REPORT AND ACCOUNTS

1ST HALF
2023

Banco Montepio

This report is the English version of the document “Relatório e Contas 1º semestre 2023” 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.

Banco Montepio

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Banco Montepio

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1ST HALF 2023

Banco Montepio

1ST HALF 2023

CORPORATE GOVERNANCE

GOVERNANCE MODEL

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter referred to as "CEMG" or "Banco Montepio") adopts a one-tier governance (Anglo-Saxon) model, as established in Article 278(1)(b), 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.

CORPORATE BODIES AND COMMITTEES FROM THE BOARD OF DIRECTORS

Banco Montepio's General Meeting, held on 29 April 2022, elected the members of the institution's management and supervisory bodies for the 2022-2025 term of office. The relevant request for authorisation for the elected members to exercise their functions was subsequently submitted to Banco de Portugal, pursuant to Article 30-B of the General Regime of Credit Institutions and Financial Companies ("RGICSF"), and this process was ongoing on the reference date of this Report (30 June 2022).

Accordingly, on 30 June 2023, the composition of the Governing Bodies of Banco Montepio was as follows:

BOARD OF THE GENERAL MEETING

Chairman	António Tavares

BOARD OF DIRECTORS

Chairman	Manuel Ferreira Teixeira
Directors	Clementina Barroso
	Eugénio Baptista
	Florbela Lima
	Cândida Peixoto
	Maria Lúcia Bica
	Pedro Leitão
	Ângela Barros
	Helena Soares de Moura
	Isabel Silva
	Jorge Almeida Baião
	José Carlos Mateus

AUDIT COMMITTEE

Chairman	Clementina Barroso
Members	Florbela Lima
	Cândida Peixoto
	Maria Lúcia Bica

STATUTORY AUDITOR

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

- Aurélio Adriano Rangel Amado, enrolled at the Statutory Auditors Association (OROC) under number 1074 and at the Securities Market Commission (CMVM) under number 20160686.

On the reference date, the Board of Directors had internal committees, composed only of non-executive members, mostly with independent status, including the respective Chairs, namely the Risk Committee, the Assessment, Nominations, Ethics, Sustainability and Governance Committee.

As at 30 June 2023, the composition of the internal committees of the Board of Directors of Banco Montepio was as follows:

RISK COMMITTEE

Chairman	Florbela Lima
Members	Eugénio Baptista
	Maria Lúcia Bica

ASSESSMENT, NOMINATIONS, ETHICS, SUSTAINABILITY AND GOVERNANCE COMMITTEE

Chairman	Cândida Peixoto
Members	Clementina Barroso
	Eugénio Baptista

On 30 June 2023, the composition of Banco Montepio's Executive Committee, to which the Board of Directors has delegated the day-to-day management of the Bank, with the exception of powers relating to matters whose delegation is forbidden by law or those reserved to it under the terms of its Regulations, was as follows:

EXECUTIVE COMMITTEE

Chairman	Pedro Leitão
Members	Ângela Barros
	Helena Soares de Moura
	Isabel Silva
	Jorge Almeida Baião
	José Carlos Mateus

The Remuneration Committee elected by the General Meeting held on 29 April 2022 presented the following composition as at 30 June 2023 (all members are independent from the members of the management body):

REMUNERATION COMMITTEE

Chairman	Paulo Câmara Pires dos Santos
Members	António Miguel Lino Pereira Gaio
	Soledade Carvalho Duarte (*)
	(*) appointed at the General Meeting on 28 April 2023

EXTRAORDINARY GENERAL MEETING

On 10 February 2023, Banco Montepio held the extraordinary general meeting of shareholders, and the following resolutions were passed:

1. [Single Point] Decide to reformulate the equity items with the special purpose of reinforcing funds susceptible to regulatory qualification as distributable, with a view to covering negative transitional results, by reducing the share capital by 1,210,000,000.00 euros, without altering the total value of the net position, through the reduction of the nominal unit value of each share from 1.00 euros to 0.50 euros, and the subsequent amendment of Article 4(1) of the Articles of Association of Banco Montepio – Approved unanimously.

ANNUAL GENERAL MEETING

Banco Montepio held the ordinary general meeting of shareholders on 28 April 2023, with the following decisions having been taken:

1. To resolve upon the Management Report and Accounts of the Financial Year of 2022, of the individual and consolidated activity – Approved unanimously;
2. To resolve upon the proposal of allocation of the results of the financial year – Approved unanimously;
3. To make a general assessment of the company's management and auditing, under the terms of Articles 376 and 455 of the Commercial Companies Code – Approved unanimously;
4. To resolve upon the Sustainability Report for 2022 – withdrawn from the agenda;
5. To resolve upon the election of the Statutory Auditor for the three-year period 2023-2025 – Approved unanimously;
6. To resolve upon the revision of the Statutes of Banco Montepio – Approved unanimously;
7. To decide on the composition of the Remuneration Committee of the General Meeting provided for in Article 11(c) of Banco Montepio's Articles of Association – Approved unanimously;
8. To decide on the Supplementary Pension Scheme – Approved unanimously;
9. To resolve upon the Report on the assessment of the impact of the remuneration practices of subsidiaries abroad, provided for in Article 53(3) of Bano de Portugal Notice 3/2020 – Approved unanimously;
10. To resolve upon the Report assessing the Remuneration Policies and procedures adopted by Banco Montepio and Banco Montepio Group, prepared pursuant to Article 115-C(6) of the RGICSF and Article 44(1)(b) of Banco de Portugal Notice 3/2020 – Approved unanimously;
11. To resolve upon the Review of the Remuneration Policy for Members of the Management and Supervisory Body (MOAF) – Approved unanimously;
12. To resolve upon the Review of the Policy for Selection and Assessment of Suitability of Members of the Management and Supervisory Body (MOAF) and Key Function Holders (TFE) – Approved unanimously;
13. To resolve upon the Policy for the Selection, Appointment and Assessment of the Statutory Auditor (ROC) or Statutory Audit Firm (SROC) and the Contracting of Services to the ROC/SROC – Approved unanimously;
14. Decide on other matters of interest to the Company – no other matters included in the Agenda.

02 1ST HALF OF 2023 IN SUMMARY

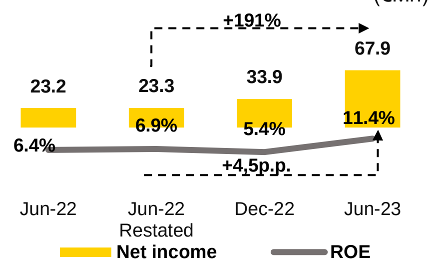
1ST HALF 2023

1ST HALF OF 2023 IN SUMMARY

HIGHLIGHTS [1]

PROFITABILITY AND EFFICIENCY

Net income[2] and ROE[3] (€Mn)



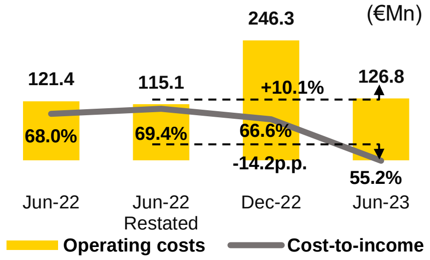
Net income of 67.9 million euros

- **Net income of 67.9 million euros, excluding the impact of the Recycling of the Foreign Exchange Reserve[2] (+44.6 million euros compared to the first half of 2022),** showing the positive evolution of core profitability, improved efficiency and good risk management.

ROE of 11.4% | +4.5p.p. YoY

- **Increase in Return on Equity (ROE[3]) to 11.4% (+4.5 p.p. compared to the 1st half of 2022),** reflecting the increase in Net income[2].

Operating costs and Cost-to-Income (€Mn)



Effective cost control despite inflationary pressure

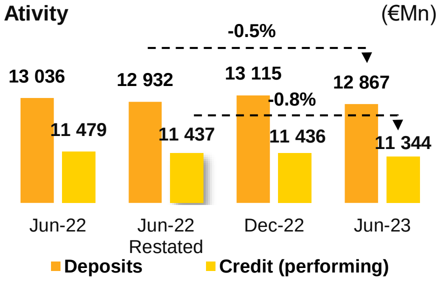
- **A 5.3% increase in operating costs, excluding restructuring** costs, compared to the first half of 2022, reflects disciplined cost management in the current inflationary context.
- The Bank continues to implement a set of measures with a recurring impact towards disciplined cost management, namely progressing with relevant investments in digitalization, IT, automation and data governance in **order to increase efficiency, profitability and financial sustainability**.

Cost-to-income of 46,6% without restructuring costs

- **Improved efficiency, with the cost-to-income ratio falling to 55.2% (46.6%without specific impacts)**, -14.2 p.p. YoY, despite higher operating costs than in the same period of the previous year, reflecting the increase in core operating income.

BUSINESS

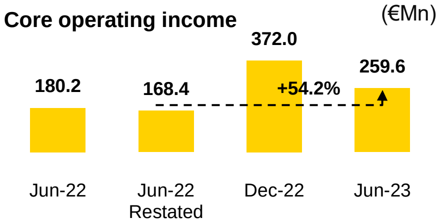
Ativity (€Mn)



Business volumes reflect the economic and financial context

- **Deposits amounted to 12.9 billion euros** on 30 June 2023, reflecting the **notable increase in Corporate and Institutional Customer Deposits and a reduction in Individual Customer Deposits,** in this case, portraying the market trend of transferring funds to alternative products and early repayment of loans, in a context of continued interest rate rises.
- **Gross performing loans stood at 11.3 billion euros** (-0.8% compared to June 2022), essentially reflecting the fall in loans to individuals, due to the current context of high interest rates and higher early repayments.

Core operating income (€Mn)



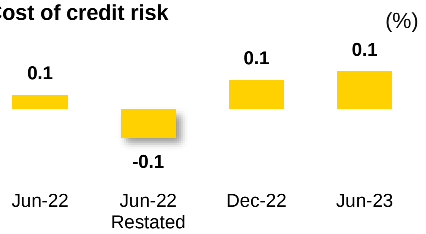
+54.2% Core operating income YoY

- **Core operating income of 259.6 million euros (+54.2% YoY),** with **net interest income** and **net fees and commissions growing by 76.1% and 12.7%**, respectively compared to the 1st half of 2022, as they benefited from the active management of the range of products and services made available to Customers and the repricing.

[1] Consolidated activity; Jun-22 restated refers to the restatement of items in the consolidated financial statements for comparative purposes, since, through the application of IFRS 5, Finibanco Angola, S.A. was no longer part of the consolidation perimeter as at 30 June 2023.
[2] Net income excluding the recycling of the foreign exchange reserve, i.e., excluding the accumulated foreign exchange reserves, as a result of the devaluation of the Kwanza, existing on the date of the sale and recorded in the Banco Montepio Group's reserves, transferred to net income for the period.
[3] Gross return on equity, in accordance with Banco de Portugal Instruction No. 16/2004, in the current version.

ASSET QUALITY

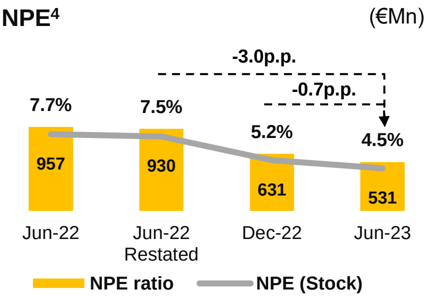
Cost of credit risk



Cost of risk of 0.1%

- **Cost of credit risk of 0.1%,** compared with -0.1% at the end of the same period in 2022, in **a context of continued rise in interest rates and increased impairment for credit risks**.
- The effectiveness of credit recovery has been reflected in the closing of significant stage *3* files with impairment reversals.

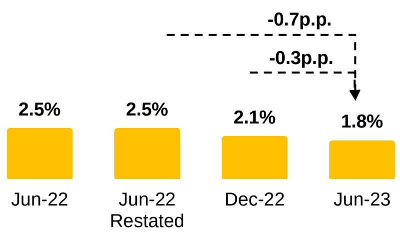
NPE[4]



NPE ratio of 4.5% | -3.0 p.p.

- **The NPE ratio[4] fell to 4.5%, below the reference threshold of 5% designated by the European Banking Authority (EBA), due to the marked reduction in the stock of non-performing loans (NPLs), accompanied by the reinforcement of non-performing exposure (NPE) coverage levels by impairments** to 60.0% (53.0% as at 30 June 2022) and to 106.7% (94.6% at the end of June 2022) if collateral and associated financial guarantees are taken into account.

Real estate assets in % of Total assets

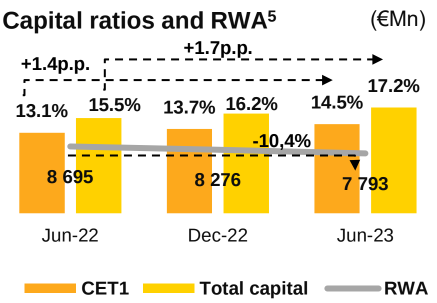


Weight of real estate in assets of 1.8% | -0.3p.p.

