenses – Other general and administrative expenses in the amount of Euro 1,477 thousand, as described in note 12.

The caption Other operating costs – Other registers expenses incurred with the issue of cards, restitution of commissions, the ECB supervisory fee, the disposal operation of the Monteiro Aranha, S.A. shares and other operating costs.

11 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Remuneration	49 084	52 012
Mandatory social charges	15 594	15 611
Charges with Pension Funds	3 985	3 533
Other staff costs	3 390	2 034
	72 053	73 190

As at 30 June 2021, within the scope of the Employee Adjustment Plan, the captions of Charges with the Pension Fund and Other costs include, respectively, the amounts of Euro 1,355 thousand and Euro 1,856 thousand, related to the resulting charges arising from early retirement and mutual-agreement termination programs.

As at 30 June 2021 and 2020, the members of the Management Bodies did not receive any variable remuneration. First-line managers are considered Other key management personnel.

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 personnel, as at 30 June 2021, are presented as follows:

(Euro thousand)

	General Meeting Board	Board of Directors	Other key management staff	Total
Remuneration and other short-term benefits	7	1 659	1 575	3 241
Pension costs	-	374	112	486
Costs with healthcare benefits (SAMS)	-	10	27	37
Social Security charges	1	355	347	703
	8	2 398	2 061	4 467

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 personnel, as at 30 June 2020, 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 2021, loans granted by Banco Montepio to members of the Board of Directors (including members of the Audit Committee) amounted to Euro 614 thousand (30 June 2020: Euro 639 thousand) and to Other key management personnel to Euro 3,586 thousand (30 June 2020: Euro 4,248 thousand), as described in note 49.

12 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2021	Jun 2020
Rental costs	319	437
Specialized services		
IT services	5 739	5 748
Independent work	3 067	1 984
Other specialized services	7 628	7 307
Communication costs	3 036	3 128
Maintenance and repairs	2 105	2 192
Water, energy and fuel	1 490	1 640
Advertising costs	1 209	903
Transportation	823	938
Consumables	210	698
Travel, accommodation and entertainment expenses	180	324
Insurance	481	461
Training	68	61
Other general administrative costs	711	2 542
	27 066	28 363

The caption Rentals costs includes, as at 30 June 2021, the amount of Euro 157 thousand (30 June 2020: Euro 251 thousand) related to short-term lease agreements, of which Euro 28 thousand (30 June 2020: Euro 47 thousand) correspond to leasehold rentals and Euro 129 thousand (30 June 2020: Euro 204 thousand) to motor vehicle rentals, 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.

The caption Other general and administrative expenses includes, as at 30 June 2020, the amount of Euro 1,477 thousand related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.. As at 30 June 2021, these services were recorded in the caption Other operating income/(expense) – Expenses with properties held for trading in the amount of Euro 1,475 thousand, as described in note 10.

13 Depreciation and amortization

The amount of this caption has the following breakdown:

	Jun 2021	Jun 2020
	(Euro thousand)	
Intangible assets (note 29)		
Software	8 545	7 478
Other tangible assets (note 28)		
Real Estate		
For own use	1 432	1 539
Leasehold improvements in rented buildings	260	306
Equipment		
IT equipment	1 342	1 707
Fixtures	828	830
Furniture	59	63
Security equipment	59	65
Machinery and tools	18	17
Transportation	4	4
Right-of-use assets		
Real Estate	2 858	3 358
Motor vehicles	863	768
	7 723	8 657
	16 268	16 135

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 to customers and to credit institutions

The amount of this caption has the following breakdown:

	Jun 2021	Jun 2020
	(Euro thousand)	
Other loans and advances to credit institutions (note 20)		
Charge for the financial year net of reversals	318	4 941
Loans and advances to customers (note 21)		
Charge for the financial year net of reversals	56 512	107 820
Recovery of loans and interest	(1 962)	(765)
	54 550	107 055
	54 868	111 996

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

Banco Montepio, in the 1st half of 2020, recorded a COVID-19 pandemic related impact in the caption Impairment of loans and advances in the amount of Euro 39.5 million.

15 Impairment of other financial assets

The amount of this caption has the following breakdown:

	(Euro thousand)	
	Jun 2021	**Jun 2020**
Impairment of financial assets at fair value through other comprehensive income (note 24)		
Charge for the financial period net of reversals	1 174	3 512
Impairment of other financial assets at amotized cost (note 26)		
Charge for the financial period net of reversals	2 207	1 991
	3 381	5 503

16 Impairment of other assets

The amount of this caption has the following breakdown:

	(Euro thousand)	
	Jun 2021	**Jun 2020**
Other intangible assets (note 28)		
Charge for the financial period	3 826	-
Impairment of other assets (note 31)		
Charge for the financial period	6 990	6 434
Reversals for the financial period	(2 612)	(660)
	4 378	5 774
	8 204	5 774

17 Other provisions

The amount of this caption has the following breakdown:

	(Euro thousand)	
	Jun 2021	**Jun 2020**
Provisions for guarantees and commitments (note 37)		
Charge for the period	10 924	19 947
Reversals for the period	(13 665)	(17 031)
	(2 741)	2 916
Provisions for other risks and charges (note 37)		
Charge for the period	616	147
Reversals for the period	(5 260)	(729)
	(4 644)	(582)
	(7 385)	2 334

18 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Cash	141 842	163 622
Deposits at central banks		
Banco de Portugal	2 391 801	1 282 692
	2 533 643	1 446 314

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 advances to credit institutions payable on demand

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Credit institutions in Portugal	1 232	1 264
Credit institutions abroad	51 354	36 449
Amounts to be collected	19 208	15 785
	71 794	53 498

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 2021	**Dec 2020**
Loans and advances to credit institutions in Portugal		
Other loans	732 651	699 093
Term deposits	6 067	5 963
Reverse repos	420	-
	739 138	705 056
Loans and advances to credit institutions abroad		
Term deposits	118 760	61 843
CSA's	27 639	27 949
Reverse repos	-	54 216
Other loans and advances	8 650	17 750
	155 049	161 758
	894 187	866 814
Impairment for credit risk of loans and advances to credit institutions	(8 429)	(8 110)
	885 758	858 704

As at 30 June 2021 and 31 December 2020, the caption Loans and advances to credit institutions in Portugal - Loans, includes loans made to subsidiaries of Banco Montepio.

The change in the caption Loans and advances to credit institutions abroad – Term deposits, corresponds, essentially, to very short-term loans in foreign currency.

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, as at 30 June 2021, Banco Montepio holds an amount of Euro 27,639 thousand (31 December 2020: Euro 27,949 thousand) related to other loans and advances to credit institutions given as collateral for the above-mentioned operations.

As at 30 June 2021, the caption Loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 8,424 thousand (31 December 2020: Euro 7,093 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 2021	**Dec 2020**
Opening balance	8 110	1 629
Charge for the period net of reversals	318	4 941
Exchange variation	1	-
Closing balance	8 429	6 570

As at 30 June 2021, the Other loans and advances to banks were remunerated at the average rate of 0.36% (31 December 2020: 0.39%).

21 Loans and advances to customers

This caption is presented as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Corporate		
Loans not represented by securities		
Loans	2 814 240	2 798 952
Current account loans	453 388	436 689
Finance lease	275 527	286 980
Discounted bills	27 367	35 447
Factoring	184 665	184 667
Overdrafts	814	601
Other loans	403 112	411 384
Loans represented by securities		
Commercial paper	217 804	242 957
Bonds	164 563	162 944
Retail		
Mortage loans	5 636 047	5 580 462
Finance lease	31 103	32 977
Consumer credit and other loans	687 792	661 653
	10 896 422	10 835 713
Value correction of assets subject to hedging operations	(62)	8
Past due loans and advances and interest		
Less than 90 days	28 182	45 238
More than 90 days	489 289	611 090
	517 471	656 328
	11 413 831	11 492 049
Impairment for credit risks	(638 049)	(759 445)
	10 775 782	10 732 604

As at 30 June 2021, the caption Loans and advances to customers includes the amount of Euro 2,748,013 thousand (31 December 2020: Euro 2,739,544 thousand) related to the issue of covered bonds realized by Banco Montepio, as referred to in note 35.

As at 30 June 2021, the loans and advances that Banco Montepio granted to its shareholders and to related parties including companies of the consolidation perimeter, amounted to Euro 16,086 thousand (31 December 2020: Euro 16,346 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 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 513 thousand as at 30 June 2021 (31 December 2020: Euro 638 thousand).

As at 30 June 2021, the caption Loans and advances to customers includes the amount of Euro 1,609,256 thousand (31 December 2020: Euro 1,741,366 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.

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 2021 and 31 December 2020, is as follows:

(Euro thousand)

	Jun 2021	**Dec 2020**
Variable-rate loans and advances	10 200 820	10 291 555
Fixed-rate loans and advances	1 213 011	1 200 494
	11 413 831	11 492 049

The analysis of Past due loans and advances and interest, by credit type, is as follows:

(Euro thousand)

	Jun 2021	**Dec 2020**
Asset-backed loans	360 737	465 252
Other guaranteed loans	88 354	119 756
Finance leases	3 633	4 235
Loans represented by securities	33 950	33 950
Other loans and advances	30 797	33 135
	517 471	656 328

The analysis of Past due loans and advances and interest, by customer type and purpose, is as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Corporate		
Construction/Production	74 607	136 990
Investment	236 336	284 401
Treasury	120 409	143 272
Other	18 825	18 969
Retail		
Mortgage loans	41 393	45 007
Consumer credit	10 772	12 587
Other	15 129	15 102
	517 471	656 328

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 30 June 2021, is as follows:

(Euro thousand)

	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assed-backed loans	126 066	532 333	7 904 853	360 737	8 923 989
Other guaranteed loans	384 130	167 527	314 109	88 354	954 120
Finance leases	4 107	98 568	203 955	3 633	310 263
Loans represented by securitie	212 826	103 757	65 784	33 950	416 317
Other loans and advances	171 178	105 126	502 041	30 797	809 142
	898 307	1 007 311	8 990 742	517 471	11 413 831

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 31 December 2020, is as follows:

(Euro thousand)

	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assed-backed loans	131 505	546 766	7 784 182	465 252	8 927 705
Other guaranteed loans	359 235	189 538	313 768	119 756	982 297
Finance leases	4 199	101 116	214 642	4 235	324 192
Loans represented by securitie	242 957	95 907	67 037	33 950	439 851
Other loans and advances	200 473	110 465	473 931	33 135	818 004
	938 369	1 043 792	8 853 560	656 328	11 492 049

The outstanding amount of Finance leases, by residual maturity, as at 30 June 2021, is analysed as follows:

(Euro thousand)

	Loans and advances to customers			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	47 640	157 396	110 663	315 699
Outstanding interest	(8 065)	(21 314)	(16 284)	(45 663)
Residual values	1 168	8 656	26 770	36 594
	40 743	144 738	121 149	306 630

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2020, is analysed as follows:

(Euro thousand)

	Loans and advances to customers			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	48 752	160 041	108 920	317 713
Outstanding interest	(8 868)	(23 318)	(18 285)	(50 471)
Residual values	1 161	9 673	41 881	52 715
	41 045	146 396	132 516	319 957

As regards operating leases, Banco Montepio does not have significant agreements as Lessor.

The movements in impairment for credit risk are analysed as follows:

(Euro thousand)

	Jun 2021	Jun 2020
Opening balance	759 445	762 877
Charge for the financial period net of reversals	56 512	107 820
Utilization	(179 544)	(27 089)
Exchange variation	1 122	-
Financial liabilities related to transferred assets	514	1 608
Closing balance	638 049	845 216

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

(Euro thousand)

	Jun 2021	Dec 2020
Asset-backed loans and finance leases	456 722	549 233
Other secured loans	124 247	150 229
Unsecured loans	57 080	59 983
	638 049	759 445

The analysis utilization of impairment losses, by credit type, is as follows:

(Euro thousand)

	Jun 2021	Jun 2020
Asset-backed loans and finance leases	113 134	3 524
Other secured loans	35 016	17 373
Unsecured loans	31 394	6 192
	179 544	27 089

Banco Montepio has adopted forbearance measures and practices, aligned in terms of risk, 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.

As at 30 June 2021, the loan and advances portfolio includes loans that, given the financial difficulties of the customer, were subject to amendments of the initial conditions of the contract and these amount to Euro 709,993 thousand (31 December 2020: Euro 796,329 thousand) and present an impairment of Euro 307,914 thousand (31 December 2020: Euro 365,517 thousand).

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 2021 and 31 December 2020, by credit type, is as follows:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Corporate		
Loans not represented by securities		
Loans	58 541	169 210
Current account loans	6 419	9 669
Finance leases	2 825	569
Other loans	2 375	938
Retail		
Mortgage loans	3 189	2 427
Consumer credit and other loans	10 130	1 034
	83 479	183 847

As at 30 June 2021, and as regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 28,765 thousand, which corresponds to an impairment rate of 34.5% (31 December 2020: Euro 77,568 thousand, impairment rate of 42.2%).

Synthetic securitization

On 18 December 2020, Banco Montepio carried out an operation that configures a synthetic securitization structure, which is based on a portfolio of loans of small and medium-sized companies (SMEs). The legal maturity of the transaction is 25 March 2036 and the respective amount totals Euro 394,549 thousand as at 30 June 2021 (31 December 2020: Euro 415,315 thousand). As mentioned in accounting policy b.12), Banco Montepio contracted two guarantees from the EIB and the EIF to protect the senior and mezzanine tranches of the synthetic securitization operation, bearing, respectively, commissions of 0.3% and 4.0%, with quarterly payments.

22 Financial assets and liabilities held for trading

The caption financial assets and liabilities held for trading is analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Financial assets held for trading		
Securities		
Shares	2 245	3 397
Bonds	20 360	1 053
Investment units	454	3 074
	23 059	7 524
Derivative instruments		
Derivative financial instruments with positive fair value	2 456	3 984
	25 515	11 508
Financial liabilities held for trading		
Derivative instruments		
Derivative financial instruments with negative fair value	10 634	11 761
	10 634	11 761

As provided for in IFRS 13, as at 30 June 2021, the financial instruments measured in accordance with the valuation levels described in note 49, are as follows:

(Euro thousand)

	Jun 2021			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	2 245	-	-	2 245
Bonds	20 360	-	-	20 360
Investment units	454	-	-	454
	23 059	-	-	23 059
Derivative instruments				
Derivative financial instruments with positive fair value	-	1 704	752	2 456
	23 059	1 704	752	25 515
Financial liabilities held for trading				
Derivative instruments				
Derivative financial instruments with negative fair value	-	1 823	8 811	10 634
	-	1 823	8 811	10 634

As provided for in IFRS 13, as at 31 December 2020, the financial instruments measured in accordance with the valuation levels described in note 49, are as follows:

(Euro thousand)

	Dec 2020			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	3 397	-	-	3 397
Bonds	1 053	-	-	1 053
Investment units	3 074	-	-	3 074
	7 524	-	-	7 524
Derivate instruments				
Derivate intruments with positive fair value	-	2 147	1 837	3 984
	7 524	2 147	1 837	11 508
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	1 996	9 765	11 761
	-	1 996	9 765	11 761

Within the scope of the loan obtained from the EIB, a set of Italian, Portuguese, Spanish, German and US sovereign bonds with a nominal value of Euro 13,691 thousand, as at 30 June 2021 (31 December 2020: Italian sovereign bonds in the nominal amount of Euro 1,000 thousand), are part of the collateral, as described in note 33.

The book value of the derivative financial instruments as at 30 June 2021 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 2021								
		Derivative					Related Asset/Liability			
Derivative	Related financial asset/liability	Notional	Positive fair value	Negative fair value	Total fair value	Changes in fair value in the period (1)	Fair value	Changes in fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	-	-	-	-	-	-	(9)	-	-
Interest rate swap	Deposits from customers	22 008	-	(88)	(88)	(88)	186	186	22 031	21 846
Interest rate swap	Loans and advances	1 121	4	(48)	(44)	21	(62)	(70)	1 145	1 200
Interest rate swap	-	1 562 581	2 192	(10 253)	(8 061)	(133)	-	-	-	-
Currency swap (Short)	-	56 196	14	(95)	(81)	(299)	-	-	-	-
Currency swap (Long)	-	56 079								
Future options (Short)	-	14 742	-	-	-	-	-	-	-	-
Future options (Long)	-	21 881								
Forwards (Short)	-	7 761	-	-	-	-	-	-	-	-
Forwards (Long)	-	7 766								
Options (Short)	-	80 842	246	(150)	96	98	-	-	-	-
Options (Long)	-	79 996								
		1 910 973	2 456	(10 634)	(8 178)	(401)	124	107	23 176	23 046

(1) Includes the result of derivatives disclosed in note 6.

Derivatives held for risk management include the 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 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)

		Dec 2020								
		Derivative					Related Asset/Liability			
Derivative	**Related finacial asset/liability**	**Notional**	**Positive fair value**	**Negative fair value**	**Total fair value**	**Changes in fair value in the period (1)**	**Fair value**	**Changes in fair value in the period**	**Book value**	**Reimbursement amount at maturity date**
Interest rate swap	Debt securities issued	-	-	-	-	(191)	9	(8)	3 106	2 960
Interest rate swap	Loans and advances	1 174	4	(69)	(65)	(16)	8	(38)	1 207	1 200
Interest rate swap	-	1 644 869	3 753	(11 681)	(7 928)	(895)	-	-	-	-
Currency swap (Short)	-	50 171	224	(6)	218	(85)	-	-	-	-
Currency swap (long)	-	50 390								
Future options (Short)	-	1 776	-	-	-	-	-	-	-	-
Future options (Long)	-	355								
Forwards (Short)	-	29 064	-	-	-	-	-	-	-	-
Forwards (Long)	-	28 889								
Options (Short)	-	59 675	3	(5)	(2)	(12 387)	-	-	-	-
Options (Long)	-	64 433								
		1 930 796	3 984	(11 761)	(7 777)	(13 574)	17	(46)	4 313	4 160

(1) Includes the result of derivatives disclosed in note 6.

The fair value of the options corresponds to derivatives traded on organized markets, which market value is settled daily against the margin account and the fair value of the Forwards - Foreign exchange derivatives with short residual maturities, to be settled.

23 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Variable income securities		
Investment units	384 024	467 267
Securitization units	87 818	98 920
Loans and advances to customers at fair value		
Loans not represented by securities	1 984	3 425
	473 826	569 612

The caption Variable-income securities – Investment units includes, as at 30 June 2021, the amount of Euro 27,581 thousand (31 December 2020: Euro 30,038 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 2021			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	-	-	384 024	384 024
Securitization units	-	-	87 818	87 818
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	1 984	1 984
	-	-	473 826	473 826

(Euro thousand)

	Dec 2020			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	-	-	467 267	467 267
Securitization units	-	-	98 920	98 920
Loans and advances to costumers at fair value				
Loans not represented by securities	-	-	3 425	3 425
	-	-	569 612	569 612

As at 30 June 2021, 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 384,024 thousand (31 December 2020: Euro 467,267 thousand), of which Euro 343,186 thousand (31 December 2020: Euro 425,383 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 2021, for the Variable-income 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 47,383 thousand (31 December 2020: Euro 56,961 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 2021	Dec 2020
Opening balance	566 187	641 572
Acquisitions	582	211
Remeasurements	(9 020)	(25 561)
Disposals	(85 907)	(50 035)
Closing balance	471 842	566 187

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 quarter of 2021 and financial year 2020.

24 Financial assets at fair value through other comprehensive income

This caption, as at 30 June 2021, is presented as follows:

(Euro thousand)

	Jun 2021				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	120 693	322	(243)	(274)	120 498
Foreign	56 430	482	(285)	(109)	56 518
Bonds issued by other entities					
Domestic	8 372	890	(566)	(1 313)	7 383
Foreign	1 923	4	(17)	(12)	1 898
Variable income securities					
Shares					
Domestic	5 128	9 685	-	-	14 813
Foreign	6 242	1 870	(8)	-	8 104
	198 788	13 253	(1 119)	(1 708)	209 214

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

This caption, as at 31 December 2020, is presented as follows:

(Euro thousand)

	Dec 2020				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bons issued by public entities					
Domestic	21 025	406	-	(58)	21 373
Foreign	119 899	1 200	-	(300)	120 799
Bonds issued by other entities					
Domestic	3 661	96	(633)	(707)	2 417
Foreign	2 088	4	(25)	(13)	2 054
Variable income securities					
Shares					
Domestic	74 484	9 685	(1 750)	-	82 419
Foreign	71 542	2 045	(37 329)	-	36 258
	292 699	13 436	(39 737)	(1 078)	265 320

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

On 4 March 2021, Banco Montepio participated in the tender of the public offer of shares ("OPA") through increase in shareholding launched by Sociedade Técnica Monteiro Aranha, S.A. (the "Offeror"), carried out by B3 S.A. – Brasil, Bolsa, Balcão.

In the scope of said tender, Banco Montepio sold its entire shareholding in Monteiro Aranha S.A. (the "Company"), corresponding to 1,262,743 ordinary shares, equivalent to circa 10.31% of the share capital of the Company. The sale originated proceeds in the amount of Euro 25,944 thousand (31 December 2020: the value of the shareholding was Euro 27,980 thousand).

As at 30 June 2021, Banco Montepio sold its entire shareholding in Almina Holding S.A. ("Almina"), corresponding to 9,500 ordinary shares, equivalent to 19.0% of the share capital of Almina. The sale originated proceeds in the amount of Euro 67,000 thousand (31 December 2020: the value of the shareholding was Euro 67,600 thousand).

As at 30 June 2021 and 31 December 2020, 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 2021				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	119 468	1 030	-	-	120 498
Foreign	56 518	-	-	-	56 518
Bonds issued by other entities					
Domestic	-	-	7 383	-	7 383
Foreign	-	1 898	-	-	1 898
	175 986	2 928	7 383	-	186 297
Variable income securities					
Shares					
Domestic	-	-	14 000	813	14 813
Foreign		-	7 643	461	8 104
	-	-	21 643	1 274	22 917
	175 986	2 928	29 026	1 274	209 214

(Euro thousand)

	Dec 2020				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	20 339	1 034	-	-	21 373
Foreign	120 799	-	-	-	120 799
Bonds issued vy other entities					
Domestic	-	-	2 417	-	2 417
Foreign	-	2 054	-	-	2 054
	141 138	3 088	2 417	-	146 643
Variable income securities					
Shares					
Domestic	-	-	81 600	819	82 419
Foreign	27 979	-	7 818	461	36 258
	27 979	-	89 418	1 280	118 677
	169 117	3 088	91 835	1 280	265 320

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 2,903 thousand as at 30 June 2021 (31 December 2020: Euro 9,184 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the positive amount of Euro 11,871 thousand (31 December 2020: positive amount of Euro 9,435 thousand) recognized in fair value reserves.

In this caption, Banco Montepio has some securities measured at acquisition cost. 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 2021, the impairment recorded for these level 3 securities amounted to Euro 1,313 thousand (31 December 2020: Euros 708 thousand).

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

		(Euro thousand)
	Jun 2021	**Dec 2020**
Opening balance	91 835	95 581
Acquisitions	5 289	-
Revaluations	(105)	(2 671)
Disposals	(67 600)	-
Amortization at nominal value	(393)	(1 075)
Closing balance	29 026	91 835

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

		(Euro thousand)
	Jun 2021	**Jun 2020**
Opening Balance on 1 January	1 078	5 279
Charge for the financial period net of reversals	1 174	3 512
Reversals for the period	(544)	(4 671)
Balance on 30 june	1 708	4 120

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 2021, to Euro 147,878 thousand after haircut (31 December 2020: Euro 74,713 thousand), as described in note 32;
- As at 30 June 2021, the EIB loan obtained is collateralized by a set of Portuguese, Spanish and Italian sovereign bonds with a nominal value of Euro 12,917 thousand (31 December 2020: Euro 545,677 thousand by Portuguese, Spanish, Greek, Dutch, French and German sovereign bonds), as described in note 33.

These financial assets pledged as collateral can be executed in the event of non-compliance with contractual obligations assumed by Banco Montepio under the terms and conditions of the contracts celebrated.

25 Hedging derivatives

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Assets		
Interest rate swaps	10 726	10 550
Equity swaps	-	143
	10 726	10 693
Liabilities		
Interest rate swaps	347	397
Net value	10 379	10 296

Banco Montepio contracted an interest rate swap to hedge its interest rate risk arising from a bond issue at fixed rate. The accounting method depends on the nature of the hedged risk, namely whether Banco Montepio is exposed to fair value changes, or cash flow changes, or whether it is hedging future transactions.

Banco Montepio performs periodic effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives' portfolio, by residual maturity, as at 30 June 2021 and 31 December 2020, is as follows:

(Euro thousand)

	Jun 2021			
	Maturity date			
	Notional		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	10 379	10 379

(Euro thousand)

	Dec 2020			
	Maturity date			
	Notional		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	10 153	10 153
Fair value hedge derivative with exchange rate risk:				
Currency swap	27 830	27 830	143	143
	777 830	777 830	10 296	10 296

As at 30 June 2021, the fair value hedging operations can be analysed as follows:

(Euro thousand)

Jun 2021							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value (1)**	**Changes in fair value of derivative in the financial period**	**Hedged item fair value(2)**	**Changes in fair value of hedged item in the financial period (2)**
Interest rate swap	Debt securities issued	Interest rate	750 000	10 379	227	(5 060)	2 507
Interest rate swap	Debt securities issued	Interest rate	-	-	(143)	-	-
			750 000	10 379	84	(5 060)	2 507

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

As at 31 December 2020, the fair value hedging operation can be analysed as follows:

(Euro thousand)

Dec 2020							
Derivative	**Hedge item**	**Hedged risk**	**Notional**	**Fair value(1)**	**Changes in fair value of derivative in the financial period**	**Hedged item fair value (2)**	**Changes in fair value of hedged item in the financial period (2)**
Interest rate swap	Debt securities issued	Interest rate	750 000	10 153	(448)	(7 567)	1 657
Interest rate swap	Debt securities issued	Interest rate	27 830	143	143	-	-
			777 830	10 296	(305)	(7 567)	1 657

(1) Includes accured interest.
(2) Attributable to the hedge risk.

26 Other financial assets at amortized cost

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Fixed income securities		
Bond issued by public entities		
Domestic	671 237	1 360 498
Foreign	2 096 243	948 159
Bond issued by other entities		
Foreign	1 551 769	1 677 982
	4 319 249	3 986 639
Impairment for other financial assets at amortized cost	(5 010)	(4 690)
	4 314 239	3 981 949

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 2021, 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-2007	15-Sep-2054	-	87 158	87 158
Pelican Mortgages 07/15-09-2054_3_B	30-Mar-2007	15-Sep-2054	-	3 126	3 126
Pelican Mortgages 07/15-09-2054_3_C	30-Mar-2007	15-Sep-2054	-	2 632	2 632
Pelican Mortgages 07/15-09-2054_3_D	30-Mar-2007	15-Sep-2054	0.127%	1 398	1 398
Pelican Mortgages 08/15-09-2056_4_A	20-May-2008	15-Sep-2056	-	340 636	340 636
Pelican Mortgages 08/15-09-2056_4_B	20-May-2008	15-Sep-2056	-	30 154	30 154
Pelican Mortgages 08/15-09-2056_4_C	20-May-2008	15-Sep-2056	0.052%	32 599	32 600
Pelican Mortgages 08/15-09-2056_4_D	20-May-2008	15-Sep-2056	0.352%	13 583	13 585
Pelican Mortgages 07/15-09-2056_4_E	20-May-2008	15-Sep-2056	0.702%	14 941	14 946
Pelican Mortgages 09/15-12-2061_5_A	25-Mar-2009	15-Dec-2061	-	300 954	300 954
Pelican Mortgages 09/15-12-2061_5_B	25-Mar-2009	15-Dec-2061	-	105 405	105 405
Pelican Mortgages 09/15-12-2061_5_C	25-Mar-2009	15-Dec-2061	0.352%	14 865	14 867
Pelican Mortgages 09/15-12-2061_5_D	25-Mar-2009	15-Dec-2061	0.702%	14 865	14 869
Aqua Mortgages 08/15-12-2063_1_A	9-Dec-2008	15-Dec-2063	-	52 964	52 964
Aqua Mortgages 08/15-12-2063_1_B	9-Dec-2008	15-Dec-2063	-	18 123	18 123
Pelican Mortgages 12/02-12-2063_6_A	5-Mar-2012	2-Dec-2063	-	268 352	268 351
Pelican Mortgages 12/02-12-2063_6_B	5-Mar-2012	2-Dec-2063	-	250 000	250 000
OT 1.000% 12APR2052	3-Feb-2021	12-Apr-2052	1.00%	7 500	7 469
OT 0.475% 18OCT2030	27-Mar-2020	18-Oct-2030	0.475%	210 000	213 935
OT 0.700% 15OCT2027	23-Jul-2020	15-Oct-2027	0.7%	25 000	26 068
OT 0.900% 12OCT2035	10-Nov-2020	12-Oct-2035	0.9%	95 000	100 950
OT 3,875% 15-FEB-2030	11-Nov-2020	15-Feb-2030	3.875%	105 000	139 312
OT 2.250% 18APR2034	12-Nov-2020	18-Apr-2034	2.25%	15 000	18 578
OT 1.950% 15JUN2029	27-Mar-2020	15-Jun-2029	1.95%	143 500	163 458
BONOS 1,950% 30JUL2030	9-Apr-2021	30-Jul-2030	1.95%	85 000	99 683
BONOS 0,750% 30JUL2021	8-Jun-2018	30-Jul-2021	0.75%	35 000	35 223
BONOS 5.350% 30JUL2033	12-Nov-2020	30-Jul-2033	5.35%	65 000	81 929
BONOS 0,350% 30JUL2023	4-Jun-2018	30-Jul-2023	0.35%	166 000	166 079
BONOS 0.500% 30APR2030	30-Mar-2021	30-Apr-2030	0.5%	105 000	107 909
BONOS 1,250% 31OCT2030	6-Apr-2021	31-Oct-2030	1.25%	70 000	76 664
BONOS 0.000% 31MAY2024	24-Mar-2021	31-May-2024	-	250 000	252 762
BONOS 0.100% 30APR2031	24-Mar-2021	30-Apr-2031	0.1%	115 000	112 621
ADIF 1.875% 28JAN2025	30-Mar-2020	28-Jan-2025	1.875%	15 200	16 111
BTP 1.650% 01MAR2032	6-Nov-2020	1-Mar-2032	1.65%	34 000	37 145
BTP 1,250% 01-DEC-2026	10-Nov-2020	1-Dec-2026	1.25%	70 000	73 701
BTP 2,800% 01DEC2028	6-Nov-2020	1-Dec-2028	2.8%	153 800	180 389
BTP 2,500% 15NOV2025	11-Nov-2020	15-Nov-2025	2.5%	33 000	36 365
BTP 1.350% 01APR2030	10-Nov-2020	1-Apr-2030	1.35%	82 000	87 258
BTP 1.650% 01DEC2030	11-Nov-2020	1-Dec-2030	1.65%	34 000	36 998
BTP 0.950% 15SEP2027	28-Oct-2020	15-Sep-2027	0.95%	105 000	109 054
BTP 0.500% 01FEB2026	12-Nov-2020	2-Feb-2026	0.5%	14 500	14 746
BTP 0.900% 01APR2031	9-Nov-2020	1-Apr-2031	0.9%	36 000	36 558
BTP 0,250% 15MAR2028	7-Apr-2021	15-Mar-2028	0.25%	35 000	34 719
BTP 0.000% 15APR2024	18-Mar-2021	15-Apr-2024	-	495 000	496 787
				4 151 256	4 314 239

The caption Other financial assets at amortized cost, as at 31 December 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-2007	15-Sep-2054	-	99 598	99 598
Pelican Mortgages 07/15-09-2054_3_B	30-Mar-2007	15-Sep-2054	-	3 572	3 572
Pelican Mortgages 07/15-09-2054_3_C	30-Mar-2007	15-Sep-2054	-	3 008	3 008
Pelican Mortgages 07/15-09-2054_3_D	30-Mar-2007	15-Sep-2054	0.132%	1 598	1 598
Pelican Mortgages 08/15-09-2056_4_A	20-May-2008	15-Sep-2056	-	357 937	357 937
Pelican Mortgages 08/15-09-2056_4_B	20-May-2008	15-Sep-2056	-	31 686	31 686
Pelican Mortgages 08/15-09-2056_4_C	20-May-2008	15-Sep-2056	0.057%	34 255	34 256
Pelican Mortgages 08/15-09-2056_4_D	20-May-2008	15-Sep-2056	0.357%	14 273	14 275
Pelican Mortgages 07/15-09-2056_4_E	20-May-2008	15-Sep-2056	0.707%	15 700	15 705
Pelican Mortgages 09/15-12-2061_5_A	25-Mar-2009	15-Dec-2061	-	314 320	314 320
Pelican Mortgages 09/15-12-2061_5_B	25-Mar-2009	15-Dec-2061	-	110 086	110 086
Pelican Mortgages 09/15-12-2061_5_C	25-Mar-2009	15-Dec-2061	0.357%	15 525	15 528
Pelican Mortgages 09/15-12-2061_5_D	25-Mar-2009	15-Dec-2061	0.707%	15 525	15 530
Aqua Mortgages 08/15-12-2063_1_A	9-Dec-2008	15-Dec-2063	-	57 094	57 094
Aqua Mortgages 08/15-12-2063_1_B	9-Dec-2008	15-Dec-2063	-	18 609	18 609
Pelican Mortgages 12/02-12-2063_6_A	5-Mar-2012	2-Dec-2063	-	292 880	292 880
Pelican Mortgages 12/02-12-2063_6_B	5-Mar-2012	2-Dec-2063	-	250 000	250 000
PEL FIN A 12/28	7-May-2014	25-Jun-2028	3.00%	26 242	26 247
PEL FIN B 12/28	7-May-2014	25-Jun-2028	-	16 051	16 055
OT 4.95% 25-OCT-2023	10 junho 2008	25-Oct-2023	4.95%	188 000	211 802
OT APR21	23 fevereiro 2005	15-Apr-2021	3.85%	120 000	124 318
OT 2.200% 17-OCT-2022	9 setembro 2015	17-Oct-2022	2.2%	212 500	220 012
OT 5.65% 15-FEV-2024	14 maio 2013	15-Feb-2024	5.65%	109 500	132 714
OT 1.950% 15JUN2029	16-Jan-2019	15-Jun-2029	1.95%	143 500	166 120
OT 0.700% 15OCT2027	8-Apr-2020	15-Oct-2027	0.7%	25 000	26 060
OT 0.475% 18OCT2030	15-Jan-2020	18-Oct-2030	0.47%	210 000	213 639
OT 2.250% 18APR2034	18-Apr-2018	18-Apr-2034	2.25%	15 000	18 885
OT 0.900% 12OCT2035	8-Jul-2020	12-Oct-2035	0.9%	95 000	100 712
OT 3.875% 15-FEB-2030	10-Sep-2014	15-Feb-2030	3.875%	105 000	143 261
BONOS 0.750% 30JUL2021	8 março 2016	30-Jul-2021	0.75%	35 000	35 219
BONOS 0.350% 30JUL2023	22 maio 2018	30-Jul-2023	0.35%	166 000	165 727
BOTS ZERO COUPON 14APR2021	14-Apr-2020	14-Apr-2021	-	25 000	24 927
BOTS ZERO COUPON 14MAY2021	14-May-2020	14-May-2021	-	45 000	44 871
BOTS ZERO COUPON 14JUN2021	12-Jun-2020	14-Jun-2021	-	104 000	103 842
ADIF 1.875% 28JAN2025	4-Mar-2015	28-Jan-2025	1.875%	15 200	16 366
BONOS 1.950% 30JUL2030	1-Mar-2017	30-Jul-2030	1.95%	20 000	23 665
BONOS 5.350% 30JUL2033	24-Mar-2015	30-Jul-2033	5.35%	65 000	81 812
BTP 1.650% 01MAR2032	1-Aug-2016	1-Mar-2032	1.65%	34 000	37 286
BTP 1.250% 01-DEC-2026	1-Aug-2018	1-Dec-2026	1.25%	70 000	74 049
BTP 2.800% 01DEC2028	17-Sep-2018	1-Dec-2028	2.8%	53 800	63 566
BTP 2.500% 15NOV2025	2-Sep-2019	15-Nov-2025	2.5%	33 000	36 743
BTP 1.350% 01APR2030	10-Jun-2020	1-Apr-2030	1.35%	82 000	87 553
BTP 1.650% 01DEC2030	16-Jul-2020	1-Dec-2030	1.65%	34 000	37 159
BTP 0.950% 15SEP2027	1-Sep-2020	15-Sep-2027	0.95%	60 000	62 296
BTP 0.500% 01FEB2026	1-Oct-2020	2-Feb-2026	0.5%	14 500	14 774
BTP 0.900% 01APR2031	11-Nov-2020	1-Apr-2031	0.9%	36 000	36 587
				3 793 959	3 981 949

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

As at 30 June 2021, the loan obtained from the EIB is collateralized by a set of Italian sovereign bonds with a nominal value of Euro 683,296 thousand (31 December 2020: Euro 120,000 thousand by Portuguese and

Spanish sovereign bonds), provided as collateral and recorded in the caption Other financial assets at amortized cost, as disclosed in note 33.

As at 30 June 2021, the nominal value of the assets pledged as collateral to the European Central Bank under liquidity-providing operations amounts to Euro 2,442,675 thousand (31 December 2020: Euro 1,991,814 thousand) after applying a haircut.

As at 30 June 2021, the nominal value of the securities given in guarantee to the Deposits Guarantee Fund amounted to Euro 24,000 thousand (31 December 2020: Euro 23,000 thousand) as per note 45.

The securities pledged as collateral to the Portuguese Securities' Commission (Comissão do Mercado de Valores Mobiliários) in the scope of the Investors' Compensation System, recorded under Other financial assets at amortized cost, present a nominal value of Euro 1,000 thousand as at 30 June 2021 and 31 December 2020.

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

		(Euro thousand)
	Jun 2021	**Jun 2020**
Opening balance	4 690	1 750
Charge for the period net of reversals	2 207	1 991
Reversals	(1 887)	-
Closing balance	5 010	3 741

27 Investments in subsidiaries and associated companies and Non-current assets held for sale

This caption is presented as follows:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Investments in associated companies		
Montepio Holding, S.G.P.S., S.A.	413 750	413 750
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Activos Imobiliários, A.C.E.	637	637
	417 587	417 587
Impairment of investments in associated companies	(97 939)	(97 939)
	319 648	319 648
Non-current assets held for sale		
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	8 997	8 997

Within the scope of the decisions taken by the Management and Administration Bodies of Banco Montepio, namely the analysis of a set of strategic options for Banco Montepio Geral Cabo Verde as a result of the change in the legal framework for banking entities operating in Cape Verde, the financial shareholding in this entity was reclassified to Non-current assets held for sale.

In view of this legal imposition, the competent Bodies of the Banco Montepio Group deliberated the voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde, having, to that end, started the respective proceedings with the Cape-Verdean authorities.

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 for the period ended 30 June 2021 and for financial year ended 31 December 2020, an impairment in Banco Montepio in the amount of Euro 97,939 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. (Banco Empresas Montepio) which considered the business plan for the next triennium.

The information related to subsidiaries and associated companies is presented in the following table:

(Euro thousand)

	Number of shares	% Stake	Unit value	Cost
30 June 2021				
Investments in associated companies				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100.00%	1,00	413 750
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários, A.C.E.	636 924	26.00%	1,00	637
CESource, A.C.E.	-	18.00%	-	-
				417 587
Non-current assets held for sale				
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100.00%	90,69	8 997
31 December 2020				
Non-current assets held for sale				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100.00%	1,00	413 750
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários, A.C.E.	636 924	26.00%	1,00	637
CESource, A.C.E.	-	18.00%	-	-
				417 587
Non-current assets held for sale				
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100.00%	90,69	8 997

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 2021	**Dec 2020**
Investments		
Real estate		
For own use	175 872	206 236
Leasehold improvements in rented building	28 851	28 851
Equipment		
IT equipment	94 930	94 614
Fixtures	33 800	33 452
Furniture	18 191	18 189
Security equipment	7 697	7 686
Machinery and tools	2 698	2 697
Transportation equipment	472	472
Other equipment	1	1
Works of art	2 870	2 870
Assets in operating leases	58	74
Righ-of-use assets		
Real estate	25 686	26 160
Vehicles	7 024	6 948
Other tangible assets	1 844	1 844
Work in progress	783	750
	400 777	430 844
Accumulated depreciation		
Charge for the period	(7 723)	(16 716)
Accumulated charge in previous periods	(200 181)	(186 348)
	(207 904)	(203 064)
Impairment	(571)	(11 941)
	192 302	215 839

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).

The movements in impairment of Other tangible assets are analysed as follows:

		(Euro thousand)
	Jun 2021	**Jun 2020**
Balance on 1 January	11 941	-
Charge	3 826	-
Transfers	(15 196)	-
Balance on 30 June	571	-

The caption Transfers refers to branches closed that were transferred to Other assets – Assets received in recovery of credit, as described in note 31.

29 Intangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Investments		
Software	156 692	150 662
Other Intagible Assets	2 049	2 049
Work in progress	2 758	2 761
	161 499	155 472
Accumulated depreciation		
Charge for the period	(8 545)	(15 157)
Accumulated charge in previous periods	(122 369)	(107 211)
	(130 914)	(122 368)
	30 585	33 104

30 Taxes

Deferred tax assets and liabilities, as at 30 June 2021 and 31 December 2020, can be analysed as follows:

(Euro thousand)

	Assets		Liabilities		Net	
	Jun 2021	Dec 2020	Jun 2021	Dec 2020	Jun 2021	Dec 2020
Deferred taxes not dependent on future profitability						
Impairment on loans granted	42 625	44 095	-	-	42 625	44 095
Benefits to employees	26 235	22 815	-	-	26 235	22 815
	68 860	66 910	-	-	68 860	66 910
Deferred taxes dependent on future profitability						
Financial instruments	23 311	22 110	(9 439)	(9 652)	13 872	12 458
Other tangible assets	-	-	(7)	(7)	(7)	(7)
Provisions/Impairment						
Impairment on loans granted	140 501	166 835	-	-	140 501	166 835
Other risks and charges	6 701	9 292	-	-	6 701	9 292
Imparirment in securities and non-financial assets	2 973	3 653	-	-	2 973	3 653
Impairment in financial assets	2 083	1 788	-	-	2 083	1 788
Benefits to employees	47 174	48 545	-	-	47 174	48 545
Others	130	130	-	-	130	130
Taxes losses carried forward	225 032	200 760	-	-	225 032	200 760
	447 905	453 113	(9 446)	(9 659)	438 459	443 454
Net deferred tax assets/(liabilities)	516 765	520 023	(9 446)	(9 659)	507 319	510 364

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 (“Regime”), 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 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. This deposit shall be redeemed when and to the extent that the State rights are acquired by the shareholders or exercised by the State.

Bearing in mind that the Banco Montepio recorded a net accounting loss in 2020, and following the approval of the annual accounts by the corporate bodies and the application of the referred Special Regime applicable to Deferred tax Assets ("REAID"), in the 1st half of 2021 there was a conversion into tax credits of deferred tax assets that resulted from the non-deduction of expenses and of asset value deductions resulting from impairment losses of credits and of post-employment and long-term employee benefits, with a special reserve corresponding to 110% of its amount having been constituted for this purpose (see Note 43).

Hence, according to article 8 of Law no. 61/2014, of 26 August, in the period ended 30 June 2021, Banco Montepio constituted a special reserve in the amount of Euro 5,017 thousand, which corresponds to a tax credit of Euro 4,561 thousand, and which integrates, as at 30 June 2021, the total deferred tax assets presented above. These estimated amounts may change in function of the auditors' certification (which is to occur during financial year 2021) and that of the Tax Authority itself.

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 employee benefits includes the amount of Euro 8,192 thousand (31 December 2020: Euro 8,605 thousand) related to deferred taxes associated with the remeasurements recognized against reserves as a result of the change in accounting policy realized in 2011. As at 30 June 2021, this caption also includes the amount of Euro 2,436 thousand (31 December 2020: Euro 2,554 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 2021, deferred taxes associated with Post-employment and long-term employee benefits include the amount of Euro 31,479 thousand (2020: Euro 31,479 thousand) related to post-employment and long-term benefits in excess of the existing limits.

In the 1st half of 2021 and financial year 2020, 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 budget and considers the expectations regarding the impacts of the pandemic at the level of the financial markets, economic activity, and the evolution of credit risk levels.

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 to adjust same to Banco Montepio's value proposal for each segment, defined in function of its life cycle and financial

profile, as well as in terms of the growth of its “first bank” quota, leading to the progressive increase of the customer base with a greater transactionality and level of commitment.

- 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 30 June 2021 and 31 December 2020, 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 grown 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 2021	Dec 2020
2026	13 650	13 106
2029	44 439	44 439
2030	128 830	128 830
2032	16 419	14 385
2033	21 694	-
	225 032	200 760

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, for the same tax periods 2020 and 2021, the deduction of tax losses carried forward may amount to 80% of the taxable income (previously the limit was 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.

The tax recognized in net income/(loss) and in reserves during the 1st half of 2021 and financial year 2020 originated as follows:

(Euro thousand)

	Jun 2021		Dec 2020	
	Charged to net income/(loss)	**Charged to reserves and retained earnings**	**Charged to net income/(loss)**	**Charged to reserves and retained earnings**
Financial instruments	1 182	230	(949)	6 868
Provision/Impairment	(30 779)	-	(1 582)	-
Employee benefits	2 461	(413)	5 763	8 875
Tax losses carried forward	24 272	-	29 094	-
Deferred taxes/recognized as profit/(loses)	(2 864)	(183)	32 326	15 743
Deferred taxes/recognized as profit/(loses)	1 167	-	1 939	-
	(1 697)	(183)	34 265	15 743

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

(Euro thousand)

	Jun 2021		Dec 2020	
	%	**Value**	**%**	**Value**
Profit before income tax		(34 411)		(87 616)
Income tax based on the current nominal tax rate	(21.00)	7 226	(21.00)	18 399
Gains and losses associated with the transfer of equity	-	-	0.2	(156)
Equity contribution for the banking sector	5.8	(2 003)	2.1	(1 865)
Post-employement benefits and pension fund	(4.4)	1 525	(0.2)	196
Taxable provisions/impairment	6.2	(2 121)	1.5	(1 339)
Autonomous taxation	-	-	(0.6)	(488)
Corrections to previous periods	(6.1)	2 113	(2.7)	2 346
Effect of differences in income tax for the period	27.2	(9 350)	(5.8)	5 045
Taxes losses carried forward	(7.5)	2 578	-	-
Other	4.8	(1 665)	(0.6)	(483)
Income tax for the period	4.9	(1 697)	24.7	21 655

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 2021 and 31 December 2020, 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 2018 tax period, with the inspection of the 2019 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 3,015 thousand (31 December 2020: Euro 2,313 thousand) relates, essentially, to IRC recoverable, of which Euro 105 thousand (31 December 2020: Euro 105 thousand) relates to payments on account, additional payments on account and special payments on account.