- Banco Montepio **met the objectives set out in the Real Estate Risk Reduction Plan, with the Real Estate to Net Assets Ratio reaching 1.8%** in June 2023 (-0.3p.p. compared to December 2022 and -0.7p.p. compared to June 2022), showing a downward trend, which benefited from the recovery of loans and sales (retail and individual) over the first half of 2023.

CAPITAL AND LIQUIDITY

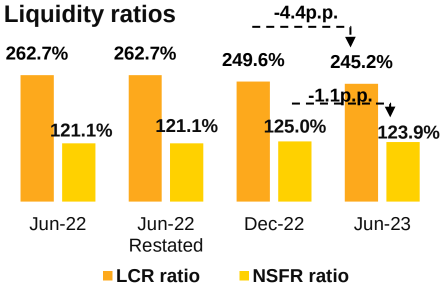
Capital ratios and RWA[5]



CET1 of 14.5% | Total capital of 17.2% (phasing-in)

- **Reinforcement of capital ratios to historical highs, with Common equity tier 1 (CET1[5]) and Total capital in** phasing-in, increasing by **1.4 p.p. and 1.7 p.p. year-on-year, to 14.5% and 17.2%**, respectively, with comfortable headroom in relation to the applicable overall capital requirement (OCR), including combined reserves, and on a fully implemented basis by **+1.8 p.p. and +2.1 p.p.**, to **14.4% and 17.1%** respectively**.**

Liquidity ratios



LCR of 245.2% | NSFR of 123.9%

- **Maintaining a strong liquidity position translated into the Liquidity Coverage Ratio (LCR)[6] of 245.2% and the net stable funding ratio (NSFR)[7] of 123.9%, materialising the defined funding and liquidity strategy** and the optimisation of the balance sheet structure **with a reduction in exposure to non-productive assets,** and showing levels well above regulatory minimums.
- Of particular note in this regard is the diversification of funding sources, with regular contraction of market operations, and the significant reduction in funding obtained from the European Central Bank.

[4] NPE: Non-Performing Exposures, as defined in the Glossary.
[5] According to CRD IV /CRR (phasing-in); RWA (Risk Weighted Assets): Risk Weighted Assets.
[6] LCR*:* Liquidity Coverage Ratio, as defined in the Glossary.
[7] NSFR*:* Net Stable Funding Ratio, as defined in the Glossary.

SUMMARY OF INDICATORS

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23/Jun-22 Restated
ACTIVITY AND RESULTS (million euros)					
Total assets	19 842	19 842	19 106	18 094	(8.8%)
Performing loans to customers (gross)	11 479	11 437	11 436	11 344	(0.8%)
Customer deposits	13 036	12 932	13 115	12 867	(0.5%)
Recurring net income (before recycling the foreign exchange reserve) [(a)]	23	23	34	68	>100%
Net income	23	23	34	(48)	(<100%)
SOLVENCY [(b)]					
Common equity tier 1 ratio	13.1%	13.1%	13.7%	14.5%	140.0%
Tier 1 ratio	13.1%	13.1%	13.7%	14.5%	1.4 p.p.
Total capital ratio	15.5%	15.5%	16.2%	17.2%	1.7 p.p.
Leverage ratio	5.7%	5.7%	5.9%	6.2%	0.5 p.p.
Risk weighted assets (million euros)	8 695	8 695	8 276	7 793	(10.4%)
LIQUIDITY RATIOS					
Liquidity coverage ratio (LCR)	262.7%	262.7%	249.6%	245.2%	(17.5 p.p.)
Net stable funding ratio (NSFR)	121.1%	121.1%	125.0%	123.9%	2.8 p.p.
LOAN TO DEPOSIT RATIOS					
Loans to customers (net) / Customer deposits [(c)]	91.4%	91.8%	89.3%	89.8%	(2.0 p.p.)
Loans to customers (net) / On-balance sheet customer resources [(d)]	82.2%	82.5%	85.4%	86.0%	3.5 p.p.
CREDIT QUALITY					
Cost of credit risk	0.1%	(0.1%)	0.1%	0.1%	0.2 p.p.
Ratio of loans and interest overdue by more than 90 days	3.5%	3.5%	2.2%	1.7%	(1.8 p.p.)
Coverage of loans and interest overdue by more than 90 days	118.8%	115.0%	131.2%	160.8%	45.8 p.p.
NPE ratio (Non-performing exposures (NPE) [(e)] / Gross customer loans)	7.7%	7.5%	5.2%	4.5%	(3.0 p.p.)
NPE [(e)] coverage by Impairment for balance sheet loans	53.8%	53.0%	56.1%	60.0%	7.0 p.p.
NPE [(e)] coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	95.1%	94.6%	100.8%	106.7%	12.1 p.p.
Forborne exposures ratio (Forborne exposures [(e)] / Gross customer loans)	5.5%	5.6%	4.3%	3.6%	(2.0 p.p.)
PROFITABILITY AND EFFICIENCY					
Total operating income / Average total assets [(c)]	1.8%	1.7%	1.9%	2.5%	0.8 p.p.
Return on assets (gross) (Net income before income tax / Average total assets) [(c)]	0.5%	0.5%	0.4%	1.0%	0.5 p.p.
Return on equity (gross) (Net income before income tax / Average total equity) [(c)]	6.4%	6.9%	5.4%	11.4%	4.5 p.p.
Cost-to-income (Operating costs / Total operating income) [(c)]	68.0%	69.4%	66.6%	55.2%	(14.2 p.p.)
Cost-to-Income, excluding specific impacts [(d)]	67.0%	68.0%	63.2%	46.6%	(21.4 p.p.)
Staff costs / Total operating income [(c)]	40.8%	41.7%	41.2%	33.7%	(8.0 p.p.)
EMPLOYEES AND DISTRIBUTION NETWORK (Number)					
Employees					
Group Banco Montepio	3 474	3 474	3 406	3 119	(355)
Banco Montepio	3 104	3 104	3 043	2 968	(136)
Branches					
Domestic network - Banco Montepio	261	261	246	243	(18)
International Network	20	20	20	0	(20)
Finibanco Angola [(g)]	20	20	20	0	(20)
Representation Offices - Banco Montepio	5	5	5	5	0

BANCO MONTEPIO RATINGS	**Long-term**	**Outlook**
Fitch	B	Positive
Moody's	b1	Posite
DBRS	B (high)	Stable

(a) Net income excluding the foreign exchange reserve, i.e., excluding the accumulated foreign exchange reserves, as a result of the exchange rate devaluation of the Kwanza, existing at the date of sale of Finibanco Angola and recorded in reserves of the Banco Montepio Group, transferred to the period's results.

(b) Pursuant to CRD IV / CRR (phasing-in). The ratios include the accumulated net income for the period. The ratios with reference to June 30, 2022 are not restated.

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

(d) Total on-balance sheet customer resources = Customer deposits and Debt securities issued. Computed in accordance with the Financial Statements annexed to this report.

(e) EBA Definition.

(f) 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 -0.1M€ in Jun-22, +10.5 M€ in Dec-22 and +5.5 M€ in Jun-23.

(g) Includes corporate centres.

1ST HALF OF 2023 MILESTONES

IMPROVEMENT OF BANCO MONTEPIO'S RATING

Banco Montepio has benefited from **successive rating upgrades** by the 3 agencies, in a trend that began in 2021 and will continue in 2022. This important external recognition reflects the significant progress made in reducing non-productive and non-strategic assets, the significant reinforcement of capital ratios and also the successful completion of the operational adjustment plan, namely with regard to the optimization of the branch network, digitalization and the reduction of staff, as well as the reduction of balance sheet risk and the increase in profitability and efficiency levels.

Reflecting the **significant progress made by Banco Montepio**, **DBRS raised the Intrinsic Assessment (IA) to B (high), Moody's raised the Baseline Credit Assessment (BCA) to b1** and, in July 2023, **Fitch** raised **the Issuer Default Rating (IDR) to B+**, **also raising the rating of the covered bonds to AA+**, reinforcing its investment grade rating to the maximum level that the agency assigns to Portuguese issuers.

The ratings from the three agencies currently converge to the same assessment level of B+, B1 and B (high).

REDUCTION OF BANCO MONTEPIO'S SHARE CAPITAL

Banco Montepio's General Meeting was held on 10 February 2023, with the presence of shareholders holding 99.997% of the respective share capital, and **unanimously approved the reformulation of the equity headings with the special purpose of reinforcing the funds that can be qualified by regulation as distributable**, in order to cover the negative retained earnings, by **reducing the share capital by 1.210 million euros, without changing the number of existing shares and the total value of the net worth**, by reducing the nominal unit value of each share from 1.00 Euro to 0.50 Euro.

SIMPLIFICATION OF THE CORPORATE STRUCTURE AND IMPROVEMENT OF BANCO MONTEPIO GROUP'S OPERATING MODEL

On 30 June 2023, **the Banco Montepio Group** concluded **the sale of 51% of its share capital and voting rights in Finibanco Angola to Access Bank.** As at 30 June 2023, the Banco Montepio Group still held a stake equivalent to 29.22% of Finibanco Angola's share capital.

The **deconsolidation of this subsidiary** had **a positive impact on the capital ratios** and represents another important step in **the implementation of the commitments made in the Adjustment Programme** implemented at the Institution, namely with regard to **simplifying the Group's corporate structure and focusing on the domestic market.**

On 10 August 2023, **Banco Nacional de Angola authorized the transfer of the remaining shares (29.22% of Finibanco Angola's share capital)** held by Montepio Holding in **favour of the shareholder Access Bank**, and the **Banco Montepio Group concluded the sale of its entire stake in Finibanco Angola's share capital**.

On 8 September 2023, **Montepio Holding, SGPS, S.A. agreed to sell its 100% stake in BEM's share capital to the fintech company RAUVA Enterprises, S.A.**, and the operation is expected to *close* in the short term, following approval by the supervisory and regulatory authorities. **All of BEM's assets, liabilities and operations** will be **transferred to Banco Montepio as part of the process of integrating BEM's activity into Banco Montepio**, which will make it possible to **capture synergies** and, at the same time, **preserve and enhance the integrated value proposition of commercial banking and investment banking**.

COMMITMENT TO ESG PRINCIPLES

Sustainable finance:

In April 2023, the **Banco Montepio Group advised Mota-Engil on the structuring of a bond issue – Sustainability-Linked Bonds – amounting to 10 million euros, by private and direct offer**. The issue, certified as **Sustainability-Linked Bonds**, complies with the conditions established in the Sustainability-Linked Bond Principles, published by the International Capital Market Association, in accordance with the Second Party Opinion issued by S&P Global Ratings.

Social innovation, diversity and Stakeholders engagement:

Banco Montepio was an official partner of the largest social innovation meeting, Aldeia da Inovação Social (Social Innovation Village) (20 and 21 June), and was present on the Innovation stage with the presentation **"Social Innovation and Impact Investment"**.

Banco Montepio has joined the Pact against Violence, an initiative that brings together partner companies of the **Commission for Citizenship and Gender Equality (CIG)** and supports the work of the structures of the **National Support Network for Victims of Domestic Violence**.

On 29 June 2023, **Banco Montepio approved the Declaration of Commitment to Engagement with Stakeholders**, which recognizes the importance of the different groups of stakeholders, relevant and / or holders of interests, for its business and for the positive impact it intends to create on society, the economy and the environment.

In the first half of 2023, several **initiatives** were carried out **under the ESG pillars – Environmental, Social and Governance***,* namely: the **2nd edition of ESG WEEK | Environmental, Social, Governance** (17-21 April), an initiative organised by the **Portuguese Association of Business Ethics** (APEE), with **Banco Montepio** as **Main Sponsor and Host** for the **2nd consecutive year**.

DIGITAL TRANSITION

Continuous improvement in the automation and re-engineering of internal processes, through the advances implemented in **data collection and processing models**, adjustment of the **service model**, optimization of **customer journeys** and strengthening of **cybersecurity mechanisms**.

The Bank continued to improve the customer experience by developing initiatives aimed at increasing the efficiency and effectiveness of customer interaction with the Bank, namely: the launch of the **new APProva app subscription journey** and the launch of a new, simpler and more intuitive **Mortgage loan simulation journey**; the availability of **new online International Business features**; the evolution of the **M.A.R.I.A. voice bot**; the **provision of the M24 app on Huawei's AppGallery**; and the installation in branches of the first **50 new, state-of-the-art ATM machines** in the Chave 24 internal network.

PRIZES AND RECOGNITIONS

Banco Montepio positions sustainability as a priority issue, reflecting the path that the brand has been developing in this area, such as joining the **United Nations Global Compact**, acquiring a **100% electric fleet** or **financing companies** that are **transitioning to a circular economy**.