31 Other assets

This caption is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Assets received for credit recovery	632 270	649 807
Post-employment benefits	42 775	-
Supplies - Montepio Holding	128 610	127 708
Other debtors	33 405	35 109
Sundry debtors	15 429	7 320
Price deposits	11 433	11 740
Bonifications to be received from the Portuguese Government	9 111	8 054
Deferred costs	2 590	3 179
Other amounts receivable	2 198	3 289
	877 821	846 206
Impairment for assets received for credit recovery	(138 560)	(126 342)
Impairment for other assets	(23 333)	(25 840)
	715 928	694 024

The caption Assets received in recovery of credit is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Assets received for credit recovery	632 270	649 807
Impairment for assets received for credit recovery	(138 560)	(126 342)
	493 710	523 465

The assets included in the caption Assets received in recovery of credit are accounted for in accordance with the accounting policy described in note 1 h).

The caption Assets received in recovery of credit includes the amount of Euro 1,339 thousand (31 December 2020: Euro 1,289 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 period. The referred caption includes, as at 30 June 2021, properties for which promissory contracts to buy and sell, in the amount of Euro 32,864 thousand (31 December 2020: Euro 28,659 thousand), have already been celebrated.

The movements in the 1st half of 2021 and financial year 2020 in Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	Jun 2021	**Dec 2020**
Opening balance	649 807	687 852
Acquisitions	10 968	24 452
Disposals	(52 465)	(63 039)
Other movements	(3 976)	542
Transfers	27 936	-
Closing balance	632 270	649 807

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

(Euro thousand)

	Jun 2021	**Jun 2020**
Opening balance	126 342	124 184
Charge of the period	6 608	3 232
Reversal of the period	-	(589)
Utilization	(9 586)	(2 406)
Transfers	15 196	-
Closing balance	138 560	124 421

The caption Transfers refers to branches closed that were transferred from Other tangible assets, as described in note 28.

The caption Post-employment benefits corresponds to the net amount of the assets and liabilities of the Pension Fund.

In addition to the impairment losses observed, Banco Montepio recognized in profit or loss, in the 1st half of 2021, gains in the amount of Euro 4,852 thousand (31 December 2020: Euro 13,758 thousand), included in the caption Disposal of other assets in note 9.

Banco Montepio

As at 30 June 2021 and 31 December 2020, the caption Other debtors is analysed as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Silver Equation	14 910	14 910
Other	18 495	20 199
	33 405	35 109

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

Additionally, the amount shown in Others, as at 30 June 2021, 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 2021.

As at 30 June 2021 and 31 December 2020, the caption Recoverable grants receivable from the Portuguese State are presented as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Bonifications overdue and not yet claimed	2 001	2 486
Bonifications claimed from Prtuguese Government not yet settled	7 069	5 533
Bonifications processed and not yet claimed	41	35
	9 111	8 054

The caption Recoverable grants receivable from the Portuguese State corresponds to recoverable grants in respect of mortgage and SME loans, determined in accordance with the legal provisions applicable to low-interest loans. These amounts do not bear interest and are claimed monthly.

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

	(Euro thousand)	
	Jun 2021	**Jun 2020**
Opening balance	25 840	26 597
Charge for the period	382	3 202
Reversal for the period	(2 612)	(71)
Utilization	(277)	(1 085)
Closing balance	23 333	28 643

As at 30 June 2021, the impairment of Other assets includes the exposures of Supplementary capital contributions (Euro 14,910 thousand), Deposits in court (Euro 4,950 thousand), Guarantee commissions (Euro 433 thousand), Factoring operations (Euro 498 thousand) and Other debtors (Euro 2,542 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.

As at 30 June 2021, these funds consist of are composed by operations with maturities in March 2023, in the amount of Euro 283,787 thousand, in June 2023, in the amount of Euro 896,924 thousand, in September 2023, in the amount of Euro 189,583 thousand and in March 2024, in the amount of Euro 1,499,153 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 2021			Dec 2020		
	Non-interest bearing	**Interest bearing**	**Total**	**Non-interest bearing**	**Interest bearing**	**Total**
Deposits from credit institutions						
Deposits repayable on demand	61 373	-	61 373	55 350	-	55 350
Term deposits	-	9 208	9 208	-	9 207	9 207
	61 373	9 208	70 581	55 350	9 207	64 557
Deposits from credit institutions abroad						
EIB loan	-	650 228	650 228	-	650 819	650 819
Deposits repayable on demand	54 537	-	54 537	55 973	-	55 973
Term deposits	-	112 367	112 367	-	116 487	116 487
Sales operations with Repurchase agreement	-	-	-	-	109 712	109 712
Other deposits	7 331	-	7 331	9 280	-	9 280
	61 868	762 595	824 463	65 253	877 018	942 271
	123 241	771 803	895 044	120 603	886 225	1 006 828

The amount of the EIB loan is collateralized by Portuguese, Spanish and Italian sovereign bonds in the nominal amount of Euro 709,904 thousand (31 December 2020: Euro 666,677 thousand by Portuguese, Greek, Spanish, Dutch, Italian, French and German sovereign bonds), recorded in the captions Financial assets held for trading, 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 2021			Dec 2020		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	5 806 506	68	5 806 574	5 233 897	48	5 233 945
Term deposits	-	6 468 652	6 468 652	-	6 869 635	6 869 635
Saving accounts	-	131 977	131 977	-	127 809	127 809
Other deposits	217 524	-	217 524	318 034	-	318 034
Adjustments arising from fair value optio operation	185	-	185	-	-	-
	6 024 215	6 600 697	12 624 912	5 551 931	6 997 492	12 549 423

Ordinance no. 180/94, of 15 December, gave rise to the incorporation of the Deposits Guarantee Fund to guarantee the reimbursement of funds deposited at credit institutions. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

As at 30 June 2021, deposits from customers were remunerated at the average rate of 0.09% (31 December 2020: 0.15%).

35 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(Euro thousand)

	Jun 2021	Dec 2020
Cash bonds	-	3 123
Covered bonds	1 220 025	1 218 375
	1 220 025	1 221 498

The fair value of the debt securities issued is presented in note 46.

As at 31 December 2020, the caption Debt securities issued includes issues of cash bonds recognized at fair value through profit or loss, in the amount of Euro 3,123 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 b), with a gain having been recognized as at 30 June 2021 in the amount of Euro 39 thousand (30 June 2020: a gain in the amount of Euro 100 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 2021 and in financial year 2020.

As at 30 June 2021, 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	300 114	-	November 2016	November 2023	Quartely	Euribor 3M + 0.80%	A1/AA-/BBBh
Covered bonds - 8S	500 000	500 069	-	December 2016	December 2026	Quartely	Euribor 3M + 0.90%	A1/AA-/BBBh
Covered bonds - 9S	250 000	250 078	-	May 2017	May 2024	Quartely	Euribor 3M + 0.85%	A1/AA-/BBBh
Covered bonds - 10S	750 000	758 974	758 974	October 2017	October 2022	Anually	Fixed at 0.875%	A1/AA-/BBBh
Covered bonds - 11S	500 000	461 051	461 051	November 2019	November 2024	Anually	Fixed at 0.125%	A1/AA-/BBBh
	2 300 000	2 270 286	1 220 025					

As at 31 December 2020, the main characteristics of the covered bonds issues in circulation are as follows:

(Euro thousand)

Description	Nominal value	Value amortized cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	*Rating (Moody´s/Fitch/Dbrs)*
Covered bonds - 6S	300 000	300 123	-	November 2016	November 2023	Quartelly	Euribor 3M + 0.80%	A1/AA-/BBBh
Covered bonds - 8S	500 000	500 074	-	December 2016	December 2026	Quartelly	Euribor 3M + 0.90%	A1/AA-/BBBh
Covered bonds - 9S	250 000	250 085	-	May 2017	May 2024	Quartelly	Euribor 3M + 0.85%	A1/AA-/BBBh
Covered bonds - 10S	750 000	757 933	757 933	October 2017	October 2022	Anually	Fixed at 0.875%	A1/AA-/BBBh
Covered bonds - 11S	500 000	460 442	460 442	November 2019	November 2024	Anually	Fixed at 0.125%	A1/AA-/BBBh
	2 300 000	2 268 657	1 218 375					

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 11 October, 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 2021, the value of the loans collateralizing these issues amounted to Euro 2,748,013 thousand (31 December 2020: Euro 2,739,544 thousand), according to note 21.

The movements in Debt securities issued, live as at 30 June 2021, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Issuance	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
Cash bonds	3 123	-	(2 960)	-	(163)	-
Covered bonds	1 218 375	-	-		1 650	1 220 025
	1 221 498	-	(2 960)	-	1 487	1 220 025

(a) Included is the movement of accrued interest on the balance sheet date, corretions for operations at fair value option exchange variation.

The movements in Debt securities issued, live as at 31 December 2020, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Issuance	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 December
Cash bonds	7 357	-	(4 000)	-	(234)	3 123
Covered bonds	1 255 904	-	-	(37 100)	(429)	1 218 375
	1 263 261	-	(4 000)	(37 100)	(663)	1 221 498

(a) Included is the movement of accrued interest on the balance sheet date, corretions for operations at fair value option exchange variation.

In accordance with the accounting policy described in note 1 b), the purchase of debt securities issued by Banco Montepio is written off from liabilities and the difference between the acquisition cost and the respective book value is recognized in the income statement.

As at 30 June 2021, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Security	Issue date	Maturity date	Interest rate	Book value
Covered bonds - 10S	17/11/2017	17/11/2022	Fixed annual fee 0.875%	750 000
Covered bonds - 11S	14/11/2019	14/11/2024	Fixed annual fee 0.125%	500 000
				1 250 000
			Value corrections for hedging operations	5 060
			Repurchases of mortgage bonds	(37 100)
			Periods, costs and deferred income	2 065
				1 220 025

As at 31 December 2020, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Security	Issue date	Maturity date	Interest rate	Book value
Bonds CAIXA-MG CAPITAL CERTO 2013/2021-1.SERIE	28/02/13	01/03/21	Annual Fixed Rate: 5.15% (3rd year fee: 5.30%; 4th year fee: 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
Bonds CAIXA-MG CAPITAL CERTO 2013/2021-2.SERIE	28/06/13	29/06/21	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 Rate: Max(5.95%;Min) (IPC+2%;8.15%))	812
Covered bonds - 10S	17/11/17	17/11/22	Annual Fixed Rate of 0.875%	750 000
Covered bonds - 11S	14/11/19	14/11/24	Annual Fixed Rate of 0.125%	500 000
				1 252 960
			Value corrections for hedging operations	7 586
			Repurchases of Mortgage Bonds - 11S	(37 100)
			Periods, costs and deferred income	(1 948)
				1 221 498

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 2021	Dec 2020
Pelican Mortgages No 3	127 046	144 119
Pelican Mortgages No 4	427 859	449 981
Aqua Mortgages No 1	71 092	75 354
Pelican Mortgages No 5	432 146	451 081
Pelican Mortgages No 6	535 742	559 462
Pelican Finance No 1	-	41 700
	1 593 885	1 721 697

37 Provisions

This caption is presented as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Provisions for guarantess and commitments	13 853	16 594
Provisions for other risks and charges	10 653	16 406
	24 506	33 000

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, being revised at each reporting date to reflect the best estimate of the amount of the loss. This caption includes provisions for tax contingencies (Stamp Duty, VAT and Property taxes ("IMI")), legal cases and fraud.

The movements in provisions for guarantees and commitments assumed in the 1st half of 2021 and 2020, are analysed as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Opening balance	16 594	15 456
Charge of the period	10 924	19 947
Reversal of the period	(13 665)	(17 031)
Closing balance	13 853	18 372

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

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Opening balance	16 406	14 812
Charge of the period	616	147
Reversal of the period	(5 260)	(729)
Utilization	(1 109)	-
Closing balance	10 653	14 230

38 Other subordinated debt

The characteristics of subordinated debt are analysed as follows:

(Euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest date	Jun 2021	Dec 2020
MONTEPIO EMTN SUB 2018/2028	27-Dec-2018	27-Dec-28	50 000	8.0% the first 5 years and at EurSwap for 5y + 7.77% for the remaining years	52 027	50 044
MONTEPIO EMTN SUB 2019/2029	1-Apr-2019	01-Apr-29	100 000	10.5% the first 5 years and at EurSwap for 5y + Fixing ICE (FFT 11:00 AM) + 10.514%	102 532	107 824
MONTEPIO EMTN SUB 2020/2030	1-Jun-2020	01-Jun-30	50 000	10.5% the first 5 years and at EurSwap for 5y + Fixing ICE (FFT 11:00 AM) + 9.742%	50 277	52 705
FINIBANCO VALOR INVEST 2010	1-Feb-2010	00-Jan-00	15 000	7% for the first 4 coupon dates and Max[Euribor 6M + 2.75%; 5%] for the remaining years	6 323	6 323
					211 159	216 896

The movements in Other subordinated debt during the 1st half of 2021 and financial year 2020, were as follows:

(Euro thousand)

	Jun 2021			
	Balance on 1 January	Issued	Other movements (a)	Balance on 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	1 983	52 027
MONTEPIO EMTN SUB 2019/2029	107 824	-	(5 292)	102 532
MONTEPIO EMTN SUB 2020/2030	52 705	-	(2 428)	50 277
FINIBANCO VALOR INVEST 2010	6 323	-	-	6 323
	216 896	-	(5 737)	211 159

	Dec 2020			
	Balance on 1 January	Issued	Other movements (a)	Balance on 31 December
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	50 044
MONTEPIO EMTN SUB 2019/2029	107 803	-	21	107 824
MONTEPIO EMTN SUB 2020/2030	-	50 000	2 705	52 705
FINIBANCO VALOR INVEST 2010	-	-	6 323	6 323
	157 847	50 000	9 049	216 896

(a) Include accrued interest in the balance sheet.

In financial year 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 2021	Dec 2020
Domestic and foreign operations pending settlement	133 373	84 799
Sundry creditors	26 754	28 233
Lease liabilities	14 063	18 296
Post-employment benefits	-	9 875
Staff costs payable	24 479	37 558
Other expenses	21 788	10 647
Suppliers	2 601	6 939
Administrative public sector	9 839	9 553
Deferred income	301	335
	233 198	206 235

As at 30 June 2021, 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 2021	Dec 2020
Up to 1 year	438	-
1 to 5 years	12 646	16 623
More than 5 years	979	1 673
	14 063	18 296

As at 30 June 2021, the caption Staff charges payable includes the amount of Euro 17,423 thousand (31 December 2020: Euro 18,416 thousand), related to holiday pay and subsidy. Additionally, as at 30 June 2021, this caption also includes the amount of Euro 2,383 thousand (31 December 2020: Euro 2,251 thousand) related to end-of-career awards, as per note 47, and the amount of Euro 888 thousand (31 December 2020: Euro 13,331 thousand) for the adjustment program.

The caption Amounts payable corresponds, essentially, to the application of the accruals' principle to General and administrative expenses.

40 Share capital

As at 30 June 2021 and 31 December 2020, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

The shareholder structure of Banco Montepio's share capital as at 30 June 2021 and 31 December 2020 is as follows:

	Jun 2021		Dec 2020	
	Number of shares	Percentage	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 830 580	99.993%	2 419 830 580	99.993%
Other Shareholders	169 420	0.007%	169 420	0.007%
	2 420 000 000	100.00%	2 420 000 000	100.00%

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 2021	Dec 2020
Fair value reserve		
Fair value reserve		
Financial assets at fair value through other comprehensive income	12 134	(26 301)
Loans and advances to customers	-	103
Own credit risk	-	19
Foreign exchange hedge	-	1 243
	12 134	(24 936)
Taxes		
Financial assets at fair value through other comprehensive income	(3 701)	(3 900)
Loans and advances to customers	-	(31)
Financial assets at fair value through other comprehensive income	(3 701)	(3 931)
Fair value reserve net of taxes	8 433	(28 867)
Other reserves and retained earnigs		
Legal reserve	193 266	193 266
Special regime applicable to deferred tax assets	5 017	-
Employee benefits	(230 607)	(291 131)
Other reserves and retained earnings	(928 680)	(807 267)
Realized gains on equity instruments	(35 294)	4 018
	(996 298)	(901 114)

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 also 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 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 reserves related to financial assets at fair value through other comprehensive income, during the 1st half of 2021, 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	406	(85)	(26)	-	(216)	79
Bonds issued by foreign public entities	1 200	(138)	(270)	(786)	191	197
Bonds issued by other entities:						
Domestic	(537)	58	1 430	(21)	(606)	324
Foreign	(21)	6	-	1	1	(13)
	1 048	(159)	1 134	(806)	(630)	587
Variable income securities						
Shares						
Domestic	7 935	-	-	1 750	-	9 685
Foreign	(35 284)	(175)	-	37 321	-	1 862
	(27 349)	(175)	-	39 071	-	11 547
	(26 301)	(334)	1 134	38 265	(630)	12 134

The amount of Euro 39,071 thousand refers to the disposal of Monteiro Aranha, S.A. and Almina Holding, S.A., as described in note 24.

The movements in the fair value reserves related to financial assets at fair value through other comprehensive income, during financial year 2020, 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	14 344	-	464	(15 678)	1 276	406
Bonds issued by foreign public entities	5 739	-	1 499	(9 346)	3 308	1 200
Bonds issued by other entities:						
Domestic	(1 793)	1 594	-	202	(540)	(537)
Foreign	1 550	2	-	(1 730)	157	(21)
	19 840	1 596	1 963	(26 552)	4 201	1 048
Variable income securities						
Shares						
Domestic	7 735	200	-	-	-	7 935
Foreign	(17 345)	(17 939)	-	-	-	(35 284)
	(9 610)	(17 739)	-	-	-	(27 349)
	10 230	(16 143)	1 963	(26 552)	4 201	(26 301)

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Amortized cost of financial assets at fair value through other comprehensive income	198 788	292 699
Recognized accumulated impairment	(1 708)	(1 078)
comprehensive income net of impairment	197 080	291 621
Market value of financial assets at fair value through other comprehensive income	209 214	265 320
Potential realized gains/(losses) recognized in the fair value reserve	12 134	(26 301)

44 Distribution of dividends

In the 1st half of 2021 and financial year 2020, Banco Montepio did not distribute dividends.

The Annual General Meeting realized on 29 June 2021 approved the Net Income for financial year 2020, in the negative amount of Euro 116,621 thousand, appropriating it to retained earnings.

45 Guarantees and other commitments

The balances of these accounts are analysed as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Guarantees granted	473 850	474 469
Commitments to third parties	1 795 330	1 878 882
Deposit and custody of securities	30 933 502	7 639 492
	33 202 682	9 992 843

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

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Guarantees granted		
Guarantees	442 790	463 458
Letters of credit	31 060	11 011
	473 850	474 469
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	947 043	1 058 335
Potential liability with the Investors Indemnity System	917	1 209
Term liability to the Guarantee Deposits Fund	22 768	23 957
Securities subscription	2 277	2 552
Revocable commitments		
Revocable credit facilities	822 325	792 829
	1 795 330	1 878 882

Bank 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 the compliance with certain conditions defined at the time the commitments were contracted.

Notwithstanding the particular characteristics of these commitments, the analysis of these operations follows the same 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 2021 and 31 December 2020, 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 2021 and 31 December 2020, in the scope of the Deposits Guarantee Fund, Banco Montepio had pledged treasury bonds (OT October 2024 and OT February 2030), recorded as Other financial assets at amortized cost, with a nominal value of Euro 24,000 thousand (31 December 2020: Euro 23,000 thousand), as described in note 26.

As at 30 June 2021 and 31 December 2020, 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.).

        iv. financial instruments valued through indicative purchase prices based on theoretical valuation models disclosed by specialized third parties.

The following are the main methods and assumptions used in estimating the fair value of financial assets and liabilities.

Derivative financial instruments

Operations involving financial derivatives, in the form contracts in respect of exchange rate, interest rate, share or share indices, inflation or a combination of these are traded over the counter (OTC) and in organized markets (especially stock markets). For OTC derivative operations (swaps and options), their valuation is based on generally accepted methods, always favouring market values.

- Level 1: This classification includes futures, options and other derivative financial instruments traded on a regulated market.

- Level 2: This level includes derivative financial instruments traded on unregulated (OTC) markets that do not have an optional component.

  The valuation of these derivatives is made by discounting the cash flows from operations, using as a discounting base the market interest rate curves deemed appropriate for the currency in force at the time of the calculation. Interest rates are obtained from Bloomberg or Reuters

  Market interest rates are calculated based on information disseminated by financial content providers - Bloomberg or Reuters - specifically those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. Interest rate curves are also used to project non-deterministic cash flows such as indexers.

- Level 3: This level includes options and derivatives traded on an unregulated (OTC) market, incorporating optional elements.

Options are valued based on statistical models that consider the market values of the underlying assets and their volatilities (assuming that they are not directly observable in the market). The theoretical models used in the valuation of derivatives classified in level 3 are presented as follows:

iii. For simple options, the Black-Scholes, Black, Ho and other models are used, considering the applicable volatility surfaces and their derivatives (models commonly used by the market in valuing this type of operations). Unobservable market inputs used in the valuation (implied volatilities of the subjacent) are taken from Bloomberg.

iv. For exotic options or for complex derivatives with embedded optional elements for which no valuation models are available, Banco Montepio hires specialized entities that value such assets using specific models that they develop according to generally accepted criteria and methodologies.

The valuations thus obtained are, in the case of interbank operations, compared with those used by the counterparties and, whenever it is understood that there are insufficient quality market references or that the available models do not fully apply to the characteristics of the financial instrument, specific quotations provided by an external entity, typically the counterparty of the business, are used.

The valuation of non-optional components, not adjusted for credit risk, (cash flows from the operations), is made based on their respective discounting, using a methodology similar to that used for derivatives without an optional component; even so, the derivative in question is still considered in level 3.

Financial instruments recorded in the balance sheet at amortized cost

For financial instruments recorded in the balance sheet at amortized cost, Banco Montepio calculates their fair value using valuation techniques 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, considering the nature of the operations and the associated period. The rate of return of funding from the European Central Bank is negative in 0.26% for live operations as at 30 June 2021 (31 December 2020: negative in 0.33%).

  For the remaining deposits of credit institutions, 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 2021, the average discount rate was a negative 0.38% (31 December 2020: negative in 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. As at 30 June 2021, the average discount rate was 2.078% for mortgage loans (31 December 2020: 2.06%), 6.77% for private individual loans (31 December 2020: 6.59%) and 3.15% for the remaining loans (31 December 2020: 2.89%), assuming a projection of the variable rates that is based on macroeconomic fundamentals and on market forward rates. The calculations also include the credit risk spread.

- *Deposits from customers*

The fair value of these financial instruments is calculated discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. The discount rate used reflects the current conditions applied by 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 2021 was negative in 0.03% (31 December 2020: 0.05%).

- *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 fair value was determined to reflect 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 and DVA Movements

(Euro thousand)

	Jun 2021		Dec 2020	
	CVA	DVA	CVA	DVA
Adjustment	**295**	**394**	**393**	**394**
of which: Derivatives maturity	-	(82)	1	-

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 2021, 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	(0.545)	0.145	0.09	(0.75)	(0.005)
7 days	(0.575)	0.09125	0.09	(0.725)	(0.10483)
month	(0.569)	0.15	0.09	(0.7)	(0.23)
2 months	(0.555714)	0.16	0.11	(0.75)	(0.23)
3 months	(0.542)	0.17	0.145	(0.75)	(0.22)
6 months	(0.515)	0.2	0.195	(0.73)	(0.21)
9 monehs	(0.499)	0.23	0.195	(0.73)	(0.22)
1 year	(0.483)	0.26	0.245	(0.66)	(0.22)
2 years	(0.455)	0.333	0.376	(0.6325)	(0.0625)
3 years	(0.397)	0.574	0.52	(0.56)	(0.055)
5 years	(0.255)	0.971	0.714	(0.375)	(0.0388)
7 years	(0.1101)	1.233	0.837	(0.19)	(0.01)
10 years	0.0994	1.465	0.968	0.045	0.055
15 years	0.358	1.671	1.072	0.2225	0.1788
20 years	0.473	1.695	1.072	0.2225	0.1788
30 years	0.475	1.131	1.072	0.2225	0.1788

As at 31 December 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	(0.495)	0.165	0.09	(0.725)	(0.15)
7 days	(0.578)	0.098	0.09	(0.595)	(0.33)
1 month	(0.554)	0.17	0.09	(0.6)	(0.33)
2 months	(0.5498)	0.18	0.09	(0.745)	(0.31)
3 months	(0.545)	0.19	0.09	(0.6)	(0.28)
6 months	(0.526)	0.22	0.145	(0.69)	(0.27)
9 months	(0.5125)	0.25	0.195	(0.63)	(0.21)
1 year	(0.499)	0.28	0.195	(0.64)	(0.26)
2 years	(0.524)	0.349698	0.194905	(0.7125)	(0.260163)
3 years	(0.508)	0.419396	0.194905	(0.675)	(0.260163)
5 years	(0.4575)	0.558983	0.194905	(0.561)	(0.260163)
7 years	(0.3845)	0.698378	0.194905	(0.441)	(0.260163)
10 years	(0.265)	0.907854	0.194905	(0.2875)	(0.260163)
15 years	(0.072)	1.145451	0.194905	(0.1125)	(0.260163)
20 years	0.009	1.309	0.194905	(0.1125)	(0.260163)
30 years	(0.025)	1.39835	0.194905	(0.1125)	(0.260163)

Exchange rates and volatility

We present below the exchange rates (European Central Bank) as at the balance sheet date and the implied volatilities (at the Money) for the main currency pairs used in the valuation of derivatives:

			Volatility (%)				
Exchange rates	**Jun 2021**	**Dec 2020**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1884	1.2271	5.725	5.758	5.8	5.8	6.175
EUR/GBP	0.85805	0.89903	4.925	5.185	5.465	5.695	6.08
EUR/CHF	1.098	1.0802	3.813	4.225	4.525	4.7	5.085
EUR/JPY	131.43	126.49	5.675	5.925	6.18	6.4	7.025
EUR/AOA	774.3187	797.1291	-	-	-	-	-

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 2021 and 31 December 2020, is presented as follows:

(Euro thousands)

	Jun 2021				
	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	-	-	2 533 643	2 533 643	2 533 643
Loans and deposits to credit institutions repayable	-	-	71 794	71 794	71 794
Other loans and advances to credit institutions	-	-	885 758	885 758	891 133
Loans and advances to customers	1 145	-	10 774 637	10 775 782	10 769 427
Financial assets held for trading	25 515	-	-	25 515	25 515
Financial assets at fair value through profit or loss	473 826	-	-	473 826	473 826
Financial assets at fair value through other comprehensive income	-	209 214	-	209 214	209 214
Hedging derivatives	10 726	-	-	10 726	10 726
Other financial assets at amortized cost	-	-	4 314 239	4 314 239	4 317 799
	511 212	209 214	18 580 071	19 300 497	19 303 077
Financial liabilities					
Deposits from central banks	-	-	2 869 447	2 869 447	2 869 447
Deposits from other credit institutions	-	-	895 044	895 044	886 347
Deposits from customers	22 031	-	12 602 881	12 624 912	12 635 606
Debt securities issued	-	-	1 220 025	1 220 025	1 224 467
Financial liabilities related to transferred assets	-	-	1 593 885	1 593 885	1 592 742
Financial liabilities held for trading	10 634	-	-	10 634	10 634
Hedging derivatives	347	-	-	347	347
Other subordinated debt	-	-	211 159	211 159	196 036
	33 012	-	19 392 441	19 425 453	19 415 626

(Euro thousand)

	Dec 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	-	-	1 446 314	1 446 314	1 446 314
Loans and deposits to credit institutions repayable	-	-	53 498	53 498	53 498
Other loans and advances to credit institutions	-	-	858 704	858 704	864 077
Loans and advancesto customers	1 207	-	10 731 397	10 732 604	10 652 227
Financial assets held for trading	11 508	-	-	11 508	11 508
Financial assets at fair value through profit or loss	569 612	-	-	569 612	568 383
Financial assets at fair value through other compregensive income	-	265 320	-	265 320	265 320
Hedging derivatives	10 693	-	-	10 693	10 693
Other financial assets at amortized cost	-	-	3 981 949	3 981 949	4 034 119
	593 020	265 320	17 071 862	17 930 202	17 906 139
Financial liabilities					
Deposits from central banks	-	-	1 372 546	1 372 546	1 372 546
Deposits from other credit institutions	-	-	1 006 828	1 006 828	1 002 430
Deposits from customers	-	-	12 549 423	12 549 423	12 558 283
Debt securities issued	3 106	-	1 218 392	1 221 498	1 226 099
Financial liabilities related to transferred assets	-	-	1 721 697	1 721 697	1 720 394
Financial liabilities held for trading	11 761	-	-	11 761	11 761
Hedging derivatives	397	-	-	397	397
Other subordinated debt	-	-	216 896	216 896	200 803
	15 264	-	18 085 782	18 101 046	18 092 713

The following table summarizes, by valuation levels, for each group of financial assets and liabilities of Banco Montepio, their fair values with reference to 30 June 2021:

(Euro thousand)

	Jun 2021				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	2 533 643	-	-	-	2 533 643
Loans and deposits to credit institutions repayable on demand	71 794	-	-	-	71 794
Other loans and advances to credit institutions	-	-	891 133	-	891 133
Loans and advances to customers	-	1 145	10 768 282	-	10 769 427
Financial assets held for trading	23 059	1 704	752	-	25 515
Financial assets at fair value through profit or loss	-	-	473 826	-	473 826
Financial assets at fair value through other comprehensive income	175 986	2 928	29 026	1 274	209 214
Hedging derivatives	-	10 726	-	-	10 726
Other financial assets at amortized cost	4 317 799	-	-	-	4 317 799
	7 122 281	16 503	12 163 019	1 274	19 303 077
Financial liabilities					
Deposits from central banks	2 869 447	-	-	-	2 869 447
Deposits from other credit institutions	-	-	886 347	-	886 347
Deposits from customers	-	22 031	12 613 575	-	12 635 606
Debt securities issued	-	-	1 224 467	-	1 224 467
Financial liabilities related to transferred assets			1 592 742	-	1 592 742
Financial liabilities held for trading	-	1 823	8 811	-	10 634
Hedging derivatives	-	347	-	-	347
Other subordinated debt	-	-	196 036	-	196 036
	2 869 447	24 201	16 521 978	-	19 415 626

The following table summarizes, by valuation levels, for each group of financial assets and liabilities of Banco Montepio, their fair values with reference to 31 December 2020:

(Euro thousand)

	Dec 2020				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 446 314	-	-	-	1 446 314
Loans and deposits to credit institutions repayable	53 498	-	-	-	53 498
Other loans and advances to credit institutions	-	-	864 077	-	864 077
Loans and advances to customers	-	1 207	10 651 020	-	10 652 227
Financial assets held for trading	7 524	3 984	-		11 508
Financial assets at fair value through profit or loss	-	-	568 383		568 383
Financial assets at fair value through other comprehensive income	169 117	3 088	91 835	1 280	265 320
Hedging derivatives	-	10 693	-	-	10 693
Other financial assets at amortized cost	4 034 119	-	-	-	4 034 119
	5 710 572	18 972	12 175 315	1 280	17 906 139
Financial liabilities					
Deposits from central banks	1 372 546	-	-	-	1 372 546
Deposits from other credit institutions	-	-	1 002 430	-	1 002 430
Deposits from customers	-	-	12 558 283	-	12 558 283
Debt securities issued	-	3 106	1 222 993	-	1 226 099
Financial liabilities related to transferred assets		-	1 720 394	-	1 720 394
Financial liabilities held for trading	-	11 761	-	-	11 761
Hedging derivatives	-	397	-	-	397
Other subordinated debt	-	-	200 803	-	200 803
	1 372 546	15 264	16 704 903	-	18 092 713

47 Post-employment and long-term benefits

Banco Montepio assumed the responsibility to pay its employees and members of the Management Bodies old-age and disability pensions and other benefits, in accordance with the accounting policy described in note 1 s).

In accordance with the same policy, Banco Montepio calculates at least once a year, with reference to 31 December of each year, the liabilities with retirement pensions and other benefits. This also occurs whenever the changes substantiated on the main actuarial assumptions so determine.

Banco Montepio's general pension plan for employees covers liabilities for the retirement benefits provided for in the Collective Labour Agreement for the Banking Sector and is a complementary plan to the General Social Security System.

Under the Collective Labour Agreement ("ACT") for the Banking Sector, employees admitted after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria determining the amount of pension that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and remuneration.

The benefits provided by this pension plan are as follows:

- Retirement due to presumable disability (old age);

- Retirement due to disability; and

- Survival pension.

The respective beneficiaries are guaranteed all social benefits, on the terms, conditions and values included in the pension plan in the quality of employees who at their retirement date are in the service of Banco Montepio, or as employees who had been permanent employees of same and at their retirement date meet all the enforceability requirements defined in the pension plan.

The pension provided by the Pension Fund is that corresponding to the employee's level at retirement and respective seniority payments, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund ("Caixa 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 several 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 2021	Dec 2020
Financial assumptions		
Salary growth rate	0.50%	0.50%
Pension growth rate	0.30%	0.30%
Rate of return of Fund	1.50%	1.15%
Discount rate	1.50%	1.15%
Revaluation rate		
Salary growth rate - Social Security	1.25%	1.25%
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 2021, the average duration of the pension liabilities of the employees is 18 years (31 December 2020: 19.0 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	Jun 2021	Dec 2020
Active	2 947	2 999
Retirees and survivors	1 512	1 469
	4 459	4 468

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

(Euro thousand)

	Jun 2021	Dec 2020
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(385 771)	(400 792)
Ative	(364 900)	(389 474)
	(750 671)	(790 266)
Liabilities with healthcare benefits		
Pensioners	(26 537)	(26 933)
Active	(38 681)	(42 235)
	(65 218)	(69 168)
Liabilities with death benefits		
Pensioners	(2 155)	(1 752)
Active	(1 563)	(2 235)
	(3 718)	(3 987)
Total liabilities	(819 607)	(863 421)
Coverages		
Pension Fund value	861 189	853 546
Net assets/(liabilities) in the balance sheet	41 582	(9 875)
Accumulated actuarial remeasurements recognized in other comprehensive income	230 667	291 131

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

(Euro thousand)

	Jun 2021				Dec 2020			
	Pension benefits	**Healthcare benefits**	**Death benefits**	**Total**	**Pension benefits**	**Helthcare benefits**	**Death benefits**	**Total**
Liabilities at the beginning of the period	790 266	69 168	3 987	863 421	771 532	65 335	3 694	840 561
Recognized in net income/(loss) (note 11)								
Current service cost	1 660	847	37	2 544	4 902	1 778	79	6 759
Interest costs	4 544	398	23	4 965	11 573	980	55	12 608
Early retirement, mutually agreed termination and others	7 339	-	-	7 339	14 180	-	-	14 180
Recognized in equities (Note 43)								
Actuarial gains/(losses)								
- Changes in assumptions	(45 489)	(4 685)	(323)	(50 497)	1 983	2 270	200	4 453
- Not related to changes in assumptions	4 350	(510)	(6)	3 834	6 656	(1 196)	(41)	5 419
Other								
Pensions paid by the Fund	(12 222)	-	-	(12 222)	(20 527)	-	-	(20 527)
Pensions paid by Banco Montepio	(985)	-	-	(985)	(2 395)	-	-	(2 395)
Participant contributions	1 208	-	-	1 208	2 362	-	-	2 362
Other	-	-	-	-	-	1	-	1
Liabilities at the end of the period	750 671	65 218	3 718	819 607	790 266	69 168	3 987	863 421

The evolution of the Pension Fund's net asset value in the period ended 30 June 2021 and financial year 2020 can be analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Value of the Fund at the beginning of the financial period	853 546	826 051
Recognized in net income/(loss) (note 11)		
Share of net interest	4 856	12 062
Recognized in equity (note 43)		
Financial deviations	13 801	9 598
Others		
Contributions from Banco Montepio	-	24 000
Participant Contributions	1 208	2 362
Pensions paid by the Fund	(12 222)	(20 527)
Value of the Fund at the end of the period	861 189	853 546

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 2021, Banco Montepio participates in 98.7% (31 December 2020: 98.7%) in the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A..

As at 30 June 2021 and 31 December 2020, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	Jun 2021				Dec 2020			
	Assets of the Fund	%	Quoted	Unquoted	Assets of the Fund	%	Quoted	Unquoted
Variable-income securities								
Shares	49 678	6%	49 678	-	47 743	6%	47 743	-
Equity investment funds	130 127	15%	-	130 127	128 906	15%	-	128 906
Bonds	583 193	68%	480 275	102 918	584 665	68%	514 929	69 736
Real Estate	5 451	1%	-	5 451	5 554	1%	-	5 554
Real Estate investment funds	42 696	5%	-	42 696	34 358	4%	-	34 358
Venture capital funds	4 772	1%	-	4 772	6 250	1%	-	6 250
Loans and advances in banks and other	45 272	5%	-	45 272	46 070	5%	-	46 070
	861 189	100%	529 953	331 236	853 546	100%	562 672	290 874

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 2021	Dec 2020
Loans and advances in banks and other	36 649	46 070
Real Estate	5 451	5 554
Bonds	2 100	2 109
	44 200	53 733

The evolution of the remeasurements in the balance sheet are analysed as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Actuarial gains/(losses) at the beginning of the financial year	291 131	290 857
Actuarial gains/(losses) in the financial period		
Changes in the discount rate	(50 497)	54 437
Payroll update - Salaries	-	(21 970)
Payroll update - Pensions	-	(28 014)
Deviation of the Pension Fund return	(13 801)	(9 598)
Other changes	3 834	5 419
Actuarial gains/(losses) recognized in other comprehensive income	230 667	291 131

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

	(Euro thousand)	
	Jun 2021	**Jun 2020**
Current service cost	2 544	3 374
Net interest income/(expense) on the liabilities coverage balance	109	109
Costs with early retirement, mutually agreed termination and other	7 339	50
Costs for the period	9 992	3 533

The evolution of net assets/(liabilities) in the balance sheet, in the period ended 30 June 2021 and financial year 2020, is analysed as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
At the beginning of the financial period	(9 875)	(14 510)
Contributions by Banco Montepio	-	24 000
Current service cost	(2 544)	(6 759)
Net interest income/(expense) on the liabilities coverage balance	(109)	(546)
Actuarial gains/(losses)	46 663	(9 872)
Financial gains/(losses)	13 801	9 598
Pensions paid by Banco Montepio	985	2 395
Early retirement, mutually agreed termination and other	(7 339)	(14 180)
Other	-	(1)
At the end of the period	41 582	(9 875)

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 2021		Dec 2020	
	Liabilities		Liabilities	
	Increase	Increase	Increase	Increase
Discount rate (0.25% change)	(34 092)	36 358	(36 385)	38 880
Salary growth rate (0.25% change)	25 682	(23 346)	28 180	(25 738)
Pension growth rate (0.25% change)	30 881	(29 420)	34 557	(32 928)
SAMS contribution (0.25% change)	3 871	(3 871)	3 666	(3 666)
Future mortality (1 year change)	(25 298)	25 280	(27 015)	27 074

As at 30 June 2021, the cost associated with the end-of-career awards amounted to Euro 2,383 thousand (31 December 2020: Euro 2,251 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 2021 and 31 December 2020, the amount of the funds for which Banco Montepio acts as depository bank is analysed as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Securities investment funds	157 911	158 724
Real Estate investment funds	600 301	594 370
Pension funds	275 296	265 616
Bank and insurance	898	955
	1 034 406	1 019 665

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 2021, 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
Non-executive 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
Executive Committee
Chairman of the Executive Committee
Pedro Manuel Moreira Leitão
Executive members
Dulce Maria Pereira Cardoso Mota Jorge Jacinto
Helena Catarina Gomes Soares de Moura Costa Pina
Jorge Paulo Almeida e Silva Baião (1)
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

Other Key Management Personnel

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
João Andrade Lopes
João António Morais da Costa Pinto
João Carlos Carvalho das Neves
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque (2)
João Francisco Mendes Almeida de Gouveia
Joaquim Mariano Gargana Cabaço
Jorge Manuel Santos Oliveira
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 Alice Silva de Medeiros Lima Pinto
Maria Dalila Correia Araújo Teixeira
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues
Maria Margarida Carrusca Pontes do Rosário Ribeiro de Andrade

Board of Directors of Other Related parties

Maria Rosa Almas Rodrigues
Nuno Augusto Pereira Coelho
Nuno Henrique Serra Mendes
Nuno Manuel Marques da Silva
Nuno Ribeiro Quesada Van Zeller
Paulo José Martins Jorge da Silva
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

Other Related parties
Alexandra Maria Borges Ferreira Rolo Pimenta Santos
Alexandra Melo Ponciano
Ana Maria Nascimento Sá Couto Júdice Pargana
Ana Maria Sousa Capelão Teixeira Fernandes Mendonça Neves
Ana Paula Maia Fernandes
António Carlos Santos Azevedo Miranda Machado
António Fernando Figueiredo Lopes
António José Boavista Coelho
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
Helder Ferreira Reis
Helena Maria Silva Valente
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 Eduarda Madureira Osório Botelho Fernandes
Maria Fernanda Infante Melo Costa Correia
Miguel Alexandre Teixeira Coelho
Mónica Susana Martins Ferreira Sousa Araújo
Nuno José Ladeiras Cavilhas
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
Ricardo Daniel Domingos Chorão
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) Dr. Jorge Paulo Almeida e Silva Baião was appointed by cooptation on February 18, 2021 and authorized by Banco de Portugal on February 9, 2021, having started functions as Executive Member on February 22, 2021.
(2) Dr. João Filipe Milhinhos Roque resigned as executive member of the Board of Directors of Finibanco Angola, with effect from 31 July 2021.

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
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.
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 Seguros, S.G.P.S., S.A.
NAVISER - Transportes Marítimos Internacionais, S.A.
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 entities resulting from the stake held in Finibanco Angola, S.A.

Banco de Negócios Internacional, S.A. (BNI)
Banco Terra, S.A.
Bifashion
Chamavo e Companhia
Cominder Comércio e Indústria
Consar Gestão de Empreendimentos e Serviços
Fundação Mucusso
Gelcon Holding Company
Geminas
Gesimet Indústria Siderúrgica de Angola, S.A.
Grupo Gema
Himoinsa Angola
Iberpartners Cafés
Jameg, Lda.
Medabil Angola
Novacal
Porto Seco da Mulemba
Shafaris
Vauco Automóveis e Equipamentos

As at 30 June 2021, 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 thousand)

	Jun 2021									
Entity	Loans and deposits to credit institutions payable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment of Loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments	Provisions for guarantees and commitments assumed	Total
Board of Directors	-	-	614	-	-	-	-	-	-	614
Board of Directors of Other Related parties	-	-	2 742	1	-	-	-	-	-	2 741
Other Key Management Personnel	-	-	3 586	1	-	-	-	-	-	3 585
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	-	-	-	-	-	55	-	-	55
Bolsimo - Gestão de Activos, S.A.	-	-	5 098	380	-	-	22	6 931	-	11 671
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-		26	-	-	26
CESource, A.C.E.	-	-	-	-	-	-	42	-	-	42
Finibanco Angola, S.A.	21 727	-	-	-	-	-	93	38 970	3	60 787
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	-	13	-	-	14
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	-	100	-	100
Iberpartners Cafés, S.G.P.S., S.A.	-	-	1 664	42	-	-	-	-	-	1 622
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	1	-	-	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	1 972	646	221	46	-	1 593
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	415	-	-	-	-	415
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	470 702	-	-	-	-	147	49 900	-	520 749
Montepio Geral Associação Mutualista	-	-	4	5	-	-	1 808	120	1	1 926
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	-	-	1	-	5	-	-	6
Montepio Gestão de Ativos Imobiliários, A.C.E.	-	-	-	-	-		1 168	-	-	1 168
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	-	128 710	-	-	128 710
Montepio Investimento, S.A.	-	262 000	-	-	-	-	815	238 181	2	500 994
Montepio Residências para Estudantes, S.A.	-	-	-	-	-	-	4	-		4
Montepio Valor - S.G.O.I.C., S.A.	-	-	-	-	-	-	47	-	-	47
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	732	41	-	-	-	1 543	3	2 231
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	150	4	146
Residências Montepio, Serviços de Saúde, S.A.	-	-	1 644	42	-	-	38	500	16	2 124
	21 727	732 702	16 086	513	2 388	646	133 214	336 441	29	1 241 370

As at 31 December 2020, 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:

(Euro thousand)

	Dec 2020									
Entity	Loans and deposits to credit institutions payable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment of Loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments	Provisions for guarantees and commitments	Total
Board of Directors	-	-	622	-	-	-	-	-	-	622
Board of Directors of other Related Parties	-	-	2 555	2	-	-	-	-	-	2 553
Other Key Management Personnel	-	-	3 905	4	-	-	-	-	-	3 901
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	-	-	-	-	-	55	-	-	55
Bolsimo - Gestão de Activos, S.A.	-	-	7 483	393	-	-	22	5 431	-	12 543
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-		29	-	-	29
CESource, A.C.E.	-	-	-	-	-	-	48	-	-	48
Finibanco Angola, S.A.	20 938	-	-	-	-	-	85	35 615	-	56 638
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	-	26	-	-	27
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	-	500	-	500
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	1 867	612	86	46	-	1 387
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	415	-	-	-	-	415
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	437 501	-	-	-	-	131	99 700	-	537 332
Montepio Geral Associação Mutualista	-	-	2	8	-	-	1 947	120	1	2 060
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	-	-	1	-	10	-	-	11
Montepio Gestão de Ativos Imobiliários, A.C.E.	-	-	-	-	-		648	-	-	648
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	-	127 736	-	-	127 736
Montepio Investimento, S.A.	-	262 067	-	-	-	-	1 548	238 181	2	501 794
Montepio Valor - S.G.O.I.C., S.A.	-	-	-	-	-	-	45	-	-	45
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	830	92	-	-	-	1 446	8	2 176
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	200	7	193
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	150	5	145
Residências Montepio, Serviços de Saúde, S.A.	-	-	948	139	-	-	47	500	7	1 349
	20 938	699 568	16 346	638	2 283	612	132 463	381 889	30	1 252 207

As at 30 June 2021, Banco Montepio's liabilities in respect of related parties, included in the captions Deposits from other credit institutions, Deposits from customers, Debt securities issued, Other subordinated debt and Other liabilities, are analysed as follows:

(Euro thousand)

	Jun 2021				
Entity	**Deposits from other credit institutions**	**Deposits from Customer**	**Debt securities issued and Other subordinated liabilities**	**Other liabilities**	**Total**
Board of Directors	-	1 686	-	-	1 686
Board of Directors of Other Related parties	-	3 850	-	-	3 850
Other Key Management Personnel	-	2 487	-	-	2 487
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	113 429	-	-	-	113 429
Bolsimo - Gestão de Activos, S.A.	-	1 450	-	-	1 450
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	6 325	-	-	6 325
Clínica CUF Belém, S.A.	-	14	-	-	14
Empresa Gestora de Imóveis da Rua do Prior S.A	-	120	-	-	120
Finibanco Angola, S.A.	39 489	-	-		39 489
Fundação Montepio Geral	-	1 392	-	-	1 392
Fundo de Pensões - Montepio Geral	-	36 229	2 108	-	38 337
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	564	-	-	564
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	356	-	-	356
Iberpartners Cafés, S.G.P.S., S.A.	-	4	-	-	4
In Posterum, A.C.E.	-	86	-	-	86
Leacock - Prestação de Seguros, LDA.	-	836	-	-	836
Lusitania Vida, Companhia de Seguros, S.A.	-	20 583	-	-	20 583
Lusitania, Companhia de Seguros, S.A.	-	3 412	-	-	3 412
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	3 579	-	-	3 579
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	2 012	-	-	2 012
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	697	-	-	697
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	1 536	-	-	1 536
Montepio Geral Associação Mutualista	-	137 676	195 810	-	333 486
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	2 525	-	-	2 525
Montepio Gestão de Activos Imobiliários, A.C.E.	-	2 942	-	-	2 942
Montepio Holding, S.G.P.S., S.A.	-	24 521	-	-	24 521
Montepio Investimento, S.A.	29 591	-	-	817	30 408
Montepio Residências para Estudantes, S.A.	-	502	-	-	502
Montepio Seguros, S.G.P.S., S.A.	-	1 493	-	-	1 493
Montepio Valor - S.G.O.I.C., S.A.	-	4 533	-	-	4 533
NovaCâmbios - Instituição de Pagamento, S.A.	-	524	-	-	524
PEF - Fundo de Investimento Imobiliário Fechado	-	168	-	-	168
Polaris-Fundo de Investimento Imobiliário Fechado	-	162	-	-	162
Residências Montepio, Serviços de Saúde, S.A.	-	470	-	-	470
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	9	-	-	9
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 536	-	-	2 536
Sociedade Portuguesa de Administrações, S.A.	-	254	-	-	254
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	27 902	-		27 902
	182 509	293 435	197 918	817	674 679