The Banco Montepio brand is in the TOP 10 Portuguese brands with the highest perceived sustainability value. According to Brand Finance, the world's leading brand valuation consultancy, the contribution of sustainability to the positive reputation of the Banco Montepio brand, valued at 9.4 million euros, has a strong impact on the overall value of the brand.

For the **second time in a row**, **Banco Montepio** is **the "No. 1 Consumer Choice Brand" in the Mortgage Loans category,** with an overall score of 77.5% and a satisfaction score of 77.4%. Of the 12 banks evaluated, **Banco Montepio's Mortgage obtained the best final score** in the **overall evaluation of the ten attributes most valued by consumers**: flexible loan term, trust, detailed explanation of products, ease of delivery of documents, spread, repayment benefits, offer of 1% of the loan amount, speed of the process, interest rate, non-obligation to certain products.

Banco Montepio was **distinguished by Deco Proteste with two "Right Choice" seals.** According to the most representative Portuguese consumer protection organisation, **Banco Montepio's mortgage loan offer** is the one with the **best relationship between quality and price in the "Mortgage Loan – with associated sales" and "Mortgage Loan – without associated sales" categories**, which allows families to save money compared to the rest of the analysed offer available. Savings without associated sales were calculated at €1,648/year and savings with associated sales were calculated at €1,265/year.

Banco Montepio was awarded the Superbrands seal for the 14th time, a distinction that annually recognizes the most important brands in the Portuguese market. Superbrands status also reflects the Bank's uniqueness. A different bank, a bank with the soul of people. This award means a reinforcement of the consumer satisfaction vote.

Banco Montepio was recognized with the title "Five Stars 2023" in the Banking – Sustainability category, an award for which Five Stars Consulting is exclusively responsible.

REPORT AND ACCOUNTS

03

THE BANCO MONTEPIO GROUP

SINCE 1844

1ST HALF 2023

Banco Montepio

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 a unique institution in the national financial panorama due to its origin and mutual base and, consequently, for its vocation of saving and providing universal financial services to Individual Customers at all stages of their lives, as well as Clients from the Business Sector and Social Economy Institutions and social entrepreneurs.

Throughout the more than 179 years of its existence, Banco Montepio has consistently supported Families, Small and Medium-sized Entrepreneurs, Companies and the Community. It actively supported successive generations of Portuguese people at many critical moments, going through wars, crises, and revolutions.

Loyal to the reason for its existence, it was always capable of innovating, growing and expanding, 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.

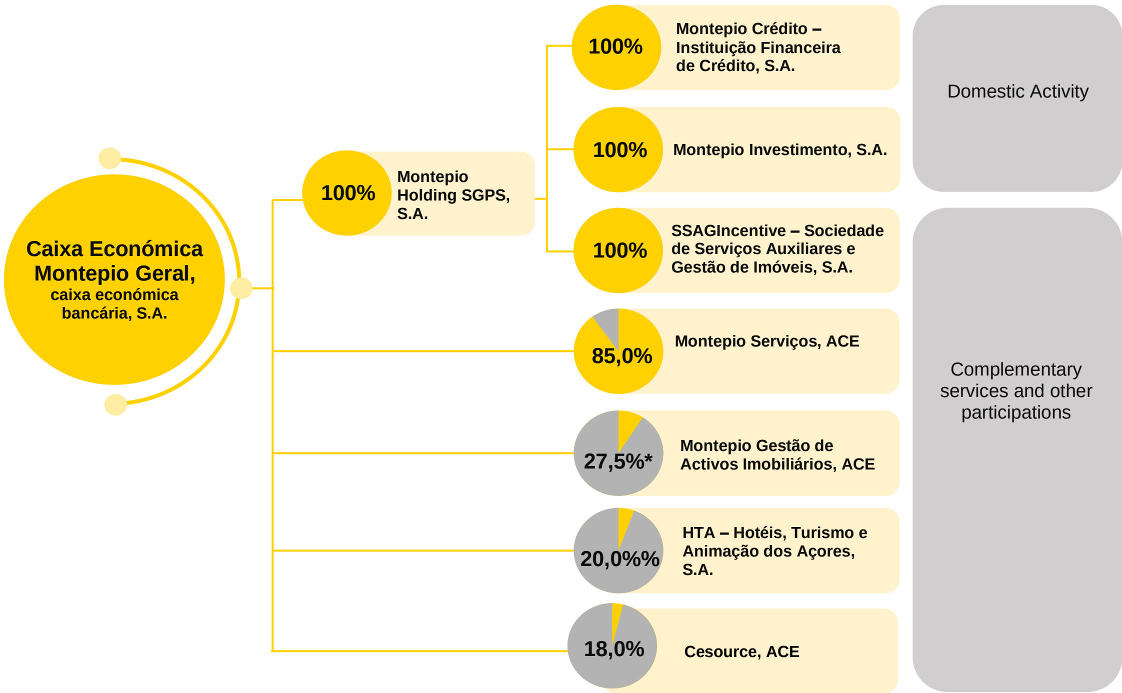
Following this process, its current corporate name is Caixa Económica Montepio Geral, caixa económica bancária, S.A., with the trade name of Banco Montepio having been adopted in 2019.

Banco Montepio holds a number of equity stakes in entities that provide banking and financial services, thus providing a wide and diversified offer of products to Customers, and which contribute with their results to mutualist purposes.

The Banco Montepio Group is a diversified banking and financial group, without forgetting its mutualist nature and purpose, which lends it unique features and an unrivalled position in its activity sector and in Portuguese society, General.

As at 30 June 2023, 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.; Montepio Crédito - Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A. (Banco de Empresas Montepio, or BEM), 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.; Montepio Serviços, ACE; Cesource, ACE.



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

On 30 June 2023, the Banco Montepio Group completed the sale of 51% of the share capital and voting rights it held in Finibanco Angola to Access Bank, thus ceasing to consolidate this subsidiary. As a result, at the end of the first half of the year there was still a stake equivalent to 29.22% of the capital, which it intended to sell in the short term, and which was completed in August 2023, thus ceasing to have any banking activity in the Angolan market.

The deconsolidation of this subsidiary and subsequent sale of the entire stake held represents another important step in the implementation of the commitments made in the Adjustment Programme implemented at the Institution, namely with regard to simplifying the Group's corporate structure and focusing on the domestic market.

With reference to 30 June 2023, the scope of consolidation of Banco Montepio Group includes other entities consolidated by the full method, namely: Valor Arrendamento - Fundo de Investimento Imobiliário Fechado; Polaris – Fundo de Investimento Imobiliário Fechado; PEF – Portugal Estates Fund; Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (FEIIA); Pelican Mortgages No 3; Pelican Mortgages No 4; Aqua Mortgages No 1 and Pelican Finance No 2. The latter four companies are securitization vehicles, with the aim of managing funding and liquidity or improving the capital ratios.

THE BANCO MONTEPIO BRAND

PROTECTION AND REINFORCEMENT OF BRAND REPUTATION

Banco Montepio in the TOP 10 brands with the highest perceived value of Sustainability

The Banco Montepio brand is in the TOP 10 Portuguese brands with the highest perceived sustainability value, according to Brand Finance, the world's leading consultancy in assessing the value of brands, reflecting the contribution of sustainability to the positive reputation of the Banco Montepio brand, valued at 9.4 million euros, with a strong impact on the overall value of the brand.

According to Brand Finance, Banco Montepio's communication and brand strategy positions sustainability as a priority issue, reflecting the path that the brand has been developing in this area, such as joining the United Nations Global Compact, migrating to a 100% electric fleet or financing companies that are transitioning to a circular economy, and according to a study carried out by this entity, Banco Montepio grew in the second quarter of 2023, in association and visibility with actions to support society and sustainability.

Value of the Brand

Valued at 131 million euros, the Banco Montepio brand occupies 23rd place in the ranking of the most valuable brands in Portugal (Brand Finance. The most valuable Portuguese brands in 2023). The Banco Montepio brand was also one of those that saw its value grow the most, with an increase of 37% in 2023.

Global Image

Banco Montepio maintained a positive image assessment. Based on the Brand Score study for the second quarter of 2023, 60% of customers rate the bank's image 'very positively', with the bank ranking first in the following three image attributes: customer relations/proximity; contribution to society and social responsibility, and sustainability and the environment.

AWARDS AND BRAND RECOGNITION

Banco Montepio wins the Five Star Award in the Banking - Sustainability category

Banco Montepio won the "Cinco Estrelas (Five Stars) 2023" Award in the Banking – Sustainability category, with an overall satisfaction of 80.1%. This index is the result of an evaluation system carried out with consumers with an affinity for the topic of 'Sustainability, concept tests for Customers and Employees, and market research for the brand.

The Banco Montepio brand was evaluated on the main variables that influence consumers' purchasing decisions in this category, defined by an independent Assessment Committee. Therefore, in the Experimentation Tests phase, Portuguese consumers evaluated the following characteristics:

- Service (proximity, ease of contact, promotion of healthy and sustainable behaviours).

- Responsible offer that promotes responsible and sustainable behaviour (products that promote responsibility towards new generations, incentives for companies with sustainability policies, sustainable financing lines).

- Ethics and Integrity in the way in which it relates to customers, employees and other partners (taking into account principles of social, environmental and economic sustainability, and responsible consumption).

- Implementation of social responsibility, environmental and economic actions.

- A bank that promotes economic, social and environmental sustainability, and aligned with the best international practices.

At a later stage, the result of a Market Survey of the Banco Montepio Brand that assessed the level of trust and innovation recognised by consumers, it was found that the brand inspires trust in more than 7 in 10 of the consumers and employees surveyed, and 7 in 10 consider the actions carried out in Sustainability to be innovative.

Banco Montepio's mortgage is "the right choice" for DECO PROTESTE

Banco Montepio was distinguished by DECO PROTESTE with two Right Choice seals:

- Mortgage loans – with associated sales;
- Mortgage loans – no associated sales.

According to DECO PROTESTE, Banco Montepio's mortgage offer is the one with the best quality/price ratio, both with associated sales and without associated sales. To this end, DECO PROTESTE analysed the offers of 13 banks for a loan of 200,000 euros, over 30 years, with a financing-guarantee ratio of 80 percent. It concluded that Banco Montepio's offer allows families to save[8], compared to the rest of the available offers analysed, 1,648 euros per year without associated sales and 1,265 euros per year with associated sales, compared to the market average.

Banco Montepio wins Consumer Choice in the Mortgage category

For the second time in a row, Banco Montepio is the "No. 1 Consumer Choice Brand" in the MORTGAGE LOANS category, with an overall score of 77.54% and a satisfaction score of 77.40%.

Among the 12 banks evaluated, Banco Montepio's Mortgage Loans obtained the best final score, in the overall evaluation of the ten attributes most valued by consumers in the category: Flexible Credit Term; trust in the bank; detailed explanation of products; ease of delivery of documents; spread; repayment benefits; offer of 1% of the loan value; length of the process; interest rate; and non-obligation to certain products.

Brand of Excellence – Superbrands 2023

Banco Montepio was distinguished for the 14th time by Superbrands as a brand of excellence. The annual award recognizes the most important[9] brands in the Portuguese market, described as "the ones that stick in the minds and hearts of the Portuguese".

CAMPAIGNS AND PARTNERSHIPS

Mortgage Loan Campaign - "We've lowered the spread"

Banco Montepio has launched a new mortgage loan campaign, reducing the minimum *spread* to 0.8% and maintaining the benefit of giving customers 1% of the value of their loan back, or 1.1% if the house has an A or A+ energy certificate, positively distinguishing financing linked to better environmental criteria, as an agent inducing good practices in terms of sustainability.

To mitigate the impact of the rise in reference indexes on mortgage credit contracts, Banco Montepio has also come up with a new 2-year Fixed Rate solution for Mortgage Credit contracts, in which it returns the value of the spread to the Client at 100% during this period. In other words, it's two years without paying a spread and with no change in the instalment.

[8] These savings have been calculated in relation to the market average.
[9] The Superbrands are chosen through an independent study carried out on a sample of the male and female population, who answer questions about the brands they know, trust and recommend.

Since 2019, Banco Montepio has returned more than 12 million euros to customers – it has no partnerships with real estate agents and financial intermediaries/comparators – choosing to give a tangible benefit directly to its customers. This offer is therefore not available or searchable on other market comparators or simulators, other than the Banco Montepio simulator or on the Bank's branch network.

Banco Montepio supports the "Pirilampo Mágico 2023" (Magic Firefly 2021) campaign

One of the greatest national symbols of solidarity – the Magic Firefly – returned under the motto "Dreams that light up every day". The Magic Firefly Campaign was promoted by FENACERCI (National Federation of Social Solidarity Cooperatives), Antena 1 and RTP+ and has been supported by Banco Montepio since 2017. The initiative is intended to support children, young people and adults with intellectual disabilities and/or multi-disabilities, and aims to raise funds for the Social Solidarity Cooperatives (CERCIs), FENACERCI members, and other similar organisations. The little mascot – a firefly that this year was Green – can also be purchased at Banco Montepio branches.