As at 31 December 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, Other subordinated debt and Other liabilities, are analysed as follows:

(Euro thousand)

	Dec 2020				
Entity	Deposits from other credit institutions	Deposits from customers	Debt securities issued and Other subordinated liabilities	Other liabilities	Total
Boar of Directors	-	1 757	-	-	1 757
Board of Directors of Other Related parties	-	3 479	-	-	3 479
Other Key Management Personnel	-	2 406	-	-	2 406
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	117 619	-	-	-	117 619
Bolsimo - Gestão de Activos, S.A.	-	1 902	-	-	1 902
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	9 447	-	-	9 447
Clínica CUF Belém, S.A.	-	10	-	-	10
Empresa Gestora de Imóveis da Rua do Prior S.A	-	166	-	-	166
Finibanco Angola, S.A.	36 059	-	-	4 300	40 359
Fundação Montepio Geral	-	838	-	-	838
Fundo de Pensões - Montepio Geral	-	39 188	2 103	-	41 291
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	493	-	-	493
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	89	-	-	89
In Posterum, A.C.E.	-	93	-	-	93
Lusitania Vida, Companhia de Seguros, S.A.	-	10 396	-	-	10 396
Lusitania, Companhia de Seguros, S.A.	-	4 031	-	-	4 031
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	17 984	-	-	17 984
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	7 697	-	-	7 697
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	29 320	-	-	29 320
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	6 393	-	-	6 393
Montepio Geral Associação Mutualista	-	140 129	200 388	-	340 517
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	1 600	-	-	1 600
Montepio Gestão de Activos Imobiliários, A.C.E.	-	2 450	-	-	2 450
Montepio Holding, S.G.P.S., S.A.	-	23 540	-	-	23 540
Montepio Investimento, S.A.	33 181	-	-	31	33 212
Montepio Residências para Estudantes, S.A.	-	537	-	-	537
Montepio Seguros, S.G.P.S., S.A.	-	2 028	-	-	2 028
Montepio Valor - S.G.O.I.C., S.A.	-	4 825	-	-	4 825
NovaCâmbios - Instituição de Pagamento, S.A.	-	512	-	-	512
PEF - Fundo de Investimento Imobiliário Fechado	-	3 635	-	-	3 635
Polaris-Fundo de Investimento Imobiliário Fechado	-	192	-	-	192
Residências Montepio, Serviços de Saúde, S.A.	-	138	-	-	138
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	45	-	-	45
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	3 122	-	-	3 122
Sociedade Portuguesa de Administrações, S.A.	-	148	-	-	148
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	20 584	-		20 584
	186 859	339 174	202 491	4 331	732 855

As at 30 June 2021, 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), Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss, Staff costs, and General and administrative expenses, are analysed as follows:

(Euro thousand)

	Jun 2021						
Entity	**Interest and similar income**	**Interest and similar expense**	**Net fee and commission income**	**Other operating income/ (expense)**	**Income from financial assets and liabilities at fair value through profit or loss**	**Staff costs**	**General administrative expenses**
Board of Directors	-	1	1	-	-	-	-
Board of Directors of Other Related parties	5	2	1	-	-	-	-
Other Key Management Personnel	8	1	1	-	-	-	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	786	-	49	-	(42)	-
Bolsimo - Gestão de Ativos, S.A.	112	-	-	-	-	(132)	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	53	-	496	-	-
CESource, A.C.E.	-	-	-	-	-	(290)	-
Finibanco Angola, S.A.	-	-	-	-	-	(44)	-
Fundo de Pensões - Montepio Geral	-	8	-	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 464	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	2	-	1	-	-	-	-
Iberpartners Cafés, S.G.P.S., S.A.	21	-	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	-	2 354	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	2 521	4	-	-	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	29	1	-	-	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	14	1	-	-	-
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	-	47	1	-	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	1 168	-	6	177	-	(144)	-
Montepio Geral Associação Mutualista	2	9 150	1 136	-	-	(5 423)	967
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	-	423	8	-	-	-
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	(1 475)	-	(1 129)	43
Montepio Hording, S.G.P.S., S.A.	-	-	15	25	-		-
Montepio Investimento, S.A.	471	353	12	211	-	(435)	-
Montepio Residências para Estudantes, S.A.	-		-	-	-	(8)	-
Montepio Seguros, S.G.P.S., S.A.	-	-	-	-	-	-	-
Montepio Valor - S.G.O.I.C., S.A.	-	-	137	37	-	(279)	-
NovaCâmbios - Instituição de Pagamento, S.A.	26	-	28	2	-	-	-
PEF - Fundo de Investimento Imobiliário Fechado		-	6	-	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado		-	2	-	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	31	-	29	-	-	(57)	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	1	-	-	-	-	-
	1 846	10 302	8 280	(959)	496	(7 983)	1 010

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), Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss, Staff costs, and General and administrative expenses, are analysed as follows:

(Euro thousand)

	Jun 2020					
Entity	**Interest and similar income**	**Interest and similar expense**	**Net fee and commission income**	**Other operating income/ (expense)**	**Staff costs**	**General administrative expenses**
Boar of Directors	-	3	2	1	-	-
Board of Directors of Other Related parties	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, A.C.E.	-	-	-	-	(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 - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	30	1	-	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	14	1	-	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado	-	-	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, A.C.E.	-	-	-	-	(2 863)	1 477
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	-
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)	-
N Seguros, S.A.	-	-	-	-	-	-
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	-	-	-
SAGIS - Segurança e Higiene no Trabalho, S.A.	-	-	1	-	-	-
	2 638	8 527	8 665	468	(13 574)	2 579

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 2021 and financial year 2020, there were no transactions with the Banco Montepio's Pension Fund.

50 Securitization of assets

As at 30 June 2021 and 31 December 2020, there are five 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 June 2021.

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.

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).

The Pelican Finance no. 1 loan securitization operation was cancelled on 25 March 2021.

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 2021, the securitization operations realized by Banco Montepio are presented as follows:

(Euro thousand)

Issue	Settlement date	Currency	Asset transferred	Loan and advances: Current amount	Loan and advances: Initial nominal amount	Securities issued: Initial nominal amount	Securities issued: Initial nominal amount	Securities issued: Third party amount*
Pelican Mortgages No. 3	March 2007	euro	Mortgage loans	762 375	127 791	762 375	98 439	33 911
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	429 974	1 028 600	460 514	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	72 226	236 500	74 587	-
Pelican Mortgages No. 5	March de 2009	euro	Mortgage loans	1 027 500	433 833	1 027 500	459 089	-
Pelican Mortgages No. 6	February 2012	euro	Mortgage loans	1 107 000	545 432	1 107 000	623 552	-
				4 161 975	1 609 256	4 161 975	1 716 181	33 911

* 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 2021, 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***	**Total**
Domestic loans and advances						
Retail						
Mortgage	126 826	428 176	71 467	432 806	537 670	1 596 945
Consumer loans and other	-	-	-	-	-	-
	126 826	428 176	71 467	432 806	537 670	1 596 945
Credit and overdue interest						
Less than 90 days	73	703	372	203	2 224	3 575
More than 90 days	892	1 095	387	824	5 538	8 736
	965	1 798	759	1 027	7 762	12 311
	127 791	429 974	72 226	433 833	545 432	1 609 256

As at 31 December 2020, 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 2007	euro	Mortgage loans	762 375	145 122	762 375	111901	38 667
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	452 144	1 028 600	482450	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	76 528	236 500	79 203	-
Pelican Mortgages No. 5	March 2009	euro	Mortgage loans	1 027 500	452 911	1 027 500	478 456	-
Pelican Mortgages No. 6	February 2012	euro	Mortgage loans	1 107 000	570 032	1 107 000	648 080	-
Pelican Finance No. 1	May 2014	euro	Mortgage loans	185 300	44 629	185 300	51 094	-
				4 347 275	1 741 366	4 347 275	1 851 184	38 667

* 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 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*	Total
Domestic loans and advances							
Retail							
Mortgage	143 949	450 648	75 641	451 592	561 276	-	1 683 106
Consumer loans and other	-	-	-	-	-	42 348	42 348
	143 949	450 648	75 641	451 592	561 276	42 348	1 725 454
Credit and overdue interest							
Less than 90 days	107	648	541	344	2 260	243	4 143
More than 90 days	1 066	848	346	975	6 496	2 038	11 769
	1 173	1 496	887	1 319	8 756	2 281	15 912
	145 122	452 144	76 528	452 911	570 032	44 629	1 741 366

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 and Pelican Mortgages no. 6 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 2021, these are analysed as follows:

Issue	Bonds	Initial nominal amount Euros	Current nominal amount Euros	CEMG interest held (nominal amount) Euros	Maturity date	*Rating (initial)*				*Rating (current)*			
						Fitch	Moodys	S&P	DBRS	*Fitch*	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	121 068 971	87 157 677	2054	AAA	Aaa	AAA	n.a.	BBB	A2	AA	n.a.
	Class B	14 250 000	3 125 829	3 125 829	2054	AA-	Aa2	AA-	n.a.	BBB	Ba1	BBB	n.a.
	Class C	12 000 000	2 632 277	2 632 277	2054	A	A3	A	n.a.	BB+	B2	BB	n.a.
	Class D	6 375 000	1 398 397	1 398 397	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	340 635 796	340 635 796	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AAA
	Class B	55 500 000	30 154 356	30 154 356	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	32 599 304	32 599 304	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	13 583 043	13 583 043	2056	BBB	n.a.	n.a.	B+	B-	n.a.	n.a.	n.a.
	Class E	27 500 000	14 941 348	14 941 348	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	52 963 707	52 963 707	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	18 123 494	18 123 494	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	300 953 932	300 953 932	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAA
	Class B	195 000 000	105 405 248	105 405 248	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	14 864 843	14 864 843	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	14 864 843	14 864 843	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	268 351 554	268 351 554	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.

As at 31 December 2020, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euros	Current nominal amount Euros	CEMG interest held (nominal amount) Euros	Maturity date	Rating (initial) Fitch	Rating (initial) Moodys	Rating (initial) S&P	Rating (initial) DBRS	Rating (current) Fitch	Rating (current) Moodys	Rating (current) S&P	Rating (current) DBRS
Pelican Mortgages No 3	Class A	717 375 000	138 350 012	99 598 316	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	3 572 001	3 572 001	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	3 008 001	3 008 001	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	1 598 001	1 598 001	2054	BBB	Baa3	BBB	n.a.	B	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	357 936 501	357 936 501	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AA
	Class B	55 500 000	31 685 880	31 685 880	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	34 255 005	34 255 005	2056	A-	n.a.	n.a.	BBB	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	14 272 919	14 272 919	2056	BBB	n.a.	n.a.	B+	BB	n.a.	n.a.	n.a.
	Class E	27 500 000	15 700 211	15 700 211	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.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	57 093 499	57 093 499	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	18 609 200	18 609 200	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	314 319 574	314 319 574	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AAH
	Class B	195 000 000	110 086 392	110 086 392	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	15 525 004	15 525 004	2061	B	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	27 500 000	15 525 004	15 525 004	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	292 879 799	292 879 799	2063	A	n.a.	A-	AA	A+	n.a.	A	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	43 715 916	26 242 477	2028	A	n.a.	n.a.	A	A+	n.a.	n.a.	AAL
	Class B	91 100 000	26 732 717	16 051 368	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, always, 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 individual (“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).

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 using revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. Most of the physical collaterals are revalued at least annually. 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.

The expected loss measurement process follows the general principles defined in IFRS 9. The accounting policies considered in this process are described in note 1 b.10.4).

As part of the calculation of the estimated impairment losses, sensitivity analyses were carried out on the macroeconomic variables considered in the forward-looking models and the following results were obtained:

3. Macroeconomic projection degradation scenario of 10%: impact of 2.63% of total impairment of the loan portfolio;
4. Macroeconomic projection improvement scenario of 10%: impact of -2.77% of total impairment of the loan portfolio.

In addition, sensitivity analyses were also performed directly on the PD and LGD parameters, with the following results being obtained:

3. Parameter degradation scenario of 5%: impact of 7.22% of total impairment of the loan portfolio;
4. Parameter improvement scenario of 5%: impact of -7.10% of total impairment of the loan portfolio.

Banco Montepio's credit risk exposure can be analysed as follows:

	(Euro thousand)	
	Jun 2021	**Dec 2020**
Loans and deposits to credit institutions payable on demand	71 794	53 498
Other loans and advances to credit institutions	885 758	858 704
Loans and advances to customers	10 775 782	10 732 604
Financial assets held for trading	22 816	5 037
Financial assets at fair value through profit or loss	89 802	102 345
Financial assets at fair valur through other compensative income	186 298	146 643
Hedging derivatives	10 726	10 693
Other financial assets at amortized cost	4 314 239	3 981 949
Other assets	175 492	164 909
Guarantees and standbye letters provided	473 850	474 469
Irrevocable credit lines	947 043	1 058 335
	17 953 600	17 589 186

The analysis of the main credit risk exposures by sector of activity, as at 30 June 2021, can be analysed as follows:

Activity	jun 2021														
	Loans and deposits to credit institutions payable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at 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	Book value	Impairment	Book value	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry, and fishing	-	-	-	82 955	4 578	-	-	-	-	-	-	-	613	6 098	124
Extractive industries	-	-	-	14 034	552	-	-	-	-	-	-	-	1 221	1 803	16
Manufacturing industries	-	-	-	909 972	99 102	-	961	-	-	-	-	-	27 099	117 812	1 400
Electricity generation and distribution, gas steam and air conditioning	-	-	-	57 557	4 904	-	-	-	-	-	-	-	983	9 897	19
Water supply	-	-	-	66 443	2 374	-	-	-	-	-	-	-	1 798	1 319	14
Construction	-	-	-	532 660	116 176	793	545			-	-	-	98 903	106 950	5 918
Wholesale and retail trade	-	-	-	808 774	96 212	-	218			-	-	-	50 368	135 182	1 587
Transport and storage	-	-	-	283 188	17 385	-	-	-	-	-	-	-	5 135	16 843	190
Accommodation and catering activities	-	-	-	584 129	28 688	-	-	-		-	-	-	10 500	31 194	426
Information and Communication	-	-	-	52 266	3 766	-	-	-	-	10 726	-	-	1 145	21 071	256
Financial and insurance activities	71 794	894 187	8 429	472 959	93 872	2 456	-	2 803	709	-		-	218 761	304 294	272
Real estate activities	-	-	-	626 666	44 761	495	88	-	-	-	-	-	17 193	107 201	1 186
Consulting, scientific, technical and similar	-	-	-	218 293	9 034	-	-	-	-	-	-	-	16 603	28 407	365
Administrative and supporting service activities	-	-	-	99 191	5 662	19 072	46	-	-	-	-	-	5 163	21 972	282
Public administration and defence, compulsory social security	-	-	-	42 091	256	-	-	177 400	384	-	2 767 480	5 010	103	955	13
Education	-	-	-	63 061	2 915	-	-	-	-	-	-	-	233	5 248	39
Human Health Services and Social action activities	-	-	-	254 650	9 223	-	-	-	-	-	-	-	2 207	15 890	334
Artistic activities, shows and recreational	-	-	-	65 751	11 456	-	-	-	-	-	-	-	9 442	6 098	350
Other services	-	-	-	68 420	2 367	-	126	-	-	-	-	-	2 888	8 749	72
Retail															
Mortgage Loans	-	-	-	5 683 057	52 724	-	87 818	1 910	12	-	1 551 769	-	-	-	-
Others	-	-	-	427 714	32 042	-	-	5 893	603	-	-	-	3 492	60	990
	71 794	**894 187**	**8 429**	**11 413 831**	**638 049**	**22 816**	**89 802**	**188 006**	**1 708**	**10 726**	**4 319 249**	**5 010**	**473 850**	**947 043**	**13 853**

The analysis of the mains credit risk exposures by sector of activity, as at 31 December 2020, can be analysed as follows:

Activity	Dec 2020														
	Loans and deposits to credit institutions payable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets 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	-	-	-	81 052	3 879	-	-	-	-	-	-	-	600	6 071	241
Extractive industries	-	-	-	13 721	621	-	-	-	-	-	-	-	1 378	1 928	21
Manufacturing industries	-	-	-	864 350	92 671		1 440	-	-	-	-	-	18 769	120 572	1 475
Electricity generation and distribution, gas steam and air conditioning	-	-	-	68 620	4 558		-	-	-	-	-	-	983	9 789	21
Water supply	-	-	-	65 389	2 596	-	-	-	-	-	-	-	2 070	4 854	40
Construction	-	-	-	605 170	167 257		588			-	-	-	94 000	106 874	5 798
Wholesale and retail trade	-	-	-	820 105	100 284	-	217			-	-	-	46 993	152 587	1 956
Transport and storage	-	-	-	303 588	44 748	-	6	-	-	-	-	-	4 834	16 637	285
Accommodation and catering activities	-	-	-	510 627	22 862	-	-	-		-	-	-	14 166	33 665	602
Information and Communication	-	-	-	52 840	3 126	-	-	-	-	10 693	-	-	1 675	22 845	112
Financial and insurance activities	53 498	866 814	8 110	547 071	102 330	3 984	-	3 125	708	-		-	221 088	387 104	419
Real estate activities	-	-	-	711 455	86 364	-	85	-	-	-	-	-	22 936	109 396	1 581
Consulting, scientific, technical and similar	-	-	-	226 727	9 710	-	-	-	-	-	-	-	19 486	29 126	629
Administrative and supporting service activities	-	-	-	92 319	6 599	-	47	-	-	-	-	-	5 537	21 492	313
Public administration and defence, compulsory social security	-	-	-	45 486	272	1 053	904	142 529	357	-	2 308 656	4 690	109	557	14
Education	-	-	-	62 433	2 900	-	-	-	-	-	-	-	236	4 809	34
Human helth services and social action activities	-	-	-	229 913	9 186	-	-	-	-	-	-	-	4 048	15 525	404
Artistic activities, shows and recreational	-	-	-	64 967	10 347	-	-	-	-	-	-	-	8 485	5 303	179
Other services	-	-	-	65 979	821	-	138	-	-	-	-	-	3 702	9 133	75
Retail															
Mortgage loans	-	-	-	5 631 703	55 654	-	98 920	2 067	13		1 677 983	-	-	-	-
Others	-	-	-	428 534	32 660	-	-	-	-	-	-	-	3 374	68	2 395
	53 498	**866 814**	**8 110**	**11 492 049**	**759 445**	**5 037**	**102 345**	**147 721**	**1 078**	**10 693**	**3 986 639**	**4 690**	**474 469**	**1 058 335**	**16 594**

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 473,850 thousand (31 December 2020: Euro 474,469 thousand) and the irrevocable credit facilities amounting to Euro 947,043 thousand (31 December 2020: Euro 1,058,335 thousand), is presented as follows:

(Euro thousand)

Stage impacts	Jun 2021			Dec 2020		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Collective analysis	**8 567 660**	**209 309**	**8 358 351**	**8 403 066**	**222 574**	**8 180 492**
Stage 1	6 708 725	14 854	6 693 871	6 034 028	12 122	6 021 906
Stage 2	1 551 109	42 696	1 508 413	2 072 769	59 113	2 013 656
Stage 3	307 826	151 759	156 067	296 269	151 339	144 930
Individual analysis	**4 267 064**	**442 593**	**3 824 471**	**4 621 787**	**553 465**	***4 068 322***
	12 834 724	**651 902**	**12 182 822**	**13 024 853**	**776 039**	**12 248 814**

As at 30 June 2021 and 31 December 2020, the detail of the application of Stages to other financial assets is presented as follows:

(Euro thousand)

Stage impacts	Jun 2021			Dec 2020		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Amortized cost	**4 319 249**	**5 010**	**4 314 239**	**3 986 639**	**4 690**	**3 981 949**
Stage 1	4 319 249	5 010	4 314 239	3 986 639	4 690	3 981 949
Fair value	**188 005**	**1 708**	**186 297**	**147 721**	**1 078**	**146 643**
Stage 1	185 307	1 050	184 257	145 070	454	144 616
Stage 2	2 698	658	2 040	2 651	624	2 027
Loans and advances to other institutions	**894 187**	**8 429**	**885 758**	**866 814**	**8 110**	**858 704**
Stage 1	851 180	7 936	843 244	823 806	7 617	816 189
Stage 2	43 007	493	42 514	43 008	493	42 515
	5 401 441	**15 147**	**5 386 294**	**5 001 174**	**13 878**	**4 987 296**

As at 30 June 2021 and 31 December 2020, the detail of the loans and advances subject to collective analysis, structured by segment and by Stage, is as follows:

(Euro thousand)

Segment	Jun 2021			Dec 2020		
	Book value	Impairment	Net value	Book value	Impairment	Net value
Retail	**6 087 362**	**79 344**	**6 008 018**	**6 036 738**	**83 139**	**5 953 599**
Mortgage loans	*5 669 800*	*51 374*	*5 618 426*	*5 619 214*	*54 860*	*5 564 354*
Stage 1	4 655 322	1 198	4 654 124	4 360 229	1 208	4 359 021
Stage 2	908 493	11 294	897 199	1 155 676	14 999	1 140 677
Stage 3	105 985	38 882	67 103	103 309	38 653	64 656
Consumer credit	*369 056*	*25 335*	*343 721*	*366 251*	*24 182*	*342 069*
Stage 1	269 975	1 375	268 600	240 028	906	239 122
Stage 2	69 580	4 889	64 691	100 945	7 518	93 427
Stage 3	29 501	19 071	10 430	25 278	15 758	9 520
Credit cards	*48 506*	*2 635*	*45 871*	*51 273*	*4 097*	*47 176*
Stage 1	38 837	767	38 070	27 270	691	26 579
Stage 2	7 047	210	6 837	20 553	1 002	19 551
Stage 3	2 622	1 658	964	3 450	2 404	1 046
Corporate	**2 480 298**	**129 965**	**2 350 333**	**2 366 328**	**139 435**	**2 226 893**
Non Construction	*2 243 971*	*115 904*	*2 128 067*	*2 144 787*	*125 486*	*2 019 301*
Stage 1	1 574 398	10 540	1 563 858	1 270 748	8 481	1 262 267
Stage 2	532 200	24 727	507 473	739 648	33 055	706 593
Stage 3	137 373	80 637	56 736	134 391	83 950	50 441
Construction	*236 327*	*14 061*	*222 266*	*221 541*	*13 949*	*207 592*
Stage 1	170 194	975	169 219	135 753	836	134 917
Stage 2	33 789	1 576	32 213	55 947	2 539	53 408
Stage 3	32 344	11 510	20 834	29 841	10 574	19 267
	8 567 660	**209 309**	**8 358 351**	**8 403 066**	**222 574**	**8 180 492**

As at 30 June 2021 and 31 December 2020, impairment is detailed as follows:

(Euro thousand)

	Jun 2021						
	Impairment calculated on individual basis		Impairment calculated on portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 243 656	437 170	2 480 297	129 966	6 723 953	567 136	6 156 817
Mortgage loans	13 256	1 351	5 669 801	51 373	5 683 057	52 724	5 630 333
Other loans	10 152	4 072	417 562	27 970	427 714	32 042	395 672
	4 267 064	442 593	8 567 660	209 309	12 834 724	651 902	12 182 822

(Euro thousand)

	Dec 2020						
	Impairment calculated on individual basics		Impairment calculated on portfolio basics		Total		
	Valor do crédito	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4598288	548 290	2 366 328	139 435	6 964 616	687 725	6 276 891
Mortgage loans	12 489	794	5 619 214	54 860	5 631 703	55 654	5 576 049
Other loans	11 010	4 381	417 524	28 279	428 534	32 660	395 874
	4 621 787	553 465	8 403 066	222 574	13 024 853	776 039	12 248 814

As at 30 June 2021, the transfer between Stages, related to loans and advances to customers, is presented as follows:

(Euro thousand)

	Transfers betwween stages					
	From 2 to 1	From 1 to 2	From 3 to 2	From 2 to 3	From 3 to 1	From 1 to 3
Exposure	964 966	380 944	9 012	84 376	4 053	12 978

As at 31 December 2020, the transfer between Stages, related to loans and advances to customers, is presented as follows:

(Euro thousand)

	Transfers betwween stages					
	From 2 to 1	From 1 to 2	From 3 to 2	From 2 to 3	From 3 to 1	From 1 to 3
Exposure	282 972	1 664 473	27 600	57 278	5 571	17 226

As at 30 June 2021 and 31 December 2020, the fair value analysis of collaterals associated with Banco Montepio's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collaterals	Jun 2021	Dec 2020
Individual analysis		
Securities and other financial assets	*171 738*	*186 504*
Real estate - Mortgage loans	*29 915*	*17 902*
Real estate - Construction and CRE	*2 481 878*	*2 473 058*
Other real estate	*1 916 825*	*1 815 245*
Other guarantees	*461 884*	*475 019*
Collective analysis - Stage 1		
Securities and other financial assets	*186 479*	*144 527*
Real estate - Mortgage loans	*10 512 100*	*9 722 413*
Real estate - Construction and CRE	*319 830*	*199 467*
Other real estate	*601 660*	*423 300*
Other guarantees	*65 586*	*41 905*
Collective analysis - Stage 2		
Securities and other financial assets	*47 315*	*66 706*
Real estate - Mortgage loans	*1 720 976*	*2 172 996*
Real estate - Construction and CRE	*124 128*	*156 836*
Other real estate	*346 749*	*478 838*
Other guarantees	*15 590*	*25 967*
Collective analysis - Stage 3		
Securities and other financial assets	*2 397*	*1 941*
Real stage - Mortgage loans	*167 281*	*155 858*
Real estate - Construction and CRE	*56 294*	*66 543*
Other real estate	*81 585*	*61 690*
Other guarantees	*4 555*	*3 136*
	19 314 765	**18 689 851**

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, as at 30 June 2021 and 31 December 2020, is presented as follows:

(Euro thousand)

Segment	Jun 2021 Total exposure	Jun 2021 Total impairment	Dec 2020 Total exposure	Dec 2020 Total impairment
Corporate	5 233 861	398 718	5 314 638	426 336
Construction and CRE	1 490 092	168 418	1 649 978	261 389
Mortgage loans	5 683 057	52 724	5 631 703	55 654
Other loans	427 714	32 042	428 534	32 660
	12 834 724	651 902	13 024 853	776 039

The loans and advances portfolio, by segment and by production year, as at 30 June 2021, is presented as follows:

(Euro thousand)

	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	542	37 525	1 861	683	73 803	28 524	41 358	1 208 971	12 950	20 483	6 543	663
2005	149	12 949	818	163	16 179	4 642	10 276	490 083	6 125	5 224	2 698	213
2006	240	25 141	2 534	179	35 401	10 149	12 538	608 562	9 163	13 889	12 434	2 773
2007	426	26 703	1 483	220	42 130	13 130	12 854	619 501	9 505	38 261	14 642	1 124
2008	1 313	42 505	5 238	402	18 742	4 813	6 704	324 525	4 830	60 529	16 652	817
2009	2 095	71 133	3 861	478	32 884	12 611	3 641	197 122	1 936	47 928	14 991	2 062
2010	1 839	81 537	9 495	346	31 880	7 416	3 667	225 695	2 294	34 503	8 826	1 221
2011	2 393	94 348	6 513	406	16 307	3 310	1 391	82 438	592	28 027	8 158	1 874
2012	2 462	81 682	5 202	379	26 306	8 134	856	51 010	510	20 036	5 502	1 018
2013	4 513	260 771	37 476	403	24 290	2 456	1 094	64 174	298	19 652	11 154	2 012
2014	6 222	386 805	39 269	1 372	70 459	9 296	1 303	80 968	297	22 734	21 716	3 530
2015	6 572	311 922	85 456	721	30 426	2 383	1 529	97 091	294	20 108	23 674	3 049
2016	8 244	509 360	37 169	1 494	137 287	17 302	2 140	157 887	586	32 020	33 717	3 057
2017	10 690	419 291	31 096	1 094	251 767	14 953	2 949	232 889	712	23 264	30 529	2 712
2018	11 389	444 443	48 498	1 748	133 242	16 072	3 115	256 019	818	33 847	43 656	2 270
2019	11 438	620 126	38 697	1 977	195 526	7 165	3 742	318 453	1 164	25 854	56 358	1 922
2020	14 939	865 491	34 535	2 025	242 768	4 743	3 951	354 021	400	21 725	68 391	1 629
2021	10 086	942 129	9 517	1 256	110 695	1 319	3 442	313 648	250	14 756	48 073	96
	95 552	5 233 861	398 718	15 346	1 490 092	168 418	116 550	5 683 057	52 724	482 840	427 714	32 042

The loans and advances portfolio, by segment and by production year, as at 31 December 2020, is presented as follows:

(Euro thousand)

	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	552	34 082	1 878	689	104 032	49 944	43 342	1 289 781	13 500	20 998	6 857	723
2005	165	13 469	990	171	33 779	21 315	10 595	513 857	6 577	5 340	3 091	218
2006	279	25 899	2 398	183	71 948	44 614	12 997	638 786	10 031	14 184	12 907	2 845
2007	467	28 594	1 389	226	44 426	13 355	13 278	649 321	9 989	39 574	15 853	1 293
2008	1 381	43 789	5 130	420	20 558	5 659	6 920	339 344	5 092	62 491	17 973	1 244
2009	2 233	74 551	4 359	509	38 358	17 033	3 762	206 819	2 277	49 560	16 252	2 120
2010	1 814	93 325	12 219	361	36 847	10 695	3 791	236 348	2 268	35 597	9 158	1 172
2011	2 654	98 053	6 708	426	19 124	5 678	1 443	86 479	587	29 132	8 903	1 902
2012	2 948	97 084	10 088	309	28 242	10 061	886	53 770	522	20 746	5 957	967
2013	4 967	309 424	68 544	465	27 368	3 586	1 146	69 600	457	20 607	12 448	2 086
2014	6 877	409 900	39 691	1 564	113 037	14 525	1 361	86 112	339	24 039	25 159	4 034
2015	7 300	362 969	83 005	800	36 116	5 975	1 598	102 974	286	21 591	27 556	3 505
2016	9 217	597 957	51 190	1 813	161 100	19 023	2 242	167 242	660	34 287	40 409	3 374
2017	11 118	435 472	33 031	1 174	274 058	9 048	3 077	246 503	732	24 896	36 475	2 570
2018	11 840	469 902	46 345	1 637	147 677	16 851	3 247	268 258	826	35 254	50 373	2 107
2019	11 988	661 364	36 603	1 709	227 764	8 110	3 841	325 679	1 096	26 893	63 506	1 822
2020	19 366	1 558 804	22 768	2 228	265 544	5 917	4 003	350 830	415	22 171	75 657	678
	95 166	5 314 638	426 336	14 684	1 649 978	261 389	117 529	5 631 703	55 654	487 360	428 534	32 660

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 30 June 2021 and 31 December 2020, is analysed as follows:

(Euro thousand)

	Jun 2021									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 154 085	288 193	1 089 571	148 977	13 256	1 351	10 152	4 072	4 267 064	442 593
Collective	2 079 776	110 525	400 521	19 441	5 669 801	51 373	417 562	27 970	8 567 660	209 309
	5 233 861	398 718	1 490 092	168 418	5 683 057	52 724	427 714	32 042	12 834 724	651 902

(Euro thousand)

	Dec 2020									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 300 115	306 967	1 298 173	241 322	12 489	794	11 010	4 381	4 621 787	553 464
Collective	2 014 523	119 369	351 805	20 067	5 619 214	54 860	417 524	28 279	8 403 066	222 575
	5 314 638	426 336	1 649 978	261 389	5 631 703	55 654	428 534	32 660	13 024 853	776 039

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for companies, as at 30 June 2021 and 31 December 2020, is analysed as follows:

(Euro thousand)

	Jun 2021											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	502 685	108 382	527 114	67 197	293 671	55 044	586 887	40 595	2 333 299	165 952	4 243 656	437 170
Collective	236 326	14 061	544 665	33 884	688 293	38 584	164 194	5 380	846 819	38 057	2 480 297	129 966
	739 011	122 443	1 071 779	101 081	981 964	93 628	751 081	45 975	3 180 118	204 009	6 723 953	567 136

(Euro thousand)

	Dec 2020											
	Corporate		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	584 617	159 462	514 597	56 164	304 578	56 372	713 556	81 861	2 480 940	194 431	4 598 288	548 290
Collective	221 541	13 949	506 408	38 629	701 780	42 360	130 264	6 116	806 335	38 381	2 366 328	139 435
	806 158	173 411	1 021 005	94 793	1 006 358	98 732	843 820	87 977	3 287 275	232 812	6 964 616	687 725

The gross exposure of performing and non-performing loans and advances, as at 30 June 2021 and 31 December 2020, is analysed as follows:

(Euro thousand)

	Jun 2021												
	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		para exposições em incumprimento		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)	5 011 390	-	-	33 950	33 950	33 950	-	8 952	-	15 147	-	45	-
Other balance sheet credit exposures (b)	14 357 281	26 337	58 904	1 066 979	1 066 979	1 065 863	646 064	110 238	2 404	518 859	305 212	417 432	306 888
Off-balance sheet exposures ©	2 243 218	1 615	184	89 346	89 346	89 346	3 902	6 844	3	7 008	295	-	-

(a) Includes debt intruments 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 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)	4 673 131	-	-	33 950	33 950	33 950	-	8 190	-	15 147	-	45	-
Other balance sheet credit exposures (b)	13 258 863	31 276	78 309	1 217 630	1 210 800	1 216 043	716 147	125 782	3 589	624 204	361 881	405 826	302 848
Off-balance sheet exposures ©	2 325 634	1 678	199	94 392	94 112	94 392	571	10 233	5	6 361	41	-	-

(a) Includes debt intruments of the financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.
(b) Includes loans and advances to customers, cash and deposits at central banks and other loans and advances to credit institutions and foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, guarantees and documentary credit provided.

The fair value of the collateral underlying the loans and advances portfolio of the Corporate, Construction and Commercial Real Estate ("CRE"), and Mortgage segments, as at 30 June 2021, 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€	5 507	700 733	3 639	195 852	92 623	12 051 774	269	7 387
>= 0.5 M€ and <1M€	519	361 301	111	72 755	471	291 615	1	500
>= 1 M€ and <5M€	565	1 234 043	98	188 298	51	74 066	-	-
>= 5 M€ and <10M€	70	497 097	14	103 522	2	12 816	-	-
>= 10 M€ and <20M€	51	700 316	1	10 000	-	-	-	-
>= 20 M€ and <50M€	21	641 038	3	116 000	-	-	1	-
>= 50M€	13	1 628 818	3	201 080	-	-	-	-
	6 746	5 763 346	3 869	887 507	93 147	12 430 271	271	7 887

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 2020, is presented as follows:

(Euro thousand)

	Corporate, 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€	5 776	717 248	3 697	185 753	92 013	11 734 813	287	8 123
>= 0.5 M€ and <1M€	499	350 672	97	60 581	416	258 140	1	500
>= 1 M€ and <5M€	543	1 157 573	99	192 571	43	62 434	-	-
>= 5 M€ and <10M€	70	490 460	13	95 522	2	13 781	-	-
>= 10 M€ and <20M€	53	718 575	2	23 318	-	-	-	-
>= 20 M€ and <50M€	22	677 071	3	116 000	-	-	-	-
>= 50M€	10	1 389 045	3	201 080	-	-	-	-
	6 973	5 500 644	3 914	874 824	92 474	12 069 168	288	8 623

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE, and Mortgage segments, as at 30 June 2021 and 31 December 2020, is presented as follows:

(Euro thousand)

Segment/Ratio	Jun 2021			Dec 2020		
	No. Of real estate	Total exposure	Impairment	No. Of real estate	Total exposure	Impairment
Corporate						
Without real estate (*)	-	3 885 521	266 790	-	3 949 224	268 885
< 60%	2 588	464 393	41 121	2 673	406 950	38 468
>= 60% and < 80%	754	403 266	36 220	819	430 164	35 687
>= 80% and < 100%	887	434 357	50 593	813	471 393	52 382
>= 100%	16	46 324	3 994	16	56 906	30 915
Construction and CRE						
Without real estate (*)	-	437 877	41 417	-	501 069	55 697
< 60%	1 235	562 603	47 159	1 230	545 518	84 417
>= 60% and < 80%	461	222 695	20 996	494	304 564	33 903
>= 80% and < 100%	679	225 211	38 880	781	244 455	49 085
>= 100%	126	41 705	19 966	147	54 373	38 287
Mortgage						
Without real estate (*)	-	34 444	3 053	-	35 545	2 563
< 60%	61 103	2 482 123	11 895	61 292	2 460 038	11 662
>= 60% and < 80%	23 891	1 985 752	11 538	23 684	1 934 460	12 495
>= 80% and < 100%	7 695	1 131 119	16 195	7 053	1 152 730	17 748
>= 100%	458	49 619	10 043	445	48 930	11 185

(*) 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 2021 and 31 December 2020, are presented as follows:

(Euro thousand)

	Jun 2021		
Assets	No. Of real estate	Fair value	Book value
Land	**1 536**	**305 363**	**279 558**
Urban	1 298	258 080	235 439
Rural	238	47 283	44 119
Buildings under construction	**443**	**63 827**	**55 911**
Commercial	50	6 131	5 684
Housing	288	56 961	49 528
Other	105	735	699
Constructed buildings	**1 432**	**177 672**	**158 241**
Commercial	609	106 380	96 161
Housing	423	64 202	55 612
Other	400	7 090	6 468
	3 411	546 862	493 710

(Euro thousand)

	Dec 2020		
Assets	No. Of real estate	Fair value	Book value
Land	**1 603**	**324 070**	**293 513**
Urban	1 356	274 066	247 084
Rural	247	50 004	46 429
Buildings under construction	**469**	**66 988**	**59 491**
Commercial	50	6 223	5 713
Housing	313	60 011	53 062
Other	106	754	716
Constructed buildings	**1 447**	**193 248**	**170 461**
Commercial	596	112 328	99 879
Housing	485	73 641	64 207
Other	366	7 279	6 375
	3 519	584 306	523 465

The time elapsed since the receipt in recovery/execution of real estate, as at 30 June 2021 and 31 December 2020, is presented as follows:

(Euro thousand)

Elapsed time since recovery/execution	Jun 2021				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**4 559**	**9 069**	**80 766**	**185 164**	**279 558**
Urban	3 615	7 759	71 902	152 163	235 439
Rural	944	1 310	8 864	33 001	44 119
Buildings under construction	**57**	**5 533**	**19 562**	**30 759**	**55 911**
Commercial	57	667	2 167	2 793	5 684
Housing	-	4 691	17 386	27 451	49 528
Other	-	175	9	515	699
Constructed buildings	**22 479**	**13 707**	**30 297**	**91 758**	**158 241**
Commercial	17 364	6 092	18 166	54 539	96 161
Housing	4 601	5 141	10 063	35 807	55 612
Other	514	2 474	2 068	1 412	6 468
	27 095	28 309	130 625	307 681	493 710

(Euro thousand)

Elapsed time since recovery/execution	Dec 2020				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**9 287**	**17 614**	**97 275**	**169 337**	**293 513**
Urban	8 571	14 572	84 755	139 186	247 084
Rural	716	3 042	12 520	30 151	46 429
Buildings under construction	**5 444**	**13 398**	**10 233**	**30 416**	**59 491**
Commercial	667	1 755	1 177	2 114	5 713
Housing	4 594	11 624	9 025	27 819	53 062
Other	183	19	31	483	716
Constructed buildings	**20 693**	**15 538**	**38 172**	**96 058**	**170 461**
Commercial	10 115	8 825	25 458	55 481	99 879
Housing	8 065	6 385	10 644	39 113	64 207
Other	2 513	328	2 070	1 464	6 375
	35 424	46 550	145 680	295 811	523 465

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 operational 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 2021 this represented 90.3% (31 December 2020: 86.0%) 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 2021 and 31 December 2020.

Regarding the credit quality of debt securities, circa 96.5% of the portfolio is investment grade (31 December 2020: 99.6%). Of note are the Portuguese and Italian sovereign bonds with a rating of BBB- and that represent 66.8% (31 December 2020: 86.4%) of the bond portfolio. Concerning the composition of the portfolio, one verifies a decrease in the Portuguese sovereign debt exposure, offset by the increased exposure to Italian and Spanish 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:

Rating	Jun 2021		Dec 2020		Change	
	Amount	%	Amount	%	Amount	%
AAA	7 320	0.2%	-	-	7 320	-
AA+	707	-	779	-	(72)	(9.2)
A+	1 018	-	1 090	-	(72)	(6.6)
A-	793	-	-	-	793	-
BBB+	951 326	32.1%	306 424	12.5%	644 902	210.5
BBB	16 111	0.6%	16 366	0.7%	(255)	(1.6)
BBB-	1 983 801	66.8%	2 117 400	86.4%	(133 599)	(6.3)
BB+	173	-	185	-	(12)	(6.5)
BB	-	-	7 001	0.3%	(7 001)	(100.0)
NR	7 878	0.3%	2 418	0.1%	5 460	225.8
Total	2 969 127	100.0%	2 451 663	100.0%	517 464	21.1

Note: excludes securities resulting from own securitizations belonging to the consolidation perimeter.

The position in bonds (excluding notes of own securitizations held not derecognized) recognized in the portfolio of Financial assets at fair value through other comprehensive income stood at Euro 186,297 thousand (31 December 2020: Euro 146,643 thousand), the position in Other financial assets at amortized cost stood at Euro 2,762,470 thousand (31 December 2020: Euro 2,303,967 thousand), and the position in Financial assets held for trading stood at Euro 20,360 thousand (31 December 2020: Euro 1,053 thousand).

Regarding the trading portfolio, as at 30 June 2021 and 31 December 2020, the main VaR indicators are as follows:

(Euro thousand)

	Jun 2021	Average	Minimum	Maximum	Dec 2020
Market VaR	349	1 058	271	2 411	1 545
Interest rate risk	235	354	206	589	30
Exchange risk	116	112	123	201	155
Price risk	211	522	230	1 494	1 548
Spread risk	119	680	100	886	55
Diversification effect	*(332)*	*(610)*	*(388)*	*(759)*	*(243)*

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 as at 30 June 2021 and 31 December 2020:

(Euro thousand)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
30 June 2021					
Assets					
Debt securities	62 526	15 745	40 942	1 114 821	1 824 361
Loans and advances	6 745 131	3 026 020	1 027 043	488 180	255 553
Others	133 618	32 541	-	-	44 952
Off-balance sheet	1 095	6 654	-	778 662	-
Total	6 942 370	3 080 959	1 067 985	2 381 663	2 124 866
Liabilities					
Debt securities issued	6 323	61 104	154 817	1 258 516	19 137
Deposits with defined maturity	2 769 995	1 233 825	1 888 853	726 058	-
Others	461 519	392	390	3 090 115	306 354
Off-balance sheet	755 983	6 654	16	125	1 220
Total	3 993 820	1 301 975	2 044 076	5 074 814	326 710
GAP (Assets - Liabilities)	2 948 550	1 778 984	(976 091)	(2 693 151)	1 798 156
31 December 2020					
Assets					
Debt securities	84 967	281 557	59 727	910 333	1 168 720
Loans and advances	6 744 415	2 875 481	1 099 129	430 811	233 954
Others	105 890	32 546	-	-	38 945
Off-balance sheet	1 148	-	6 654	756 654	-
Total	6 936 419	3 189 584	1 165 509	2 097 798	1 441 619
Liabilities					
Debt securities issued	8 584	150 809	57 283	1 258 516	19 398
Deposits with defined maturity	2 760 525	1 471 272	2 099 714	687 524	-
Others	577 054	54 245	392	1 600 005	301 096
Off-balance sheet	750 008	-	16	131	1 295
Total	4 096 171	1 676 326	2 157 407	3 546 177	321 789
GAP (Assets - Liabilities)	2 840 249	1 513 258	(991 897)	(1 448 380)	1 119 830

The following table present the interest rate gaps, in the 1st half of 2021 and financial year 2020:

(Euro thousand)

	Jun 2021				Dec 2020			
	june	Annual average	Maximum	Minimum	december	Annual average	Maximium	Minimum
Interest rate GAP	2 856 447	2 944 754	3 033 060	2 856 447	3 033 060	3 830 089	4 627 117	3 033 060

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 2021, 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 71,825 thousand (31 December 2020: negative amount of Euro 47,793 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 2021 and financial year 2020, as well as the respective average balances and interest for the financial year:

(Euro thousand)

	Jun 2021			Dec 2020		
	Average balance	**Average interest rate (%)**	**Interest**	**Average balance**	**Average interest rate (%)**	**Interest**
Interest-generating assets						
Deposits at central banks and OCI	1 797 709	(0.27)	(2 420)	886 629	(0.10)	(906)
Loans and advances to OCI	886 521	0.36	1 625	720 087	0.39	2 882
Loans and advances to customers	11 529 900	1.94	112 513	11 657 287	2.02	239 528
Other assets at fair value	4 543 957	0.16	3 766	4 482 625	0.24	11 029
Securities portfolio	2 621	0.23	3	4 012	0.44	18
Other (Includes derivatives)	-	-	7 334	-	-	14 208
	18 760 708	**1.3**	**122 821**	**17 750 640**	**1.48**	**266 759**
Interest-generating liabilities						
Deposits from ECB	2 228 307	(0.28)	(3 099)	1 451 452	(0.38)	(5 620)
Deposits from OCI	988 407	0.16	794	756 191	0.5	3 859
Deposits from customers	12 438 268	0.09	5 656	12 367 576	0.15	18 654
Senior debt	2 874 051	0.72	10 359	3 060 867	0.85	26 596
Subordinated debt	216 486	8.89	9 673	188 646	9.00	17 256
Other (includes derivatives)	-	-	7 326	-	-	11 410
	18 745 519	**0.33**	**30 709**	**17 824 732**	**0.4**	**72 155**
Net interest income		**0.98**	**92 112**		**1.08**	**194 604**

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 2021 and 31 December 2020, is analysed as follows:

(Euro thousand)