EVENTS AND SUPPORT

Montepio Bank signs Pact against Violence

Banco Montepio was one of the seven companies that joined the Pact against Violence, a project that brings together a network of partner companies of the Commission for Citizenship and Gender Equality, and which supports the work of the structures of the National Support Network for Victims of Domestic Violence. We are a Bank of Causes. We respect human rights and abolish all forms of violence.

Created in 2020, the aim of this Pact is to boost and give visibility to a collaborative process within the framework of corporate social responsibility dynamics, promoting close work in promoting internal practices to prevent and combat violence, and trying to provide answers to victims. Various actions have been carried out by partner organisations, such as setting up the short message service SMS 3060 helpline, supplying food and basic necessities, donating computers and mobile phones, and providing technological training for the employment of many women.

Social Innovation Village

Banco Montepio was an official partner of the largest social innovation meeting. This year's event, organised by Portugal Inovação Social, took place at Aldeia da Luz in Mourão and is now in its second edition. This initiative was joined by various entities involved in social innovation in Portugal, from social organisations, incubators, consultancies, foundations, municipalities and public and private social investors. On the 6 stages there were conference-debates, sessions presenting innovation and social entrepreneurship initiatives and themed workshops. Banco Montepio was present on the Innovation stage with the presentation "Social Innovation and Impact Investment", which talked about the relationship and offer of exclusive services to social economy entities, and impact projects in which Banco Montepio has been involved, such as the "Family Project" or the "Alentejo Innovation Centre". As an official partner, the Banco Montepio brand had a very strong presence throughout the Social Innovation Village with the activation of the "A Bank of Causes" campaign.

XIV National Congress of Misericórdias

Banco Montepio was an official partner of the XIV National Congress of the Misericórdias (ancient nationwide network of charitable institutions), reiterating its desire to be at the side of institutions that fight every day to transform the society we live in for the better, at all times. O Congresso decorreu nos dias 1, 2 e 3 de junho de 2023, na Ordem dos Contabilistas Certificados. Organised by the Union of Portuguese Misericórdias, this edition was held under the theme "Valuing the Past, Living the Present, Projecting the Future". Banco Montepio was an official partner of this event, which brought together around 800 people who, over three days, had the opportunity to attend various panels where they debated and reflected on the current challenges facing the social and solidarity sector, as well as the contribution of the social economy to the country's development and to supporting the population. As part of the programme, the panel entitled "From financing to sustainability" was chaired by Pedro Leitão, chairman of Banco Montepio's Executive Committee.

ESG Week 2023

For the second year running, Banco Montepio was the host and main sponsor of ESG Week 2023, an event aimed at debating the major sustainability issues. National and international experts, business leaders, representatives of academia and public administration will come together to discuss the current challenges of the package of measures adopted by the European Commission, taking advantage of the relevance of the current moment in which there is a reorientation of investments towards more sustainable technologies and companies, seeking to ensure Europe's climate neutrality by 2050.

Banco Montepio supports Festa dos Tabuleiros

Banco Montepio was the official bank supporting the Festa dos Tabuleiros (ancient traditional festivity). A unique and secular Bank supported a unique and secular Festival. The Festa dos Tabuleiros is one of the most important traditions in the city of Tomar and takes place every four years. The event attracts thousands of visitors from all over the world to watch the procession through the streets decorated with thousands of handmade flowers, bringing the whole community together to decorate the city. For ten days, Banco Montepio was present in Parque Mouchão, in the city centre, where it was possible to attend different popular activities and concerts on the Banco Montepio Stage.

Meeting of EPIS 2023 Volunteers

Employees of Banco Montepio gathered at Monsanto Forest Park Interpretation Centre for the **"**Meeting of EPIS 2023 Volunteers"**,** an initiative of the EPIS Association – Entrepreneurs for Social Inclusion. Volunteers from Banco Montepio were responsible for collecting rubbish and debris, with around 3,700 kg of waste having been collected. The EPIS initiative achieved its objectives, both in terms of the number of volunteers and the impact generated. Banco Montepio is proud of the participation of its employees in this initiative, which brought together several generations and instilled in the younger generation a sense of sustainable responsibility, making a positive contribution to reducing the ecological footprint and preserving the Monsanto Forest Park.

CHANNELS, NETWORKS AND CUSTOMER RELATIONS

CHANNELS AND NETWORKS

As at 30 June 2023, Banco Montepio had a network of 243 branches in Portugal, a resizing carried out as part of the operational adjustment and efficiency improvement strategy, along with the digitalization plan and the strengthening of alternative channels, following market trends and consumer demand.

The Banco Montepio Group also had a distribution network of Finibanco Angola – with 20 branches, including 5 corporate centres – which, with the sale of 51% of the stake, is no longer part of the consolidation perimeter.

No. of Branches and Representation Offices

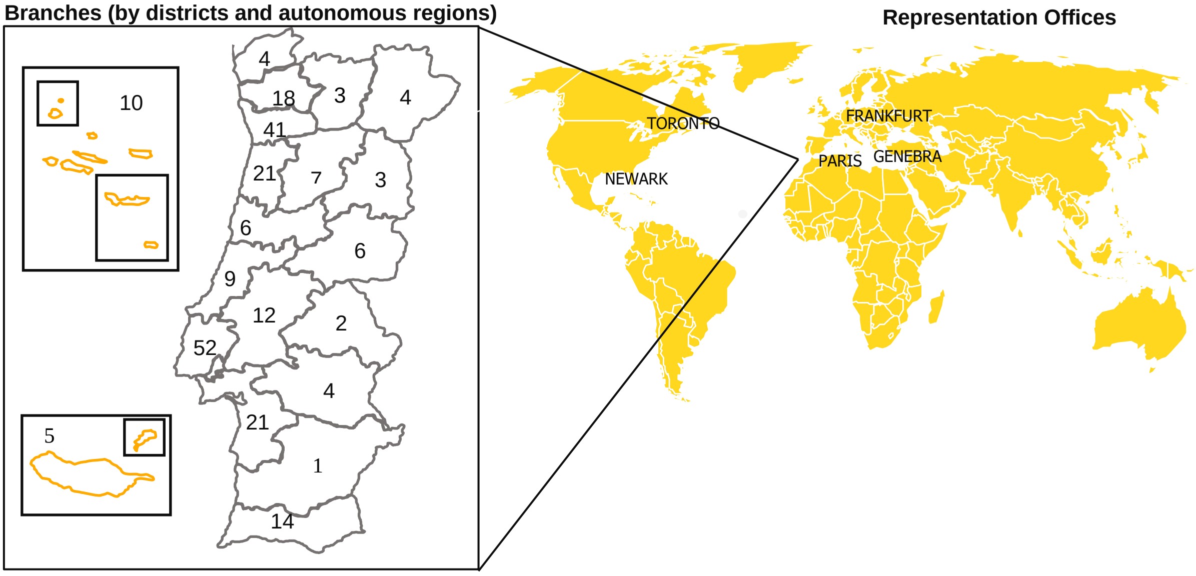
	jun-22	dez-22	jun-23
Domestic network	261	246	243
International network	20	20	0
Finibanco Angola [(a)]	20	20	0
Representation Offices	5	5	5

(a) Includes Corporate Centers. As of 30 June 2023 Finibanco Angola does not include the consolidation perimeter of the Banco Montepio Group.

As a result, at the end of the first half of the year, Banco Montepio had reduced its branch network by 7% compared to June 2022 and 51% since 2011, in line with the sector's restructuring efforts on the operational front, in a disciplined management of efficiency.

As at 30 June 2023, Banco Montepio had 5 representation offices (Frankfurt, Geneva, Paris, Newark and Toronto) which ensured the Bank's presence among communities that are resident abroad, supporting the Portuguese diaspora.

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

Within the scope of the operational adjustment program, and alongside the results achieved in terms of optimizing the commercial network and improving efficiency, Banco Montepio's workforce was reduced by 4.4% compared to the end of June 2022.

Banco Montepio's network of Customer managers totalled 391 employees at the end of the first half of 2023, with a reduction of 67 managers compared to 31 December 2022, related to the progressive adjustment of the distribution model and reorganisation of the Commercial Network and the Corporate Network, seeking to update the service model and increase efficiency.

In the first half of the year, Banco Montepio reorganised its commercial network, changing the segmentation criteria and the respective distribution of customers among portfolios and commercial managers, with a view to better monitoring the business, as well as taking into account the strategy of integrating BEM's activity into the parent company, with a view to boosting and extending customer service in an integrated manner.

Thus, reflecting the new organisational structure, as at 30 June 2023, the distribution by segment included 156 managers assigned to Small Businesses, 58 to Small and Medium-sized Companies with a turnover of more than 4 million euros, 38 to Institutional and Social Economy and 6 to Large Companies (with a turnover of 150 million euros or more) and 133 managers assigned to the Individuals segment, thus continuing to offer a personalized service and proximity to the Client, factors that characterize Banco Montepio.

No. of Managers per Customer Segment

	Jun-22	Dec-22	Jun-23	Change Jun-23/Jun-22		Change Jun-23/Dec-22	
				Amount	%	Amount	%
Retail Banking	**394**	**390**	**289**	**(105)**	**(26.6)**	**(101)**	**(25.9)**
Individuals	176	175	133	(43)	(24.4)	(42)	(24.0)
Small Business	169	167	156	(13)	(7.7)	(11)	(6.6)
Companies [a)]	49	48	0	(49)	-	(48)	-
Social Economy	**40**	**39**	**38**	**(2)**	**(5.0)**	**(1)**	**(2.6)**
Institutions and Social Economy [b)]	40	39	38	(2)	(5.0)	(1)	(2.6)
Corporate Banking	**31**	**29**	**64**	**33**	**>100**	**35**	**>100**
Companies [c)]	31	29	6	(25)	(80.6)	(23)	(79.3)
Companies [d)]	0	0	58	58	-	58	-
Total managers	**465**	**458**	**391**	**(74)**	**(15.9)**	**(67)**	**(14.6)**

a) Turnover up to 20 million euros.
b) Includes Microcredit managers.
c) Turnover equal to or greater than 20 million euros in Jun-22 and Dec-22; Turnover of more than 150 million euros in Jun-23.
d) Turnover of more than 4 million euros.

MONTEPIO 24

The Montepio24 service brings together Banco Montepio's various digital channels, allowing Customers to manage their daily financial lives remotely, and a continuous evolution has been promoted, either through the expansion of the available operations or through the improvement of the experience in their use. At the end of the first semester, Montepio24 recorded an increase of 7.4% in the number of active Customers compared to the same period last year and an increase of 2.2% compared to December 2022, totalling more than 466 thousand users.

Connect24, a channel dedicated to open banking, where Bank Customers can authenticate themselves and allow access to information and banking transactions, when requested by other authorised entities, registered, on 30 June 2023, an increase of 54.2% compared to the same period of 2022 in transactions initiated through third-party platforms - Third Party Providers (TPP) or other Banks.

There has been a growing trend in the use of digital channels, especially the increase in accesses (+7.8%) and in the number of transactions (+28.2%) in the mobile channel.

AUTOMATED TELLER MACHINES (ATM)

Banco Montepio's ATM network totalled 917 machines at the end of June 2023, remaining practically stable compared to the end of the previous year, which translated into a market share of 7.4%, with the number of ATM machines available on the domestic market of the SIBS Global Network amounting to 12,358. In turn, the internal Chave24 network decreased to 227 machines installed at the end of June 2023 (231 as at 31 December 2022), reflecting some operational adjustments depending on the branch network.

AUTOMATIC PAYMENT TERMINALS (POS)

At the end of the first half of the year, Banco Montepio's set of automatic payment terminals (POS) amounted to 26,495 installed terminals, an increase of 2.56% compared to the previous year. Banco Montepio's market share in terms of the number of POS terminals stood at 5.7% (5.9% in December 2022), with the number of POS terminals available on the national market of the SIBS Global Network reaching 461,395 units, a variation of +4.5% compared to the end of 2022.

TECHNOLOGY AND INOVATION

Banco Montepio seeks to continuously improve its value proposition for Customers and the efficiency of its internal operations, integrating innovation and quality processes and incorporating best practices in areas such as Customer experience, security and data processing, and ESG (Environmental, Social and Governance) principles.

During the first half of 2023, the Bank continued to automate and reengineer processes, made significant advances in data collection, processing and governance models, adjusted the service model, optimised Customer journeys, and reinforced its cybersecurity mechanisms.

Among the various initiatives developed, the following should be highlighted:

- **Launch of the new APProva membership journey,** where the simplification of the process has boosted the levels of membership and use of this app in the authentication of online transactions (online transactions on Montepio24 service channels and online purchases with cards) and strengthened security.
- **New International Business Functionalities are available online,** allowing Corporate Customers to apply for financing abroad online and check the status of their loans, making it possible to manage their company's cash flow in a single place.
- **Evolution of the voice bot M.A.R.I.A.,** which continued to increase its capacity to interpret contacts and accept operating instructions. At the end of the first half of the year, as a result of the implementation of improvements, this service achieved a success rate in interpreting intentions of 88%, a process resolution rate of 66% and a satisfaction rate of 83%.
- **Making the M24 app available in Huawei's AppGallery,** extending customer service, the banking app was made available to users of Huawei devices without Google services, allowing these users to quickly access their accounts via mobile phone.

Also noteworthy was the installation of the first 50 new state-of-the-art ATM machines in the Chave 24 internal network at the branches and the launch of a new, simpler and more intuitive mortgage simulation service.

In addition to these deliveries, the Bank has developed other initiatives, some of a legal nature, such as the 3rd extension of the SIBS Application Programming Interface (API) Market in relation to PDS2 - provision of the "Account Holder Name", inclusion of Card Accounts in the APIs of the account information service and inclusion of Card Accounts in the API of the payment initiation service.

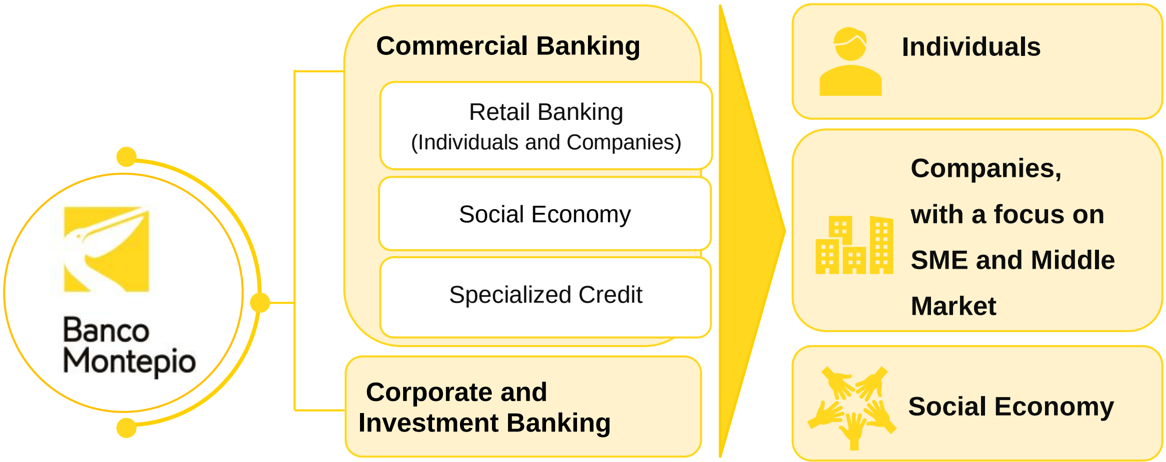
BUSINESS SEGMENTS

The Banco Montepio Group develops a series of banking and financial service activities, with focus on retail banking in Portugal. The business segments reflect the organisational and management model of the Banco Montepio Group, which encompassed Commercial Banking, which includes Retail Banking, Social Economy and Specialized Credit - which includes the consumer credit business developed essentially through Montepio Crédito – and Corporate and Investment Banking, as well as complementary services, provided through SSAGIncentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.

The segmentation is made in the first instance between Individuals and Companies, with an emphasis on Small and Medium Enterprises and middle market, and Social Economy. Banco Montepio's business model is Customer-focused, committed to improving the well-being of Families, supporting the Social Economy and meeting the needs of Small and Medium-Sized Companies, and based on values of proximity, trust, solidity, transparency, tradition, innovation and inclusion.

Banco Montepio provides a range of banking products and financial services that include all the services inherent to universal banking, namely deposit taking, credit granting and financial services to companies and individuals, custody, and also the marketing of investment funds and life and non-life, insurance, among others.

BUSINESS SEGMENTS OF THE BANCO MONTEPIO GROUP



With the sale of 51% of the share capital and voting rights it held in Finibanco Angola on 30 June 2023, Banco Montepio deconsolidated this subsidiary, which represented another important step in the implementation of the commitments made in the strategic plan, namely with regard to simplifying the Group's corporate structure and freeing up capital and resources for the development of activity in Portugal, namely in support of families, the social economy and national companies, a purpose that was at the origin of this centenary mutual bank.

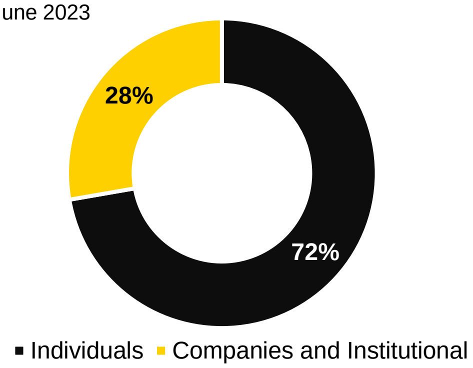
In the domestic market, and continuing with the strategic objective of simplifying the corporate structure and improving the Group's operating model, Banco Montepio decided to move towards integrating BEM's activity into the parent company. At the same time, it redefined the model for monitoring Corporate Customers, applying a different segmentation that is more adapted to the size of the corporate structure in our country, in which small and medium-sized enterprises (SMEs) with a turnover of more than 4 million euros now have specialized managers who are part of the Corporate Banking Division (DBE) as a whole, consolidating the simplification of the group with the adjustment underway at Banco Montepio and converging with the sector's benchmark of greater verticalization and integration.

On 8 September 2023, Montepio Holding, SGPS, S.A. (100% owned by the Banco Montepio Group), agreed to sell its 100% stake in the share capital of Montepio Investimento, S.A. (BEM), to the fintech RAUVA Enterprises, S.A., with the closing of the operation expected in the coming months, following approval by the supervisory and regulatory authorities. The integration of BEM's activity into Banco Montepio will allow synergies to be captured and, at the same time, preserve and enhance the integrated value proposition of commercial banking and investment banking.

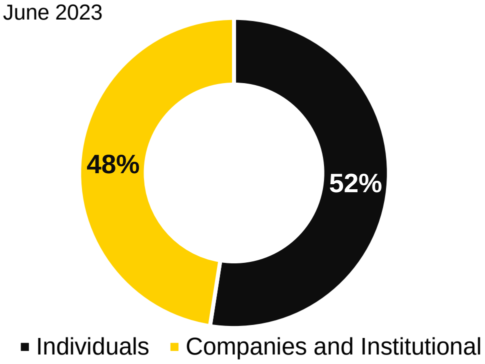
As at 30 June 2023, operations in Portugal represented 100% of total assets. Banco Montepio had a network of 243 branches in Portugal, serving 1,304 thousand Customers, of which 164 thousand Companies and 1,140 thousand Individuals, with market shares of 5% in Deposits and in Credit granted to customers.

Banco Montepio's customer Deposits amounted to 12.9 billion euros, with Individual Customers representing 72% of this amount, and gross customer credit reached 11.9 billion euros, divided by 52% of Individual Customers and 48% of Corporate and Institutional Clients.

Structure of Customers Deposits
30 June 2023



Structure of Loans to Customers (Gross)
30 June 2023



The main highlights of the first half are presented below with respect to the Banco Montepio Group's offer of financial products and services, by segment of Customer.

INDIVIDUALS

Banco Montepio 's offer for the Individuals segment focuses on Savings and Credit products aimed at Families and Individual Customers. In keeping with its centuries-old vocation as a savings institution, the bank offers a wide range of solutions with different characteristics and maturities, tailored to the objectives and needs of its customers. With regard to Loans to Individuals, the **Mortgage Loans offer** stands out, having recently been **distinguished by DECO PROTESTE with two Escolha Acertada (right choice) seals**, for bringing together the best relationship between quality and price.

DEPOSITS

In the first half of 2023, Banco Montepio continued to strengthen its offer of structured deposits, having launched the following issues of this type of deposit by 9 June 2023, with the aim of diversifying the offer to customers in products with guaranteed capital:

- **Banco Montepio Cabaz Ações Europeias_Março 2023 (Banco Montepio European Share Basket_March 2023)**, a structured deposit for the period of 2 years, cannot be withdrawn early, in euros, with guaranteed capital on maturity, and remuneration dependent on the performance of a basket of 4 shares in European companies.
- **Banco Montepio Cabaz Ações Saúde_Abril 2023 (Banco Montepio Health Share Basket_April 2023)**, a structured deposit for the period of 2 years, non-callable in advance, in euros, with guaranteed capital on maturity, and remuneration dependent on the performance of a basket of 4 shares of European companies in the health industry.
- **Banco Montepio Cabaz Ações Prestígio_Junho 2023 (Banco Montepio Prestige Share Basket_June 2023)**, a structured deposit for the period of 2 years, cannot be withdrawn early, in euros, with a capital guarantee on maturity, and remuneration dependent on the performance of a basket of 4 shares in European companies with prestigious brands.

INVESTMENT 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, SGOIC, 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 Gestão de Activos, SGOIC, S.A. and SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.

The Valor Prime Real Estate Investment Fund, managed by Montepio Gestão de Activos, was awarded the Best Open Real Estate Investment Fund prize for the second year running by the Association of Investment Funds, Pensions and Assets (APFIPP), which, in partnership with Jornal de Negócios, awarded the Jornal de Negócios/APFIPP Best Funds Prizes – 2023.

Montepio Euro Energy, an open-ended equity investment fund managed by Montepio Gestão de Activos, was named the most profitable fund of 2022 by FundsPeople, the reference community for asset management professionals in Spain, Portugal and Italy.

Valor Prime
foi galardoado com o

Prémio Melhor Fundo de Investimento Imobiliário Aberto 2022 e 2023

Atribuído pelo Jornal de Negócios/APFIPP para a categoria de Melhor Fundo de Investimento Imobiliário Aberto

Este prémio é da exclusiva responsabilidade da entidade que o atribuiu.

MONTEPIO EURO ENERGY
foi galardoado com o

Prémio "Melhor Fundo Nacional de Ações"

A Montepio Gestão de Activos é o vencedor do Prémio "Melhor Fundo Nacional de Ações" com o fundo Montepio Euro Energy, na II Edição dos Prémios Rankia Portugal.

Este prémio é da exclusiva responsabilidade da entidade que o atribuiu.

RETIREMENT SAVINGS PLAN

With regard to the distribution of Retirement Saving Plans/Share Saving Plans (PPR/PPA) and Pension Funds of Futuro, Sociedade Gestora de Fundos de Pensões, S.A., two quarterly campaigns were carried out in the first half of 2023 with the aim of with the aim of encouraging periodic subscriptions by current Customers and attracting new Customers, the first being a PPR for Customers aged between 18 and 35:

- **Monthly is easier and healthier!**
- **For Retirement and More.**

It should be noted that Futuro, Sociedade Gestora de Fundos de Pensões, S.A., a company certified by APCER (ISO9001), is celebrating 35 years in business this year.

MUTUAL SAVINGS MODALITIES

Banco Montepio also ensures the distribution of savings solutions from Montepio Geral - Associação Mutualista (MGAM) in the medium and long term (Mutualist Savings Modalities), exclusive to its members.

MGAM has taken steps to boost the attraction and/or retention of Associate Clients, as well as the savings and protection options available, including the monthly distribution of the Poupança Mutualista Prazo 5.1 (Mutualist Term Saving 5.1) series. 2023-2028, medium/long-term capitalization modality.

PUBLIC SUBSCRIPTION OFFERS

In the first half of 2023, Banco Montepio, as the Placement Entity, took part in several Public Bond Subscription Offers (OPS) / Public Bond Exchange Offers (OPT), such as OPS "Obrigações Benfica SAD 2023-2026", OPT "Obrigações Benfica SAD 2020-2023", OPS "FC Porto SAD 2023-2026" and OPT "FC Porto SAD 2021-2023", providing its Clients with the possibility of subscribing to bonds from recognized entities and diversifying their investments.

INSURANCE

Within the scope of Bancasseguros, the simplification of services and processes continues, in partnership with the Montepio Group's insurance companies, Lusitania, Companhia de Seguros S.A. and Lusitania Vida, Companhia de Seguros, S.A., with a view to increasing efficiency and improving Customer experience.

MORTGAGE LOANS AND MULTIFUNCTIONAL CREDIT

Mortgage Loans and Multifunctional Loans are strategic products to support the growth and sustainability of Banco Montepio's loan portfolio, considering the respective capital consumption and risk-adjusted profitability, and the impact, in terms of profitability, resulting from the level of involvement of the Client with the Bank.

Banco Montepio continued to strengthen the quality of its offer in this area, promoting solutions with differentiating conditions in the market and offering variable, fixed or mixed rate modalities. The Bank is pursuing its goal of increasing its loan portfolio and positioning itself as a specialist bank in the Mortgage Loan product, taking in consideration that the relevant factors in choosing this product are price, service and the relationship established between the Bank and the Client.