	Jun 2021						
	Euro	**US Dollar**	**Sterling Pound**	**Canadian dollar**	**Swiss Franc**	**Other foreign currencies**	**Total**
Assets by currency							
Cash and deposits at central banks	2 529 583	2 249	576	214	817	204	2 533 643
Loans and advances to credit institutions repayable on demond	31 983	29 535	1 194	1 186	3 165	4 731	71 794
Loans and advances to credit institutions	774 849	110 909	-	-	-	-	885 758
Loans and advances to customers	10 735 623	40 153	6	-	-	-	10 775 782
Financial assets held for trading	21 997	3 518	-	-		-	25 515
Other financial assets at fair value through profit or loss	473 826	-	-	-	-	-	473 826
Other financial assets at fair value through other comprehensive income	209 214	-	-	-	-	-	209 214
Hedging derivatives	10 726	-	-	-	-	-	10 726
Other financial assets at amortized cost	4 314 239	-	-	-	-	-	4 314 239
Repurchase agreement assets	319 648	-	-	-	-	-	319 648
Non-current assets held for sale	8 997	-	-				8 997
Other tangible assets	192 302	-	-	-	-	-	192 302
Intangible assets	30 585	-	-	-	-	-	30 585
Current tax assets	5 128	-	-	-	-	-	5 128
Other subordinated debt	507 319	-	-	-	-	-	507 319
Other assets	686 639	29 287	2	-	-	-	715 928
Total assets	20 852 658	215 651	1 778	1 400	3 982	4 935	21 080 404
Liabilities by currency							
Deposits from central banks	2 869 447	-	-	-	-	-	2 869 447
Deposits from other credit institutions	820 749	50 390	3 183	20 657	30	35	895 044
Deposits from customers	12 479 773	109 299	11 139	16 614	3 455	4 632	12 624 912
Debt securities issued	1 220 025	-	-	-	-	-	1 220 025
Financial liabilities related to transferred assets	1 593 885	-	-	-	-	-	1 593 885
Financial liabilities held for trading	10 634	-	-	-	-	-	10 634
Hedging derivatives	347	-	-	-	-	-	347
Provisions	24 506	-	-	-	-	-	24 506
Current tax liabilities	1 220	-	-	-	-	-	1 220
Other subordinated debt	211 159	-	-	-	-	-	211 159
Other liabilities	229 894	1 415	169	15	230	1 475	233 198
Total liabilities	19 461 639	161 104	14 491	37 286	3 715	6 142	19 684 377
Exchange forward transactions		(56 196)	13 985	38 038	-	4 021	
Exchange gap		(1 649)	1 272	2 152	267	2 814	
Stress Test		330	(254)	(430)	(53)	(562)	

(Euro thousand)

	Dec 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	1 437 178	5 535	908	459	1 931	-	303	1 446 314
Loans and advances to credit institutions repayable on demand	23 887	26 003	408	228	2 362	-	610	53 498
Loans and advances to credit institutions	803 047	55 657	-	-	-	-	-	858 704
Loans and advances to customers	10 681 494	51 101	9	-	-	-	-	10 732 604
Financial assets held for trading	7 307	3 600	467	-	134	-	-	11 508
Other financial assets at fair value through profit or loss	569 612	-	-	-	-	-	-	569 612
Other financial assets at fair value through other comprehensive income	237 340	-	-	-	-	27 980	-	265 320
Hedging derivatives	10 693	-	-	-	-	-	-	10 693
Other financial assets at amortized cost	3 981 949	-	-	-	-	-	-	3 981 949
Repurchase agreement assets	319 648	-	-	-	-	-	-	319 648
Non-current assets held for sale	8 997							8 997
Other tangible assets	215 839	-	-	-	-	-	-	215 839
Intangible assets	33 104	-	-	-	-	-	-	33 104
Current tax assets	2 313	-	-	-	-	-	-	2 313
Other subordinated debt	510 364	-	-	-	-	-	-	510 364
Other assets	639 534	54 489	1	-	-	-	-	694 024
Total assets	19 482 306	196 385	1 793	687	4 427	27 980	913	19 714 491
Liabilities by currency								
Deposits from central banks	1 372 546	-	-	-	-		-	1 372 546
Deposits from other credit institutions	930 780	52 111	3 737	20 132	29	-	39	1 006 828
Deposits from customers	12 409 904	106 249	9 925	16 102	3 972	-	3 271	12 549 423
Debt securities issued	1 221 498	-	-	-	-	-	-	1 221 498
Financial liabilities related to transferred assets	1 721 697	-	-	-	-	-	-	1 721 697
Financial liabilities held for trading	11 761	-	-	-	-	-	-	11 761
Hedging derivatives	397	-	-	-	-	-	-	397
Provisions	33 000	-	-	-	-	-	-	33 000
Current tax liabilities	812	-	-	-	-	-	-	812
Other subordinated debt	216 896	-	-	-	-	-	-	216 896
Other liabilities	204 277	776	438	300	412	-	32	206 235
Total liabilities	18 123 568	159 136	14 100	36 534	4 413	-	3 342	18 341 093
Exchange forward transactions		(50 171)	12 013	35 630	(69)	(28 007)	2 747	
Exchange gap		(12 922)	(294)	(217)	(55)	(27)	318	
Stress Test		2 585	59	44	11	5	(63)	

The result of the stress test performed corresponds to the estimated impact (before tax) on equity, including minority interests, due to a devaluation of 20.0% in the exchange rate of each currency against the Euro.

Liquidity risk

Liquidity risk reflects Banco Montepio's inability to meet its obligations at due date, without incurring in significant losses arising from a deterioration in financing conditions (financing risk) and/or the sale of its assets at values lower than market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined, as well as other internal metrics for which internal limits are defined. This control is reinforced with the monthly execution of stress tests, 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 2021, the LCR value was 251.0% (31 December 2020: 191.0%).

As at 30 June 2021, the stable financing ratio, designated NSFR, stood at 115.9% (31 December 2020: 110.5%).

As at 30 June 2021, Banco Montepio's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undeterminated	Below 3 months	3-6 months	6-12 months	> 12 months
Deposits from central banks	2 869 447	-	-	-	-	2 869 447
Deposits from other credit institutions	895 044	-	235 608	4 507	4 701	650 228
Deposits from costumers	12 624 912	-	7 678 813	971 621	1 705 658	2 268 820
Debt securities issued	1 220 025	-	5 060	-	4 964	1 210 001
Financial liabilities related to transferred assets	1 593 885	-	-	-	-	1 593 885
Financial liabilities held for trading	10 634	-	170	-	-	10 464
Other subordinated debt	211 159	-	-	-	4 836	206 323
Other liabilities	233 198	233 198	-	-	-	-
Total liabilities	**19 658 304**	**233 198**	**7 919 651**	**976 128**	**1 720 159**	**8 809 168**

As at 31 December 2020, Banco Montepio's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undeteminated	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 372 546	-	-	-	-	1 372 546
Deposits from other credit institutions	1 006 828	-	237 091	114 416	4 502	650 819
Deposits from costumers	12 549 423	-	7 265 986	1 234 285	1 849 069	2 200 083
Debt securities issued	1 221 498	-	9 852	837	1 423	1 209 386
Financial liabilities related to transfered assets	1 721 697	-	-	-	-	1 721 697
Financial liabilities held for trading	11 761	-	10	-	-	11 751
Other suborfinated debt	216 896	-	-	-	10 573	206 323
Other liabilities	206 235	206 235	-	-	-	-
Total liabilities	**18 306 884**	**206 235**	**7 512 939**	**1 349 538**	**1 865 567**	**7 372 605**

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 2021 and 31 December 2020, on the assets and related collaterals:

(Euro thousand)

Assets	Jun 2021			
	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	5 439 334	-	15 641 070	-
Equity instruments	-	-	409 639	409 639
Debt securities	1 806 088	2 124 196	3 201 563	2 883 455
Other assets	-	-	1 934 929	-

(Euro thousand)

Assets	Dec 2020			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of encumbered assets	Fair value encumbered assets
Assets from reporting institution	3 103 517	-	16 613 169	-
Equity instruments	-	-	592 414	592 414
Debt securities	783 897	880 019	3 865 721	3 371 655
Other assets	-	-	1 965 152	-

(Euro thousand)

Collateral received	Jun 2021	Dec 2020
	Fair value of encumbered collateral received or own debt securities issued	
Assets from the reporting institutions	-	17 473
Debt securities	-	17 473

(Euro thousand)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2021	Dec 2020
	Carrying amount of selected financial liabilities	
Associated liabilities, contingent liabilities and securities borrowed	3 728 369	1 785 772
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	5 411 424	3 094 043

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 2021 and 31 December 2020 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 2021, to Euro 737,663 thousand (31 December 2020: Euro 1,694,981 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB), as at 30 June 2021, amounts to Euro 3,619,962 thousand (31 December 2020: Euro 3,096,957 thousand) with a usage of Euro 2,906,150 thousand (31 December 2020: Euro 1,407,650 thousand):

		(Euro thousand)
	Jun 2021	**Dec 2020**
Total eligible collateral	**4 596 052**	**4 285 491**
Total collateral in the pool	3 619 962	3 096 957
Collateral outside the pool	976 090	1 188 534
Used collateral	**3 858 389**	**2 590 510**
Collateral used for ECB	2 906 150	1 407 650
Collateral committed to other financing operations	952 239	1 182 860
Collateral available for ECB	**713 812**	**1 689 307**
Total available collateral	**737 663**	**1 694 981**

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 2021 and 31 December 2020, the exposure to real estate and investment units in real estate funds presented the following values:

		(Euro thousand)
	Jun 2021	**Dec 2020**
Real estate received as loan guarantee	493 710	523 465
Real estate investment fund units	343 024	425 383
	836 734	948 848
Stress test	(83 673)	(94 885)

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.

Notwithstanding that described in the accounting policy disclosed in note 1 h) in relation to properties, the net realizable value of the inventories is determined based on a valuation made by an independent appraiser. Real estate appraisals are based on assumptions on which the influence of the economic and financial situation and the market's ability to transact the available offer, at each moment, are decisive. In this way, the realization of the appraisal value determined by the independent appraisers is dependent on the verification of the assumptions used in the respective appraisals, meaning that the evolution of the macroeconomic conditions and the real estate market may translate into changes in these same assumptions, and, consequently, have an impact on the recoverability of the appraised value of the properties. The real estate appraisal reports, considered for the valuation of said inventories, consider the global pandemic situation experienced at the moment, with no additional uncertainty factors having been identified in same.

Operational risk and Going concern

Operational risk corresponds to the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events. Banco Montepio adopted the standard method to quantify its own capital requirements for operational risk, supported on the existence of an operational risk management system based on the identification, assessment, monitoring, measurement, mitigation and reporting of this type of risk.

The operational risk management model implemented complies with the 3-lines-of-defence principle.

The Risk Department exercises the corporate function of operational risk management of Banco Montepio which is supported by the existence of participants in different organic units that ensure the proper implementation of the operational risk management.

Regarding operational risk monitoring in the period ended 30 June 2021, the collection and analysis of operational risk loss events were continued.

One of the essential aspects in the management of this specific type of risk is the prior identification of the relevant operational risks whenever a product, process or system is implemented or revised, as well as the monitoring of action plans aimed at avoiding or mitigating the effects of materialization of risks with greater frequency/severity of loss events or with greater residual value, within the scope of the self-assessment process.

Monitoring

Within the scope of Banco Montepio's Operational Risk Management System, the key risk indicators (KRIs) aim to monitor the exposure factors associated with the main risks, allowing to measure and monitor the risk appetite and anticipate the occurrence of losses through preventive actions.

In this sense, the defined limits were regularly monitored and action plans were promoted in cases where they were exceeded.

These indicators are part of the Operational Risk Reports presented to the Risk Committee and the Executive Committee.

Operational Risk Self-Assessment

The operational risk management cycle implemented at Banco Montepio is based on the preparation of a table of activities and respective operational risks and controls, allowing the identification of the potential exposure of each body/organic unit to operational risk, determining its risk profile and prioritizing eventual risk mitigation actions. Operational risks are mapped considering seven main categories: internal fraud; external fraud; employment and occupational safety practices; Customer, product and commercial practices; damage to physical assets; activity disruptions and system failures; and execution, delivery and management of processes. Operational risks and the respective controls are regularly self-assessed, usually in the form of workshops with the representatives of each body/organic unit and with the support of the Risk Department.

Based on the results of the self-assessments - carried out in terms of impacts and frequencies for risks and the percentage of effectiveness for controls - a residual risk tolerance matrix is established, which will support the level of risk considered acceptable to the institution and which will allow to identify the risks for which additional mitigation measures will have to be considered.

Business Continuity Management

The business continuity management cycle is supported by a set of assessment, design, implementation and monitoring activities, integrated in a continuous improvement cycle that aims to make business processes more resilient, allowing to ensure the continuity of operations in the case occurrence of events that cause the interruption of activity.

The epidemiological situation related to the COVID-19 pandemic continued to mark the activity of the 1st half of 2021. Banco Montepio accompanied the rules issued by the Portuguese General Health Department permanently, adapting itself to same whenever necessary.

The Crisis Management Office, 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 continued to function with a biweekly periodicity, assuming an operational continuity and business recovery monitoring stance.

Banco Montepio always followed a conservative strategy that had as its fundamental principle to safeguard the safety and health of its Clients and its Employees.

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. 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 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. 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. As regards the assets associated with software integrating the intangible assets, the deduction of same is made based on Regulation 2020/2176. 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. The value of the equity tranche is deducted in accordance with article 36 paragraph k) of the CRR, resulting from the synthetic securitization carried out. 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 some deductions, with, as at this reference date, the transitory plan only being applicable to the deferred tax assets that do not depend on future profitability and in the balance sheet as at 1 January 2014. This plan permits a gradual recognition of the amount determined as subject to deduction, with same attaining, in 2021, 70%. 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 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 1 January 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.

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 2021, the Bank of Portugal defined a 0% Counter-Cyclical Reserve for exposures to non-financial Portuguese companies. Regarding the Conservation Reserve, its value is 2.5%. Pursuant to these provisions, as at 30 June 2021 and 31 December 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 2021 and 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 2021 and 31 December 2020, under phase-in, is presented as follows:

(Euro thousand)

	Jun 2021	Dec 2020
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(1 023 973)	(1 046 602)
Other regulatory adjustments	(605 586)	(543 308)
	790 441	830 090
Capital Tier 1	790 441	830 090
Capital Tier 2		
Subordinated loans	206 323	206 323
	206 323	206 323
Total own funds	996 764	1 036 413
Own funds requirements		
Credit risk	581 768	601 539
Market risk	1 911	1 114
Operating risk	46 140	46 140
Other requirements	42 513	39 830
	672 332	688 623
Prudential Ratios		
Common Equity Tier 1 Ratio	9.41%	9.64%
Tier 1 Ratio	9.41%	9.64%
Total Capital Ratio	11.86%	12.04%

It should be noted that the ratios, as at 30 June 2021 and 31 December 2020, 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 2021 and 31 December 2020 would be:

(Euro thousand)

	Jun 2021	Dec 2020
Capital Common Equity Tier 1	672 667	669 157
Capital Tier 1	672 667	669 157
Total own funds	878 990	875 480
Own funds requirements	662 585	675 332
Prudential ratios		
Capital Common Equity Tier 1	8.12%	7.93%
Capital Tier 1	8.12%	7.93%
Total Capital Ratio	10.61%	10.37%

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 2021 and 31 December 2020 would be:

(Euro thousand)

	Jun 2021	Dec 2020
Capital Common Equity Tier 1	744 318	770 539
Capital Tier 1	744 318	770 539
Total own funds	950 641	976 862
Own funds requirements	668 752	683 999
Prudential ratios		
Common Equity Tier 1 Ratio	8.9%	9.01%
Tier 1 Ratio	8.9%	9.01%
Total Capital Ratio	11.37%	11.43%

52 Recently issued accounting policies

1. Impact of the adoption of new standards and amendments to the standards that became effective for annual periods beginning on 1 January 2021:

- **IFRS 16 (amendment),** 'Leases – COVID-19 related rent concessions'. This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether the rent concessions granted by lessors due to the COVID-19 pandemic are a modification to the lease contract, when three criteria are cumulatively met: i) the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change; ii) any reduction in lease payments only affects payments due on or before June 30, 2021; and iii) there are no substantive changes to other lease terms and conditions. Lessees that elect to apply this practical expedient, recognize the change in rent payments, as variable rents in the period(s) in which the event or condition that triggers the reduced payment occurs. This amendment is applied retrospectively with the impacts 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 this amendment for the first time.

- **IFRS 4 (amendment)**, 'Insurance contracts – deferral of IFRS 9'. This amendment addresses the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contracts. In particular, the amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17.

- **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments)**, 'Interest rate benchmark (IBOR) reform – phase 2'. These amendments address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one, providing exemptions like: i) changes to designations and hedging documentation; ii) amounts accumulated in the cash flow hedge reserve; iii) assessment of retrospective effectiveness on a hedge relationship under IAS 39; iv) amendments to hedge relationships for groups of items; v) presumption that an alternative benchmark rate designated as a non-contractually specified risk component is separately identifiable and qualifies as a hedged risk; and vi) update the effective interest rate, with no gain or loss recognized, for financial instruments measured at amortized cost with changes in the contractual cash flows as a result of IBOR reform, including leases that are indexed to an IBOR.

These amendments had no material impact on Banco Montepio Group's financial statements.

2. Standards (new and amended) published, the application of which is mandatory for annual periods beginning after 1 January 2021, not yet endorsed by the European Union:

- **IAS 1 (amendment)**, 'Presentation of financial statements – classification of liabilities' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. This amendment intends to clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its 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 should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as the non-compliance with a given "covenant". This amendment also introduces a new definition of "settlement" of a liability. This amendment is applied retrospectively.

- **IAS 16 (amendment)**, 'Proceeds before intended use' (effective for annual periods beginning on or after 1 January 2022). This amendment is still subject to endorsement by the European Union. This amendment changes the accounting treatment of the proceeds obtained from the sale of products that resulted from the production test phase of property, plant and equipment, prohibiting their deduction to the acquisition cost of assets. This amendment is applied retrospectively without restating comparatives.

- **IAS 37 (amendment)**, 'Onerous Contracts – Cost of Fulfilling a Contract' (effective for annual periods beginning on or after 1 January 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 expenses directly related to the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment must be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without restating comparatives.

- **IFRS 3 (amendment)**, 'Reference to the Conceptual framework' (effective for annual periods beginning on or after 1 January 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, without changing the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be given to contingent liabilities and liabilities under IAS 37 and IFRIC 21, incurred separately versus within a business combination. This amendment is applied prospectively.

- **Improvements to the 2018 - 2020 standards**, (effective for annual periods beginning on or after 1 January 2022). These improvements are still subject to endorsement by the European Union. The 2018-2020 annual improvements impact: IFRS 1, IFRS 9, IFRS 16 and IAS 41.

- **IAS 1 (amendment)**, 'Disclosure of accounting policies' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. Amendment to the requirement to disclose the accounting policies based on "material" instead of "significant". The amendment specifies that an accounting policy information is expected to be material if, in its absence, the users of the financial statements would be unable to understand other material information in those same financial statements. Immaterial accounting policy information need not be disclosed. The IFRS Practice Statement 2 was also amended to provide guidance for the application of the concept of material" to accounting policy disclosures.

- **IAS 8 (amendment)**, 'Disclosure of accounting estimates' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. Introduction of the concept of accounting estimate and the way it is distinct from changes to accounting policies. The accounting estimates are defined as corresponding to monetary amounts that are subject to measurement uncertainty, used to achieve an accounting policy's objective(s).

- **IFRS 16 (amendment)**, 'Leases – COVID-19 related rent concessions beyond 30 June 2021' (effective for annual periods beginning on or after 1 April 2021). This amendment is still subject to endorsement by the European Union. This amendment extends the date of application of the IFRS 16 – 'Leases – COVID-19 related rent concessions' amendment from 30 June 2021 to 30 June 2022. The conditions required to apply the practical expedient remain unchanged, such that: i) if the lessee already applied the 2020 practical expedient it is required to continue to apply the practical expedient consistently, to all lease contracts with similar characteristics and in similar circumstances; and ii) If the lessee did not apply the 2020 practical expedient to eligible lease concessions, it is prohibited from applying the extension of the practical expedient, as per this amendment. This amendment is applied retrospectively with the impacts reflected as an adjustment to the opening balance of retained earnings of the annual reporting period in which the lessee applies this amendment for the first time.

- **IAS 12 (amendment)**, 'Deferred tax related to assets and liabilities arising from a single transaction' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. IAS 12 will require entities to recognize deferred tax on specific transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These applies to the recognition of: i) right-of-use assets and lease liabilities; and ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related asset, when not relevant for tax purposes. Such temporary differences are no longer subject to the initial recognition exemption for deferred taxes. The cumulative effect of initially applying the amendment is recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the earliest comparative period presented.

- **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 applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a general model "building block approach" or a simplified one "premium allocation approach". The "building block approach" is based on discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM'), which represents the unearned profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin, unless it becomes negative. IFRS 17 is applied retrospectively.

- **IFRS 17 (amendment)**, '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 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 ease transition. IFRS 17 is applied retrospectively. On the issue this amended the end date for applying IFRS 9 (temporary exemption or overlay approach) under the IFRS 4 standard, was extended to 1 January 2023, aligned with the effective date of IFRS 17.

The Banco Montepio Group does not anticipate any significant impact on the application of these amendments 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 profit or loss and are measured 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 2021			Dec 2020		
	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 2021 and 31 December 2020, the assets received under these operations are as follows:

(Euro thousand)

	Jun 2021	Dec 2020
	Senior securities	
Fundo Vega, FCR	23 194	25 107
Fundo de Reestruturação Empresarial, FCR	4 387	4 931
	27 581	30 038

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 2021, the periodic contribution made by Banco Montepio amounted to Euro 4,357 thousand (30 June 2020: Euro 4,263 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.

On 4 June 2021, the Resolution Fund paid Novo Banco Euro 317 million, relating to the accounts for financial year 2020, which was fully financed with resources from a loan obtained from seven national credit institutions. The amount calculated by the Resolution Fund for the purposes of the payment to Novo Banco was Euro 429 million. The Euro 112 million portion is dependent on the completion of a supplementary investigation, which includes obtaining an external opinion, regarding Novo Banco’s option not to apply the hedge accounting policy to the derivative financial instruments contracted to hedge interest rate risk resulting from the exposure to long-term sovereign debt.

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

On 9 September 2019, Caixa Económica Montepio Geral, caixa económica bancária, S.A. (Banco Montepio) was notified of the final decision of the Competition Authority on the administrative process PRC-2012/9 ("Decision"), in which it 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. Following the lodging of the appeal with the Court of Competition, Regulation and Supervision, same decided on the provision of a deposit with a view to suspending the obligation to pay the fine immediately, with Banco Montepio having placed such deposit with that Court.

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 2021 and 31 December 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, even though the Court of Competition, Regulation and Supervision reduced the fine to be applied in respect of one of the processes.

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 2021 and 31 December 2020.