During the first half of the year, inspired by the success of previous years' campaigns, Banco Montepio launched a new Mortgage Loan offer with the lowest minimum spread on the market and recovered the allocation of 1% of the contracted amount (or 1.1% if the property has an A+ or A energy certificate) in a discount card to be used at Worten. This offer was distinguished by DECO PROTESTE with two right choice seals, which demonstrates Banco Montepio's commitment and ability to offer differentiating products to its customers and the market.

PERSONAL LOANS

Banco Montepio has supported Customers in carrying out their projects, in a responsible manner and with rigorous criteria of risk analysis and management. With an offer based on a multichannel functionality that is flexible, simple, fast, online and available at any time, any Customer can apply for a Personal Loan without needing to go to a branch, in a 100% digital process.

Of note is the Renewable Energy Credit, a credit line to support the purchase and installation of equipment that uses renewable energy.

COMPANIES

Banco Montepio's offer for the Corporate 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.

CREDIT

In the first half of 2023, Banco Montepio continued to focus on the Business sector, providing credit lines guaranteed by the State, in partnership with Banco Português de Fomento (BPF), in order to support Portuguese companies to overcome challenges and constraints, in particular following the rise in inflation and combined with the geopolitical crisis resulting from the invasion of Ukraine, with emphasis on:

- **Support Line for Increased Production Costs**

  It aims to support the treasury of SMEs, Small Midcaps, Midcaps and Large Companies, particularly affected by the sharp rise in energy and raw material costs and disruptions in supply chains.

- **Social Sector Financing Line**

  It aims to support Social Economy Entities (SEEs), particularly affected by the sharp rise in energy and raw material costs and disruptions in supply chains, in financing cash flow and investment needs.

- **Fincresce | SME Leader 2022 Programme**

  In May 2023 the “Estatutos PME Líder 2022” (SME Leader 2022 Status) was awarded. 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.

Banco Montepio has maintained its commitment to facilitating access to European Funds, with better financing conditions, by making available lines from the European Investment Bank (EIB), in particular:

- **EIB 2020 lending line**

  Line with a total amount of 300 million euros, with financial advantages and aimed at financing loans granted to companies, preferably SMEs and Midcaps, whose investment projects take place in Portugal or in other European Union countries, in various sectors of economic activity.

SERVICES

Banco Montepio Group advises Mota-Engil on bond issue

The Banco Montepio Group advised Mota-Engil on the structuring of a bond issue – Sustainability-Linked Bonds, amounting to 10 million euros, by private and direct offer. The issue, certified as Sustainability-Linked Bonds, complies with the conditions established in the Sustainability-Linked Bond Principles, published by the International Capital Market Association, in accordance with the Second Party Opinion issued by S&P Global Ratings.

The Mota-Engil Sustainability-Linked Bonds 2023-2027 reflect the Issuer's commitment to promote the improvement of a key performance indicator, the index of non-fatal work accidents with casualties in engineering and construction projects, whose sustainability performance target must be achieved by 31 December 2025. With this operation, Mota-Engil intends to tackle the accidents that are most likely to result in fatalities, reinforcing its actions by implementing prevention and awareness-raising measures.

The Banco Montepio Group acted as Overall Coordinator of the operation, and as investor, taking responsibility for organising and setting up the operation and subscribing to the issue.

Payments

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 Mobile POS (Touch2Pay) solution continues to stand out, allowing payments to be accepted quickly and safely, anywhere. This offer consists of a payment app, available for IOS and Android, and a small Card Reader that connects via Bluetooth and allows you to make payments with an EMV chip card (Europay, MasterCard and Visa), Magnetic Band and Contactless.

"Serviço Net Global" (Net Global Service)

Banco Montepio continues to offer an unlimited number of transfers (including immediate transfers) via the internet, telephone and app, for Customers who subscribe to the Montepio24 Empresas (Business) Service, for a single monthly fee. After activation, the service is valid for all the current accounts held by the company. For the other features (Urgent Transfers, SPGT Transfers, or SEPA+ Credit Transfers by XML File - payments and charges), not included in the service, the defined price is maintained.

SOCIAL ECONOMY

The Social Economy, developed by the various entities of the sector and with different areas of activity, acts on an increasingly wide universe of Portuguese society, positioning themselves as important agents in job creation and in the production of wealth.

Assuming its nature as a third sector, the Social Economy finds its raison d'être in achieving social goals, thus complementing the work of the public and private sectors, and with a greater capacity to respond to new social and societal challenges, through innovation and the pooling of resources and wills, particularly in areas where the fight against inequalities, poverty and social exclusion requires solidarity responses from the community.

In fulfilling their mission, Social and Solidarity Economy Entities (EESS) rely on Banco Montepio as a strategic financial partner, with an integrated and personalized offer to meet their financial needs. At Banco Montepio, the EESSs are monitored by the Social Economy and Public Sector Commercial Division (DCESSP), a complementary area to the branch network, composed by a team from the north to the south of the country with specialised knowledge of the sector, its needs and different areas of activity.

As a result of the work carried out by the commercial teams, Banco Montepio maintained a penetration rate of 27% among Social Economy and Solidarity Customers (with a social purpose) in the first half of 2023, thus continuing to implement the strategy of continuous specialized monitoring of the Social Sector Customer base as a differentiating pillar.

In this sense, the EESSs have available unique solutions, examples of which are the ESocial Solution, an integrated solution of products, services and advantages exclusive to the EESS, the Acordo Account, an overdraft facility (exclusive ceiling) for the IPSS that facilitates cash management, and, the Volunteer Insurance, personal accident, health and civil liability insurance – mandatory for all institutions that rely on the collaboration of volunteers.

As a reference financial partner, the commercial relations between Banco Montepio and the EESSs allow the continuation of commercial protocols that make a difference in society and in the activity of these institutions, highlighting those with the representative structures of the Social and Solidarity Economy, which give access to a set of benefits and advantages in Banco Montepio products and services, examples of which are the protocols with the "União das Misericórdias Portuguesas" (UMP) (Union of the Portuguese Misericórdias), the "Confederação Nacional das Instituições de Solidariedade" (CNIS) (National Confederation of Solidarity Institutions), the "Nacional de Cooperativas de Solidariedade Social" (Fenacerci) (National Federation of Social Solidarity Cooperatives) and the "Liga dos Bombeiros Portugueses" (LBP) (League of Portuguese Firefighters), among others.

Support to the Public Sector

The Public Sector is made up of various public institutional units, including public administrations and the entire business sector, which is wholly or mainly publicly owned. This area is also monitored by the Commercial Directorate for the Social Economy and the Public Sector (DCESSP), which has an experienced team with specific knowledge of the sector, and is committed to working alongside those whose mission is to ensure the interests of the community.

Banco Montepio monitors this segment, particularly in the analysis of credit proposals for public tenders. In this field, awards were made to Banco Montepio, as well as proposals for global involvement, resulting from the Customer loyalty strategy based on everyday products and services.

Support to Entrepreneurship and Social Innovation

Banco Montepio is committed to entrepreneurship and social innovation, such as to drive the continuous progress of a more sustainable, close and inclusive society.

In the area of entrepreneurship, the role of Banco Montepio is evidenced by the availability of financing lines for sustainable projects, as well as the continuity of partnerships that allow the promotion of equal opportunities.

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 those 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 attend the bootcamps In Lisbon and Porto.*

As part of the partnership established with <Academia de Código_>, Banco Montepio supported the following in the first half of 2023:

48 Code Academy students financed

263.800 euros of Code Academy financing

Achieving the objectives of this partnership, through student funding, more than 200 grants have been awarded for a total amount of more than 1.1 million euros since its beginning in 2020.

Microcredit

Since 2006, Banco Montepio has been developing projects in partnership with a nationwide team of managers specialised in the field of Microcredit, who accompany, support and help generate sustainable ideas and businesses.

During the first half of 2023, Banco Montepio provided the following products to people with an entrepreneurial spirit and the desire to create their own business:

- The **"Linha de Apoio ao Empreendedorismo e à Criação do Próprio Emprego (LAECPE)"** (Line of Support to Entrepreneurship 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 the 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 economic and social exclusion, and long-term unemployment;
- **"Solução E.mpreendedor"** (E.Entrepreneur Solution), a Banco Montepio solution for businesses less than 2 years old, provides a selection of integrated products and services to support the business;
- **"Solução E.mpresário"** (E.Businessperson), a solution that supports companies at the growth stage, and includes a selection of integrated products and services to keep the business on the right track;

Banco Montepio also provides access to a set of **24 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);
- 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 the Municipality of Amadora);
- ANJE - Associação Nacional de Jovens Empresários (National Association of Young Entrepreneurs);
- 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);
- 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 (Ave Sun - 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).

As regards financing in the context of **Microcredit**, Banco Montepio provided support in the first half of 2023:

21 Projects

304,237 euros of financing

24 jobs

Banco Montepio's active participation in the themes of Social Economy, Microcredit and Entrepreneurship and Social Innovation resulted in several actions carried out in the first half of the year, with highlight to:

- **EPIS scholarships** – Partnership with "Empresários pela Inclusão Social" (EPIS) (Entrepreneurs for Social Inclusion), a national reference in the development, incubation and internalisation of new methodologies aimed at improving school performance, ensuring educational and training system quality, and fostering the employability and professional integration of youngsters in Portugal. This social partnership has resulted in six social scholarships being awarded, three to secondary school students and three to higher education students.
- **The ESG WEEK 2023**, with Banco Montepio as host and main sponsor, the support to the **Pirilampo Mágico 2023** campaign and the official partnership of the 14th **National Congress of the Misericórdias** and of the 2nd edition of the **Social Innovation Village**, initiatives already listed on the section "The Banco Montepio Brand" of this report**.**

Banco Montepio

REPORT AND ACCOUNTS

04 BUSINESS ENVIRONMENT

Banco Montepio

1ST HALF 2023

BUSINESS ENVIRONMENT

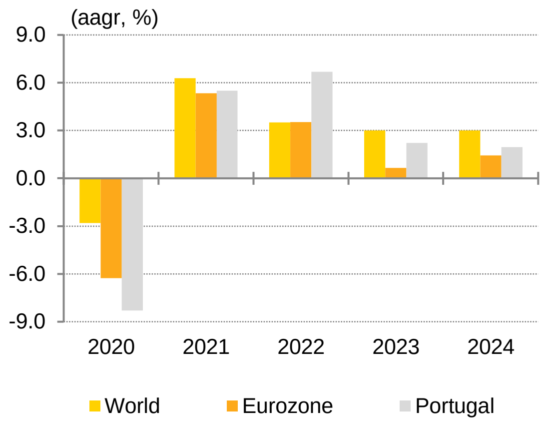
ECONOMY

In the mid-term update of the World Economic Outlook (WEO), on 25 July 2023, the International Monetary Fund (IMF) revised upwards, by 0.2 p.p. (compared to the April forecasts), the growth of the world economy in 2023, to 3.0%. However, world gross domestic product (GDP) will slow down from 3.5% in 2022 and show a weak level of growth in historical terms, compared to an average annual growth rate of 3.8% during the period 2000-2019. For 2024, the IMF maintained its forecast of 3.0%, a rate of expansion which, according to the IMF's longer-term forecasts presented in April, should continue until 2027.

According to the IMF, the advanced economies continue to lead the slowdown, due to weaker manufacturing, as well as idiosyncratic factors counteracting stronger services activity.

Concerning the world's main economies, the IMF revised upwards the 2023 growth of the USA (+0.2 p.p., to +1.8%), the eurozone (+0.1 p.p., to +0.9%), the United Kingdom (+0.7 p.p., to +0.4%), Japan (+0.1 p.p., to +1.4%), Russia (+0.8 p.p., to +1.5%), India (+0.2 p.p., to +6.1%) and Brazil (+1.2 p.p., to +2.1%), while China's was maintained (at +5.2%), and, on the opposite side, Germany's was revised downwards (-0.2 p.p., to -0.3%).

Gross Domestic Product



Source: Thomson Reuters, Banco Montepio and IMF.

As the IMF pointed out when the WEO was fully updated in April, the feeble economic outlook reflects the monetary tightening needed to control inflation, a task that the IMF expects will not be completed until 2025, as well as the deterioration in financial conditions, the continuation of the war in Ukraine and growing geo-economic fragmentation, which could increase trade tensions, reduce direct investment and slow innovation.

According to the IMF, growth in the world economy this year will continue to be mainly sustained by the emerging economies, which are expected to grow by 4.0% in 2023, 0.1 p.p. higher than the April forecasts, and 4.1% in 2024 (-0.1 p.p. compared to previous forecasts). The main focus is on Asian economies, which are expected to grow by 5.3% this year and moderate to 5.0% in 2024. The advanced economies are expected to advance by 1.5% in 2023, 0.2 p.p. more than in April, and by 1.4% in 2024 (similar to previous forecasts).

With regard to world inflation, the IMF considers that inflation should fall from 8.7% in 2022 to 6.8% in 2023 (revised downwards by 0.2 p.p. compared to the April forecasts), while maintaining the forecast of a further drop to 5.2% in 2024. The IMF expects the tightening of monetary policy to gradually dampen inflation, but with one of the main factors in the disinflation projected for 2023 being the fall in international commodity prices, pointing out that underlying (core) inflation, despite remaining well above central bank targets, is also gradually falling, anticipating an average annual figure of 6.0% for 2023 and 4.7% in 2024.

Economy of the Eurozone

Economic activity in the region started the year 2023 showing a slight increase of 0.1% in the 1st quarter of 2023, after the 0.1% drop recorded in the 4th quarter of 2022, preventing the eurozone economy from entering a technical recession (in the 2nd and 3rd estimates a drop of 0.1% was reported). GDP returned to growth in the 2nd quarter of 2023 (+0.1%), with modest increases expected in the 2nd half of the year, with the eurozone expected to slow down again in 2023 as a whole, to growth of around 0.6% (after expansions of 3.4% and 5.6% in 2022 and 2021, respectively).

The economy remains constrained by the context of high inflation and the consequent rise in interest rates by the European Central Bank (ECB).

The forecasts of the main national and international public bodies for economic growth in 2023 have tended to be revised upwards: the IMF increased its forecast from 0.8% to 0.9% on 25 July, the European Commission raised its forecast from 0.9% to 1.1% on 15 May (although revised downwards on 11 September to 0.8%) and the Organisation for Economic Co-operation and Development (OECD) revised from 0.8% to 0.9% on 7 June, while the ECB revised slightly downwards from 1.0% to 0.9% on 15 June. It should be noted that these entities' forecasts may be a little overestimated, as they may not have taken into account the performance of the economy in the 2nd quarter of 2023 (the initial GDP estimates for the 2nd quarter of 2023 had reported an expansion of 0.3%).

Throughout the first half of this year, the downward trend in inflation that began at the end of 2022 continued, with year-on-year inflation closing the first half of 2023 at 5.5%, but with underlying inflation showing greater resilience, having even closed the semester at a level (+5.4%) above that seen at the end of 2022 (+5.2%), after peaking at 5.7% in March.

Against this backdrop of persistent underlying inflation and the prospect of it remaining too high for too long, during the first half of 2023 the ECB continued the cycle of increases in its key interest rates that began in mid-2022, raising them by 150 b.p. (50 b.p. in February and March and 25 b.p. in May and June). This is already the ECB's most aggressive interest rate hike cycle, with reference rates rising by 400 b.p. in around 11 months (between July 2022 and June 2023). As a result, the interest rate applicable to the main refinancing operations (refi rate) closed the first half of the year at 4.00% and the deposit rate at 3.50%, while already in July they increased by 25 b.p., and again in September, also by 25 b.p., reaching 4.50% and 4.00% respectively.

Portuguese Economy

Portugal's GDP began 2023 with a strong and unexpected 1.6% quarter-on-quarter expansion in the 1st quarter, accelerating considerably compared to the previous quarter (+0.3%) and renewing the historical highs of the quarterly series (which began in 1978), standing 4.4% above the GDP of the 4th quarter of 2019, before the start of the pandemic. The economy was greatly supported by the strong positive contribution of net exports, particularly tourism.

In the 2nd quarter of 2023, economic activity stabilized (according to the first two estimates of GDP), with modest growth expected in the 3rd and 4th quarters, also reflecting the fact that the strong growth in the 1st quarter (as happened in 2022) may also have been the result of statistical problems in measuring economic activity.

In annual terms, after GDP grew by 6.7% in 2022, the highest rate since 1987 (following the 5.5% expansion in 2021 and the historic 8.3% decrease in 2020, following the markedly adverse effects of the Covid-19 pandemic), a marked slowdown in growth is expected in 2023, to growth in the range [+1.7%; +2.7%], with the middle of the range being below the government's latest forecast (on 14 July, the Minister of Finance announced an upward revision of Portuguese GDP growth in 2023, from the +1.8% assumed in the Stability Programme 2023-27 in April, to +2.7%), which is also below the 2.7% forecast in June by Banco de Portugal, the 2.4% projected in May by the European Commission, the 2.5% forecast in June by the OECD and the 2.6% forecast in May by the IMF.

In terms of prices, and as happened in the Euro Zone and practically on a global level, after the sharp increase in the inflation rate (measured by the harmonised index of consumer prices – IHPC) throughout 2022, Portugal also saw a continuation of the downward trend in inflation in the first half of the year, which began at the end of 2022, with year-on-year inflation closing the first half of 2023 at 4.7% (and above the ECB's target of +2.0%). year-on-year inflation closed the first half of 2023 at 4.7% (also benefiting from the VAT rate cut to 0% for several essential foodstuffs), still high (and above the ECB's target of +2.0%), but already well below that seen at the end of 2022 (+9.8%), as well as the peak of 10.6% seen in October 2022.

In the labour market, according to monthly estimates from the National Statistics Institute (INE), the unemployment rate fell over the 1st half of 2023, from 6.8% in December 2022 to 6.4% in June 2023.in the first half of 2023, the unemployment rate fell from 6.8% in December 2022 to 6.4% in June 2023, after a peak of 7.1% at the beginning of the year, but in annual terms it is expected to rise from 6.0% in 2022 to 6.6% in 2023 (in line with the IMF's forecast, slightly above the 6.5% predicted by the European Commission and below the 6.8% estimated by Banco de Portugal and the 7.4% projected by the OECD).

Public finances continued to benefit from the dynamism of economic activity and labour market, the reduction of measures to prevent and combat the Covid-19 pandemic, and the effect of rising prices on actual revenue, with the budget implementation data already available (for the 1st quarter, from a national accounting perspective, and up to May, from a public accounting perspective) showing an improvement in the budget balance in relation to the same period of the previous year (even taking into account the support measures launched by the Government to boost real household income), suggesting a further reduction in the budget deficit (as a % of GDP) in 2023, from the 0.4% recorded in 2022 to a figure below that assumed by the government's latest official forecasts (-0.4% in the Stability Programme 2023-27 of April), with the prospect of maintaining the downward trend in the ratio of public debt to GDP that began in 2021.

The household savings rate fell in 2022, from 9.9% in 2021 to 6.5%, extending the downward trend that began in 2021 (in 2022 already reflecting the increase in inflation), and is expected to fall again in 2023, judging in particular by the data already available (it fell in the 1st quarter of 2023 from the 6.5% observed in the 4th quarter of 2022 to 5.9%).

FINANCIAL MARKETS

The first half of 2023 saw a continuation of the trend of improved market sentiment that began in mid-October 2022, albeit against a backdrop of slower economic activity. However, the eurozone's largest economy (Germany) entered a technical recession between the 4th quarter of 2022 and the 1st quarter of 2023, with the reduction in real household incomes resulting from high inflation and the impact on aggregate demand of the tightening of monetary policy by central banks to cope with inflation.

Market sentiment also benefited from growing signs that Europe, in addition to avoiding a gas crisis this winter, will also avoid one next year, from expectations regarding the favourable impact on company accounts (especially technology companies) of recent and rapid developments in artificial intelligence, the continuation of favourable expectations regarding the effects of China's trade reopening (evident in the upward trend in activity data since the beginning of the year) and the expectation that the Chinese government will go ahead with a stimulus package to revitalize the economy, as well as the good results presented by North American companies in the 1st quarter of 2023.

The main US **stock indices** recorded strong rises during the first half of 2023, with the S&P 500 advancing by 15.9%, but still not fully recovering from the 19.4% fall observed in 2022. The Nasdaq rose even more (+31.7%), which represented the best performance in the last 40 years in the first half of the year, supported by the rally in artificial intelligence stocks, while the *Dow Jones* recovered less (+3.8%). In Europe, the Eurostoxx 50 rose 16.0%, with the Portuguese PSI index gaining 3.4%. The upward trend was transversal to most European markets, between the biggest rise in the Italian FTSE MIB (+19.1%) and the smallest in the British FTSE 100 (+1.1%), the latter particularly affected by high British inflation and the consequent need for more rate hikes. The MSCI global index appreciated by 12.8% in the 1st half (-19.8% in 2022), approaching the historical highs recorded on 16/11/2021, although closing the 1st half still 10.0% below those levels.

Yields on benchmark public debt rose in the main economies, but only in the shorter maturities, reflecting expectations and the implementation of more restrictive monetary policies, and fell slightly in the longer maturities. In **Germany**, 2-year yields rose 43 b.p. to 3.196%, but fell 18 b.p. in the 10-year to 2.392%, in the latter case 36 b.p. below the highest levels since April 2011. In the **US**, 2-year yields rose 47 b.p. to 4.895%, but fell 4 b.p. in the 10-year to 3.837%, 41 b.p. below their highest since June 2008.

The rise in short-term interest rates in the US has already led to the most negative declines since the early 1980s, measured by the difference between 10-year yields on the one hand and 2-year yields and 3-month interest rates on the other, with the last 5 recessions in the US always preceded by negative declines between 10-year yields and 3-month rates.

Credit spreads showed favourable movements in indices of Credit Default Swaps (CDI) in investment grade, against a backdrop of easing in the **public debt yield spreads of the peripheral eurozone countries**, with Greece standing out on the positive side (-77 b.p. to a spread of 128 b.p.), followed by Italy (-46 b.p. to 168 b.p.) and Portugal (-28 b.p. to 73 b.p.), which continued to have a lower spread than Spain (-10 b.p. to 99 b.p.).

With the anticipation and implementation of tighter monetary policy decisions by the ECB, in the fastest and most intense cycle of hikes in the ECB's history, **Euribor rates** also showed marked increases in the 1st half of 2023 (+145 b.p. in the 3 months, +121 b.p. in the 6 months and +84 b.p. in the 12 months).b. in the 12 months), after having already seen in 2022 the biggest increases in one year since the start of the historical series in 1999 (+270 b.p. in the 3 months, +324 b.p. in the 6 months and +379 b.p. in the 12 months) and after having closed 2021 approaching historic lows (observed in December 2021). Euribor rates closed the first half of 2023 at roughly their highest levels since November 2008: 3.577% in 3 months, 3.900% in 6 months and 4.134% in 12 months, moving into positive territory in 2022, which hasn't happened since the beginning of 2015.

FINANCIAL SYSTEM

Inflationary pressures have prolonged the current cycle of rising interest rates, generating a slowdown in economic activity, albeit on a smaller scale than initially expected, with the labour market remaining resilient. As a result, the effect of rising interest rates on banking activity has been largely positive, due to increases in net interest income, while the cost of credit risk remains at low levels.

Thus, the return on assets (ROA) of Portuguese banks reached 1.15% in the 1st quarter of 2023, the highest value in the last 5 years, mainly driven by higher net interest income. The increased profitability of Portuguese banks has favoured the outlook of rating agencies, which have improved the ratings and outlooks of most Portuguese banking groups.

However, the losses recorded in the bond markets since 2022 and the doubts generated about the liquidity of regional American banks led to the fall of some institutions (Silicon Valley Bank, Signature Bank and First Republic Bank), while in Europe the crisis of confidence that had been affecting Credit Suisse culminated in its acquisition by the UBS Group AG.

Given the high weight of index-linked loans in Portugal and the impact of the rise in the ECB's reference interest rates on market indexes, demand for credit has been slowing down, with negative year-on-year rates of change in some segments.

The 12-month Euribor, which is still the index with the greatest weight in the stock of permanent mortgage loans (approximately 40% of the loan portfolio, but which has been falling since May 2022), rose by around 85 b.p. in the first half of 2023, while the 3-month and 6-month maturities rose by around 140 b.p. and 120 b.p., respectively. As a result, the average interest rates on new loans to households and non-financial companies increased by 101 b.p. and 96 b.p. respectively between December 2022 and June 2023 (+278 b.p. and +334 b.p. respectively since June 2022).

There was a contraction in the stock of loans granted, with a greater impact on the non-financial companies segment, which fell by 1.55% between December 2022 and June 2023 and by 3.6% year-on-year (a negative year-on-year change that has been increasing since July 2022).

According to the "Bank Survey on the Credit Market", conducted by Banco de Portugal, credit granting criteria have become more restrictive, particularly for SMEs, with new operations focusing on higher risk Clients, a situation that is expected to continue throughout 2023. In a similar exercise carried out by the ECB among the business community (Survey on Access to Finance for Companies in the eurozone), a large percentage of the companies surveyed indicated an improvement in equity and debt levels, which has allowed them to re-establish capital buffers, in line with the expectation of an increase in turnover. This improvement has been reflected in the maintenance of the average coverage ratio of financing costs at robust levels, higher than those seen in the same period of 2022 and in previous years.

In the private segment, the negative change in the stock of loans was less pronounced at -0.77% between December 2022 and June 2023 and a positive year-on-year growth of 0.32% (with the total portfolio reaching 128.3 billion euros), despite the average monthly amount of partial early repayments of mortgage loans having more than tripled in the first months of 2023, compared to the same period last year (+213%, from 52 million euros in 2022 and 163 million euros in 2023), a situation boosted by the high differential between the cost of the loans and the rates of return on deposits applied by the market, as well as the cancellation of the collection of prepayment commissions, in the context of the "Mais Habitação" (More Housing) programme, approved by the Government on 16 February 2023.