55 Subsidiaries and associated companies and Non-current assets held for sale of Banco Montepio

As at 30 June 2021 and 31 December 2020, 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 Verdean escudo	Banking	100.00	100	100.00
Montepio Holding, S.G.P.S., S.A.	Oporto	175 000 000	euro	Managements of shareholding	100.00	100	100.00

Subsidiary	**Head office**	**Share capital**	**Activity**	**% held**
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	S. Miguel Island	10 000 000	Accomodation, catering and similar/hotels with restaurant	20.00
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisbon	2 449 707	Management of real estate	26.00
CESource, ACE	Lisbon	-	Management of IT systems	18.00

As at 30 June 2021 and 31 December 2020, Banco Montepio held investment units in investment funds as follows:

Subsidiary	Year of constitution	Year of acquisition	Head	% Economic interest	Consolidation method
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisbon	100.00	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisbon	100.00	Full
Valor Arrendamento – Fundo de Investimento Imobiliário Fechado	2013	2013	Lisbon	100.00	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisbon	100.00	Full
PEF - Portugal Estates Fund	2013	2013	Lisbon	100.00	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisbon	100.00	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 as payment in kind, according to a standardized format which, as at 30 June 2021, are as follows:

(Euro thousand)

	Gross carrying amount of exposures subject to restructuring measures				Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions		Collateral and financial guarantees received on restructured exposures	
	About productive restructured exhibitions	About non-productive restructured exhibitions	Of which, in default	Of which, in situations of impairment	About productive restructured exhibitions	About non-productive restructured exhibitions		Of which, collateral and financial guarantees received on non-productive exposures with restructuring measures
Loans and advances	**58 904**	**646 065**	**646 065**	**646 065**	**(2 404)**	**(305 212)**	**306 887**	**263 207**
Other financial companies	365	52 935	52 935	52 935	(20)	(8 309)	44 809	44 641
Non-financial corporations	30 430	507 532	507 532	507 532	(1 918)	(260 870)	195 168	176 340
Households	28 109	85 598	85 598	85 598	(466)	(36 033)	66 910	42 226
Loan commitments given	**184**	**3 867**	**3 867**	**3 867**	**(3)**	**(291)**	**-**	**-**
	59 088	**649 932**	**649 932**	**649 932**	**(2 407)**	**(305 503)**	**306 887**	**263 207**

Credit quality of productive and non-productive exposures for days in arrears

(Euro thousand)

	Gross carrying amount											
	Productive exhibitions			Non-productive exhibitions								
		No late or late <= 30 days	Overdue > 30 days <= 90 days		Reduced probability of payment that is not overdue or overdue for <=90 days	Overdue > 90 days <= 180 days	Overdue > 180 days <= 1 year	Overdue > 1 year <= 2 years	Overdue > 2 years <= 5 years	Overdue > 5 years <= 7 years	Overdue > 7 years	Of which, in default
Loans and advances	**13 290 302**	**13 263 966**	**26 337**	**1 066 978**	**501 380**	**18 489**	**17 126**	**126 533**	**172 782**	**133 829**	**96 841**	**1 066 978**
Central banks	2 444 387	2 444 387	-	-	-	-	-	-	-	-	-	-
Central administrations	111 339	111 339	-	-	-	-	-	-	-	-	-	-
Credit institutions	913 395	913 395	-	-	-	-	-	-	-	-	-	-
Other financial companies	23 249	23 211	38	54 187	54 116	-	11	60	-	-	-	54 187
Non-financial corporations	3 556 601	3 544 198	12 404	820 977	346 140	13 121	10 334	107 295	142 395	118 798	82 894	820 977
Of which SMEs	3 120 174	3 107 770	12 404	756 108	290 120	13 120	9 911	103 083	142 313	114 681	82 880	756 108
Households	6 241 331	6 227 436	13 895	191 814	101 124	5 368	6 781	19 178	30 387	15 031	13 947	191 814
Debt securities	**4 977 440**	**4 977 440**	**-**	**33 950**	**-**	**-**	**-**	**950**	**33 000**	**-**	**-**	**33 950**
Central banks	2 928 755	2 928 755	-	-	-	-	-	-	-	-	-	-
Other financial companies	1 644 801	1 644 801	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	403 884	403 884	-	33 950	-	-	-	950	33 000	-	-	33 950
Off-balance sheet exposures	**2 153 872**	**-**	**-**	**89 346**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central administrations	3 872			-								-
Credit institutions	504 517			-								-
Other financial companies	20 367			5								-
Non-financial corporations	1 139 806			86 206								-
Households	485 310			3 135								-
	20 421 614	**18 241 406**	**26 337**	**1 190 274**	**501 380**	**18 489**	**17 126**	**127 483**	**205 782**	**133 829**	**96 841**	**1 100 928**

Credit quality of productive and non-performing exposures and respective provisions

(Euro thousand)

	Carrying amount					Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions						Collateral and financial guarantees and received	
	Productive exhibitions			Non-productive exhibitions		Productive exposures - accumulated impairments and provisions			Non-productive exposures - Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions		Deduction of accumulated partial assets	About productive exhibitions	About non-productive exhibitions
		Of which, Stage 1	Of which, Stage 2		Of which, Stage 3		Of which, Stage 1	Of which, Stage 2		Of which, Stage 3			
Loans and advances	**13 290 302**	**10 942 939**	**2 335 881**	**1 066 978 558**	**882 971 344**	**(110 237 732)**	**(30 396 108)**	**(79 163 591)**	**(518 859 459)**	**(425 217 587)**	**(196 927 751)**	**8 100 701 081**	**417 432 365**
Central banks	2 444 387	2 444 387	-	-	-	-	-	-	-	-	-	-	-
Central administrations	111 339	108 683	2 656	-	-	(263 705)	(196 388)	(67 317)	-	-	-	585 784	-
Credit institutions	913 395	870 388	43 007	-	-	(8 428 832)	(7 936 067)	(492 765)	-	-	-	-	-
Other financial companies	23 249	21 003	2 215	54 186 965	20 420 871	(225 245)	(78 198)	(142 916)	(8 645 478)	(1 230 426)	-	15 648 931	45 446 295
Non-financial corporations	3 556 601	2 369 879	1 176 131	820 977 201	683 903 579	(76 420 904)	(18 716 308)	(57 097 990)	(430 851 440)	(349 121 558)	(196 927 751)	2 234 594 023	276 335 987
Of which SMEs	3 120 174	2 122 492	987 238	756 108 486	631 525 107	(64 743 441)	(17 250 452)	(46 898 973)	(392 674 236)	(323 254 737)	-	2 062 795 276	259 593 794
Households	6 241 331	5 128 599	1 111 872	191 814 391	178 646 894	(24 899 047)	(3 469 146)	(21 362 604)	(79 362 541)	(74 865 602)	-	5 849 872 343	95 650 083
Debt securities	**4 977 440**	**4 885 325**	**4 298**	**33 949 885**	**33 949 885**	**(8 952 200)**	**(8 247 700)**	**(704 500)**	**(15 146 936)**	**(15 146 936)**	**-**	**7 540 693**	**45 114**
Central banks	2 928 755	2 928 755	-	-	-	(5 380 571)	(5 380 571)	-	-	-	-	-	-
Other financial companies	1 644 801	1 554 286	2 698	-	-	(723 971)	(66 167)	(657 804)	-	-	-	-	-
Non-financial corporations	403 884	402 284	1 600	33 949 885	33 949 885	(2 847 658)	(2 800 962)	(46 696)	(15 146 936)	(15 146 936)	-	7 540 693	45 114
Off-balance sheet exposures	**2 153 873**	**1 705 716**	**448 073**	**89 345 511**	**86 689 655**	**(6 844 434)**	**(3 712 045)**	**(3 131 674)**	**(7 008 260)**	**(6 839 951)**	**-**	**-**	**-**
Central administrations	3 872	3 862	10	-	-	(1 952)	(1 630)	(322)	-	-	-	-	-
Credit institutions	504 517	288 532	215 985	-	-	(12 375)	(3 289)	(9 086)	-	-	-	-	-
Other financial companies	20 367	12 396	7 971	4 597	4 597	(234 280)	(4 703)	(229 577)	-	-	-	-	-
Non-financial corporations	1 139 806	955 785	183 976	86 206 309	83 686 647	(4 998 423)	(2 665 346)	(2 332 780)	(7 005 253)	(6 836 945)	-	-	-
Households	485 311	445 141	40 131	3 134 605	2 998 410	(1 597 403)	(1 037 076)	(559 909)	(3 006)	(3 006)	-	-	-
	20 421 615	**17 533 980**	**2 788 252**	**1 190 273 954**	**1 003 610 884**	**(126 034 366)**	**(42 355 853)**	**(82 999 765)**	**(541 014 655)**	**(447 204 474)**	**(196 927 751)**	**8 108 241 774**	**417 477 479**

This caption, as at 31 December 2020, is presented as follows:

(Euro thousand)

	Gross carrying amount of exposures subject to restructuring measures				Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions		Collateral and financial guarantees received on restructured exposures	
	About productive restructured exhibitions	About non-productive restructured exhibitions			About productive restructured exhibitions	About non-productive restructured exhibitions		Of which, collateral and financial guarantees received on non-productive exposures with restructuring measures
			Of which, in default	Of which, in situations of impairment				
Loans and advances	78 309	716 147	713 863	716 106	(3 588)	(361 880)	302 848	244 529
Other financial companies	-	55 265	55 265	55 265	-	(8 359)	46 903	46 903
Non-financial corporations	41 917	586 925	584 687	586 884	(2 831)	(321 621)	189 304	162 958
Households	36 392	73 957	73 911	73 957	(757)	(31 900)	66 641	34 668
	78 309	**716 147**	**713 863**	**716 106**	**(3 588)**	**(361 880)**	**302 848**	**244 529**

Credit quality of productive and non-productive exposures for days in arrears

(Euro thousand)

	Gross carrying amount											
	Productive exhibitions			Non-productive exhibitions								
		No late or late <= 30 days	Overdue > 30 days <= 90 days		Reduced probability of payment that is not overdue or overdue for <=90 days	Overdue > 90 days <= 180 days	Overdue > 180 days <= 1 year	Overdue > 1 year <= 2 years	Overdue > 2 years <= 5 years	Overdue > 5 years <= 7 years	Overdue > 7 years	Of which, in default
Loans and advances	**12 041 234**	**12 009 957**	**31 276**	**1 217 630**	**448 858**	**11 399**	**134 938**	**123 678**	**218 934**	**186 384**	**93 440**	**1 210 800**
Central banks	1 320 405	1 320 405	-	-	-	-	-	-	-	-	-	-
Central administrations	114 610	114 610	-	-	-	-	-	-	-	-	-	-
Credit institutions	882 835	882 835	-	-	-	-	-	-	-	-	-	-
Other financial companies	28 260	28 217	43	55 324	55 257	10	8	46	3	-	-	55 324
Non-financial corporations	3 512 673	3 503 211	9 462	989 743	319 447	6 019	122 433	103 433	187 322	169 622	81 467	983 018
Of which SMEs	3 084 969	3 075 507	9 462	884 536	253 334	5 596	117 047	103 274	154 489	169 328	81 467	877 811
Households	6 182 451	6 160 679	21 771	172 563	74 154	5 370	12 497	20 199	31 609	16 762	11 973	172 458
Debt securities	**4 639 181**	**4 639 181**	**-**	**33 950**	**-**	**-**	**-**	**950**	**33 000**	**-**	**-**	**33 950**
Central administrations	2 434 806	2 434 806	-	-	-	-	-	-	-	-	-	-
Other financial companies	1 782 844	1 782 844	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	421 531	421 531	-	33 950	-	-	-	950	33 000	-	-	33 950
Off-balance sheet exposures	**2 231 241**			**94 392**								**94 112**
Central administrations	1 453			-								-
Credit institutions	556 437			-								-
Other financial companies	50 390			2								2
Non-financial corporations	1 176 122			90 155								89 877
Households	446 839			4 235								4 233
	18 911 656	**16 649 138**	**31 276**	**1 345 972**	**448 858**	**11 399**	**134 938**	**124 628**	**251 934**	**186 384**	**93 440**	**1 338 862**

Credit quality of productive and non-performing exposures and respective provisions

(Euro thousand)

	Carrying amount					Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions						Collateral and financial guarantees and received	
	Productive exhibitions			Non-productive exhibitions		Productive exposures - accumulated impairments and provisions			Non-productive exposures - Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions		Deduction of accumulated partial assets	About productive exhibitions	About non-productive exhibitions
		Of which, Stage 1	Of which, Stage 2		Of which, Stage 3		Of which, Stage 1	Of which, Stage 2		Of which, Stage 3			
Loans and advances	12 041 234	8 958 611	3 080 784	1 217 630	1 217 630	(125 783)	(26 613)	(99 169)	(624 204)	(624 204)	(69 151)	7 984 446	405 826
Central banks	1 320 405	1 299 467	20 938	-	-	-	-	-	-	-	-	-	-
Central administrations	114 610	111 176	2 530	-	-	(295)	(226)	(68)	-	-	-	1 344	-
Crediit institutions	882 835	839 827	43 008	-	-	(8 110)	(7 617)	(493)	-	-	-	-	-
Other financial companies	28 260	19 589	8 671	55 324	55 324	(478)	(88)	(390)	(8 398)	(8 398)	-	19 681	46 903
Non-financial corporations	3 512 673	1 924 797	1 586 942	989 743	989 743	(86 172)	(15 501)	(70 671)	(541 864)	(541 864)	(69 151)	2 180 528	276 316
Of wich SMEs	3 084 969	1 674 778	1 409 257	884 536	884 536	(75 593)	(13 672)	(61 921)	(472 496)	(472 496)	-	2 016 300	252 379
Households	6 182 451	4 763 755	1 418 695	172 563	172 563	(30 728)	(3 181)	(27 547)	(73 942)	(73 942)	-	5 782 893	82 607
Debt securities	4 639 181	4 537 112	3 149	33 950	33 950	(8 190)	(7 559)	(631)	(15 147)	(15 147)	-	6 836	45
Central administrations	2 434 806	2 434 806	-	-	-	(5 034)	(5 034)	-	-	-	-	-	-
Other financial companies	1 782 844	1 681 273	2 651	-	-	(721)	(97)	(624)	-	-	-	-	-
Non-financial corporations	421 531	421 033	498	33 950	33 950	(2 435)	(2 428)	(7)	(15 147)	(15 147)	-	6 836	45
Off-balance sheet exposures	2 231 240	1 591 017	640 225	94 392	94 392	(10 235)	(3 427)	(6 806)	(6 360)	(6 361)	-	-	-
Central administrations	1 453	1 399	54	-	-	(1)	(1)	-	-	-	-	-	-
Credit institutions	556 437	404 149	152 288	-	-	(15)	(1)	(14)	-	-	-	-	-
Other financial companies	50 390	42 409	7 981	2	2	(379)	(28)	(351)	-	-	-	-	-
Non-financial corporations	1 176 122	894 323	281 799	90 155	90 155	(6 955)	(2 683)	(4 272)	(6 350)	(6 351)	-	-	-
Households	446 838	248 737	198 103	4 235	4 235	(2 885)	(714)	(2 169)	(10)	(10)	-	-	-
	18 911 655	**15 086 740**	**3 724 158**	**1 345 972**	**1 345 972**	**(144 208)**	**(37 599)**	**(106 606)**	**(645 711)**	**(645 712)**	**(69 151)**	**7 991 282**	**405 871**

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, with reference to 30 June 2021:

Breakdown of loans and advances subject to legislative and non-legislative moratoriums due to the residual term of the moratoriums

(Euro thousand)

	Number of debtors	Gross carrying amount						
			Of which: legislative moratoria	Of which: expired	Residual term of moratorium			
					<= 3 months	>3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
Loans and advances for which it was requested moratorium	33 421	2 892 941						
Loans and advances for which it has been accepted	33 022	2 873 222	2 658 848	211 258	202 276	2 669 089	1 856	-
of which: private		1 197 571	1 106 584	87 969	53 565	1 143 099	907	-
of which: secured by residential properties		1 042 819	990 464	52 356	6 389	1 035 605	826	-
of which: non-financial corporations		1 672 837	1 549 581	123 157	148 469	1 523 418	950	-
of which: SMEs		1 415 343	1 320 108	95 137	147 478	1 266 916	950	-
of which: secured by commercial properties		986 626	939 636	46 990	11 210	975 417	-	-

This caption, as at 31 December 2020, is presented as follows:

Information on loans and advances subject to legislative and non-legislative moratoriums

(Euro thousand)

	Gross carrying amount							Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions							Gross carrying amount
		Productive			Non-productive				Productive			Non-productive			
			Of which: exposures subject to restructuring measures	Of which: Instruments with significant increase in credit risk since initial recognition but without credit impairment (stage 2)		Of which: Reduced probability of payments that are not overdue or have been overdue for <= 90 days	Of which: Reduced probability of payments that are not overdue or have been overdue for <= 90 days			Of which: exposures subject to restructuring measures	Of which: Instruments with significant increase in credit risk since initial recognition but without credit impairment (stage 2)		Of which: exposures subject to restructuring measures	Of which: exposures subject to restructuring measures	Tickets for non-productive exhibitions
Loans and advances subject to a moratorium	2 887 585	2 635 670	47 689	1 983 092	251 915	189 951	238 998	(155 951)	(69 092)	(2 337)	(66 651)	(86 859)	(72 492)	(82 104)	43 496
Of which: retail	1 200 326	1 161 984	15 614	816 575	38 342	30 738	33 877	(26 895)	(14 911)	(347)	(14 639)	(11 984)	(9 931)	(10 582)	4 261
Of which: secured by residential properties+	1 038 523	1 011 989	11 592	701 871	26 534	20 338	22 725	(16 672)	(9 633)	(165)	(9 518)	(7 040)	(5 624)	(6 179)	2 370
Of which: non-financial corporations	1 684 649	1 471 075	32 074	1 163 916	213 573	159 213	205 121	(128 937)	(54 061)	(1 991)	(51 893)	(74 875)	(62 561)	(71 522)	39 235
Of which: SMEs	1 409 491	1 258 523	30 219	1 003 947	150 967	99 198	143 765	(89 647)	(45 430)	(1 893)	(43 643)	(44 217)	(33 248)	(41 591)	37 584
Of which: secured by commercial properties	981 770	826 479	20 370	645 155	155 291	116 466	152 444	(73 052)	(27 777)	(951)	(26 739)	(45 275)	(40 186)	(44 125)	24 825

Breakdown of loans and advances subject to legislative and non-legislative moratoriums due to the residual term of the moratoriums

(Euro thousand)

	Number of debtors	Gross carrying amount						
			Of which: legislative moratoria	Of which: expired	Residual term of moratorium			
					<= 3 months	>3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
Loans and advances for which it was requested moratorium	33 867	2 949 720						
Loans and advances for which it has been accepted	33 513	2 932 223	2 848 177	44 638	221 655	13 736	2 695 944	889
of which: retail		1 204 511	1 160 918	4 185	45 937	13 736	1 144 026	812
of which: secured by residential properties		1 042 254	1 035 563	3 731	20 226	-	1 021 237	791
of which: non-financial corporations		1 724 908	1 684 649	40 259	175 524	-	1 549 307	77
of which: SMEs		1 449 173	1 409 491	39 683	165 384	-	1 283 712	77
of which: secured by commercial properties		983 727	981 770	1 957	78 081	-	905 646	-

58 Subsequent events

Banco Montepio analyses events occurring after the balance sheet date, i.e., the favourable and unfavourable events that occur between the balance sheet date and the date on which the financial statements are 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).

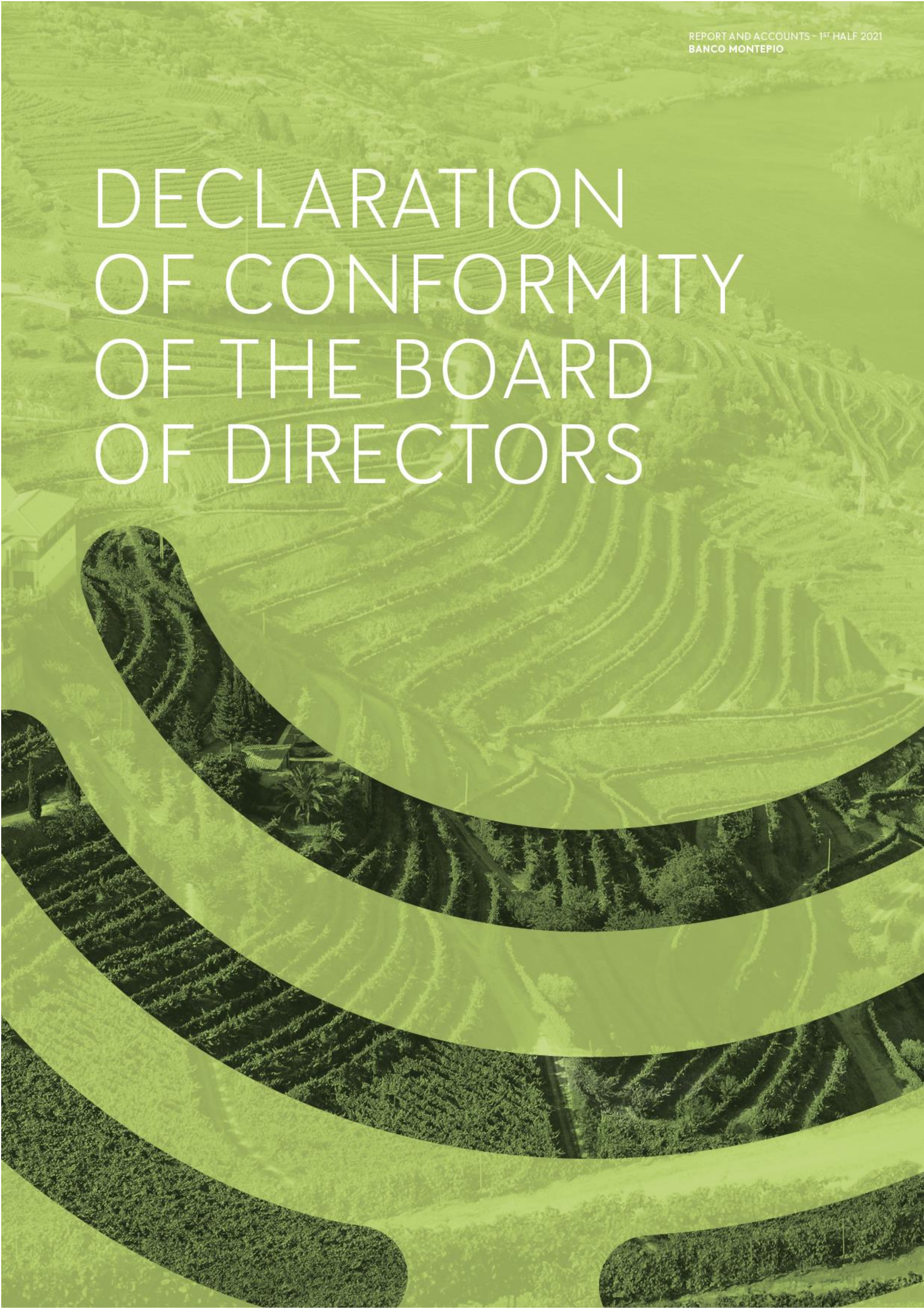
Events occurring after the date of the financial statements that are not considered adjustable events, if significant, are disclosed in the notes to the financial statements.

There were no relevant transactions and/or events, after 30 June 2021, that merit disclosure and/or adjustment in the financial statements.

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.

DECLARATION OF CONFORMITY OF THE BOARD OF DIRECTORS



DECLARATION OF CONFORMITY OF 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 2021, 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 Jorge Paulo Almeida e Silva Baião José Carlos Sequeira Mateus Leandro Rodrigues da Graça Silva Nuno Cardoso Correia da Mota Pinto Pedro Miguel Nunes Ventaneira

Lisbon, 30 September 2021

EXTERNAL AUDITOR'S REVIEW REPORTS

REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Review Report on the Interim Condensed Consolidated Financial Statements

(Free translation from a report originally issued in Portuguese language. In case of doubt, the Portuguese version will always prevail)

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 2021 (which shows total assets of Euros 19,460,408 thousand and total shareholder's equity of Euros 1,350,745 thousand, including non-controlling interests of Euros 9,872 thousand and a net loss of Euros 33,002 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 2021 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 2021, 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 z), 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 2021

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

Review Report on the Interim Condensed Financial Statements

(Free translation from a report originally issued in Portuguese language. In case of doubt, the Portuguese version will always prevail)

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 2021 (which shows total assets of Euros 21,080,404 thousand and total shareholder's equity of Euros 1,396,027 thousand, including a net loss of Euros 36,108 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 2021 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 30 June 2021, 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 y), 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 2021

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)

REPORT AND ACCOUNTS

1ST HALF 2021

Banco Montepio © 2021 | CAIXA ECONÓMICA MONTEPIO GERAL, caixa económica bancária, S.A., Head Office Rua Castilho, nº5, 1250-066 Lisboa
Share Capital: 2.420 millions of euros | Registered at the Commercial Registry of Lisbon under the single registration and tax identification number 500792615

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Banco Montepio