The aim of this programme is to increase the supply of housing and mitigate the effect of rising interest rates on individuals with more vulnerable financial conditions, investing "in the promotion of new public housing responses" and eliminating any penalties on the use of amounts invested in retirement savings plans for early repayments, effective until the end of 2023. With rising interest rates and inflation, the household savings rate has been falling, reaching 5.88% of disposable income in the 1st quarter of 2023, the lowest since 2008, which compares with 13.6% in the eurozone, which is also falling. In terms of credit quality, the proportion of non-performing loans in the Portuguese financial system as a whole remained near the closing levels of 2022 in the first quarter of 2023, at 3%.

The first half of 2023 was also marked by an increase in the repayment of funding granted by the ECB under the targeted longer-term refinancing operations (TLTRO III). The ECB expects that the gradual reduction of these operations, combined with the discontinuation of reinvestments under the Asset Purchase Programme (APP) at the end of the first half of 2023, could reduce liquidity in the banking system, contributing to the aim of reducing the inflation rate.

As a result, Portuguese banks' liquidity will continue to be impacted by the gradual discontinuation of TLTRO – repayment of 3 series in 2023 - with the outstanding balance falling to 5.2 billion euros in June 2023 (-10.8 billion euros compared to the end of December 2022), significantly lower than at the end of 2021, when it stood at around 40 billion euros. The reduction in this liquidity has been mainly offset by the fall in ECB investments (around -13.2 billion euros in the last quarter of 2022) and debt portfolios (-1.9 billion euros in the last quarter of 2022).

In addition to the lower liquidity due to the TLTRO repayments, there was a 4.1% (-7.5 billion euros) reduction in individual deposits compared to December 2022, due to the demand for alternative investments with higher interest rates, namely savings certificates, a situation that has now been reversed, with banks increasing the return on deposits, and there are already offers with positive spreads.

MAIN RISKS AND UNCERTAINTIES FOR THE SECOND HALF OF 2023

In the previous full update of the WEO, on 11 April 2023, the IMF stressed that the economic forecasts presented at the time assumed the stability of the financial system, recognizing in this sense the risk of a scenario of greater financial stress, which would lead to lower than anticipated global growth.

According to the IMF, the instability observed in the financial system during the first half of 2023 represented a reminder of the challenges caused by the interaction between monetary policy and tighter financial conditions and the accumulation of vulnerabilities, considering that the risks to financial stability have increased significantly.

The IMF recalled that in the wake of the global financial crisis, some market operators increased their exposure to liquidity, duration and credit risk in order to cope with low interest rates, limited volatility and ample liquidity, noting that this strategy boosted returns but also vulnerabilities in the financial system. The risks took the form of the collapse of some regional US banks, such as Silicon Valley Bank and Signature Bank, as well as the sale of Credit Suisse to avoid bankruptcy.

In any case, in the subsequent partial update of the WEO, on 25 July 2023, the IMF came to consider that the balance of risks to global growth remains tilted to the downside, but recognizing that the adverse risks have diminished since the last publication. The resolution of US debt ceiling tensions reduced the risk of disruptive increases in sovereign debt interest rates, which would have increased pressure on countries already struggling with rising borrowing costs. At the same time, the swift and strong action taken by the authorities to contain the turbulence in the banking sector in the US and Switzerland has succeeded in reducing the risk of an immediate and wider crisis.

The IMF believes that the financial system has been tested against the backdrop of higher inflation and rising interest rates, at a time when price developments remain above the central banks' target, and that the emergence of stress in the financial markets observed in the first half of 2023 (especially in March and May) ultimately made the task of the monetary authorities more difficult. Nonetheless, the IMF acknowledged that the availability of tools allows central banks to separate monetary policy objectives from those of financial stability, making it possible to continue monetary tightening to deal with inflationary pressures.

It should also be noted that the IMF warned in the July 2023 WEO that negative surprises in inflation and monetary policy could lead to falls in the financial markets, arguing that central banks should remain firm in the fight against inflation. However, the IMF also called on central banks to step up their monitoring of risks, particularly the negative effects that rising interest rates are having on the economy.

It should be noted that the results of the 2023 stress test, carried out by the European Banking Authority (EBA) within the framework of the European Union, show that European banks remain resilient in the adverse scenario, with an average CET1 ratio of around 10.4%, from a value of 15% at the end of 2022, benefiting from the increase in profits in 2023, which mitigates losses in this scenario (of 496 billion euros). The Federal Reserve of the United States of America and the Bank of England also carried out stress tests on their respective banking systems, concluding that the aggregate CTE1 capital ratio of the US banks tested fell from 12.4% in the fourth quarter of 2022 to a minimum of 10.1%, standing at 10.7% at the end of the projected recession, thus remaining well above the minimum levels of capital requirements, and that in the UK, in aggregate terms for the 8 banks considered, the CET1 capital ratio starts at 14.2% and falls to 10.8% (the lowest point), still above the critical level of 6.9%.

In its most recent annual report, published on 25 June 2023, the Bank for International Settlements (BIS) also highlighted the risks arising from the high inflationary pressures and the fight that the monetary authorities have taken on. However, the BIS considered it necessary to cut public spending and/or raise taxes in order to contain inflation, arguing that monetary tightening alone will not be enough to contain inflationary pressures, but warning in any case that interest rates will have to remain high for longer than initially planned.

According to the BIS, the longer inflation persists, the more likely it is to consolidate and the greater the costs of eliminating it will be, recognizing that the gains made so far in the fight against inflation are essentially due to relief in supply chains and the fall in commodity prices, despite interest rate rises and the determination of central banks to beat inflation.

The BIS also pointed out that if the rise in prices is not controlled, there is a serious risk of a prolonged crisis, noting that the heated labour market and high prices for too long could lead to an inflationary spiral and high interest rates for a longer period of time, which would tend to disrupt financial stability. The organisation also considers that the global economy is going through a critical and dangerous moment, surrounded by a lot of uncertainty, in a context of difficult interaction between monetary and fiscal policies and with debt levels higher than those that preceded the global financial crisis 15 years ago. However, he recognizes that it is possible to make a "soft landing", but that in order to do so it is necessary to successfully tackle the risks currently facing the economy.

At a national level, the economy will also be conditioned by the risks identified in the global economy. According to the analysis of Banco de Portugal in the May 2023 Financial Stability Report, in the current framework of uncertainty and normalisation of monetary policy, the main vulnerabilities and risks for financial stability are:

i) increased turbulence in the international financial markets, implying potential contagion effects between the financial and economic cycles (any more widespread risk aversion would have adverse impacts on financing costs, asset valuations and economic activity);

ii) a less favourable path for the public debt ratio (a potentially more adverse economic and financial environment, with lower economic growth and greater persistence of inflation, which motivates a more restrictive and lasting reaction from the monetary authorities, increases the risks of high indebtedness);

iii) the potential default of the most vulnerable families, due to high inflation, rising short-term interest rates and a potential worsening of the unemployment rate (the preponderance of variable interest rates on mortgage loans in Portugal means that rising interest rates translate into a short-term increase in debt charges);

iv) the potential default of the most vulnerable companies (despite recent evidence of the sector's resilience, a more unfavourable economic and financial context, characterized by lower economic growth and higher interest rates, will increase the percentage of vulnerable companies);

v) the cooling in the residential real estate market, with an impact on prices and on the value of the collateral of loans secured by real estate (the rise in interest rates will contribute to a slowdown in prices in the residential real estate market in Portugal);

vi) the materialization of market and credit risks for the banking sector.

It should be noted that the aforementioned tightening of monetary policy, the still high inflationary pressures, the phasing out *of* public support for families and companies and also the end of moratorium programmes will continue to be particularly relevant challenges in 2023, since they contribute to the deterioration of the financial situation of families and companies, triggering an increase in insolvencies in some activity sectors.

With the prospect that the cycle of interest rate hikes by the main central banks has not yet come to an end and that interest rates will remain at high levels for a longer period of time, there may be corrections in the prices of financial and real estate assets, as well as a worsening of credit risk.

In this context, the BIS warned in its latest annual report, published in June 2023, of an increase in non-performing loans, which in turn could generate profitability and capital constraints in the banking system.

On the other hand, the reduction in demand for credit and the liquidity granted by the ECB will tend to reduce the size of banks' balance sheets, diminishing the favourable effect of rising interest rates. A possible intensification of the military conflict in Eastern Europe and its consequences for energy prices (as has happened in the past) remain a significant risk.

The reduction in the volume of liquidity-providing operations, through scheduled or early repayments of TLTRO operations, could lead to greater pressure on strengthening customer deposits, in addition to the need for new issues of securities to comply with the requirements of own funds and eligible liabilities (MREL) under the European rules on bank recovery and resolution directive (BRRD), with more aggravated costs in view of the expected increase in interest rates and the consequent impact on profitability levels.

In addition to the risks listed above, the growing regulation of climate risks and their treatment, the impacts of rapid technological transformation and the growing need for investment in cybersecurity (in January 2023 the "Digital Operational Resilience Act – DORA" regulation was published, with an implementation period of 24 months) could also have an impact on the pace of growth in the banking system's activity.

Banco Montepio

REPORT AND ACCOUNTS

05 FINANCIAL INFORMATION

Banco Montepio

1ST HALF 2023

FINANCIAL INFORMATION

ACTIVITY BY SEGMENTS

In the first half of 2023, Banco Montepio undertook a change in the structure of its commercial network, as part of the global context of optimization and efficiency and following the strategy of integrating the business developed by BEM into the parent company. This led to a re-analysis of the Corporate business, which resulted, among other things, in a reallocation of Clients between the so-called Retail Banking and Corporate and Investment Banking.

It should be noted that in 2022, according to the internal criteria in force, the Corporate and Investment Banking segment included Companies and Economic Groups with a turnover of 20 million euros or more, and, from a management point of view, aggregates the Group's activity with Small, Medium and Large Companies, accounted for by both Banco Montepio and BEM), through the commercial structure, unique and shared between the two entities, dedicated to this segment, as well as the business with Institutional Clients. This activity was also complemented by the work of BEM's Investment Banking area.

The reorganisation carried out in 2023 is, on the one hand, aligned with the integration of all the activity and employees previously accounted for in BEM within the parent company and, in a logic of simplifying the Group, the sale of the banking license. On the other hand, the aim was to develop the service provided to smaller Corporate customers, which is why the threshold was changed to 4 million euros, which defines the monitoring between the commercial divisions of Retail Banking and Corporate Banking.

Thus, Banco Montepio's segmentation is currently distributed and organised internally as follows:

- Retail Network: incorporates sole proprietorships, Micro-enterprises and Companies with a turnover of up to 4 million euros and Economic Groups where at least one of the participants has a turnover of up to 4 million euros;
- Corporate Banking Division (DBE): Small, Medium and Large Companies with a turnover of more than 4 million euros; Large Companies with a turnover of more than 150 million euros; Economic Groups where at least one of the participants has a turnover of more than 150 million euros; Institutional, Central Public Administration and subsidiaries of the Montepio Group;
- Commercial Directorate for the Social Economy and the Public Sector (DCESSP): third sector entities and the local public sector (it should be noted that, compared to the previous year, the Clients of subsidiary companies and the resolution fund migrated to DBE).

It should be noted that in the following tables, the figures for the 2022 periods correspond to those previously reported, reflecting the segmentation in force on each reference date, and, in turn, the figures for June 2023 reflect the new segmentation implemented, so the analysis in terms of evolution is not directly comparable, due to the migration of customers and business between the commercial divisions.

RETAIL BANKING

The Retail Banking segment corresponds to all the activity carried out by the Group with Individual Customers, Individual Entrepreneurs, Small and Medium-sized Companies assigned to this segment (as described above) and Micro-Companies, commercially referred to as the Private and Small Business segment, fundamentally originated through the branch network, electronic channels and the network of promoters.

The financial information of this segment covers, among other aspects, products and services, mortgage loans, consumer credit and loans for other purposes and, loans to retail Companies, sight 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. The variations compared to the same period in the previous year and the close of 2022 show the change in the organisational structure in the first half of 2023 and the consequent migration of Clients and portfolios between the sales divisions, as detailed above.

Summary of indicators - Retail Banking [1]

(million euros)

	Jun-22	Dec-22	Jun-23	Change Jun-23/Jun-22	
				Amount	%
Income Statement					
Net interest income [2]	70.6	160.1	116.4	45.8	65.0
Net fees and commissions	50.4	106.4	52.8	2.4	4.9
Total operating income	121.1	266.9	169.6	48.5	40.0
Operating costs [3]	38.9	80.3	36.9	(2.0)	(4.9)
Operating income before impairment	82.2	186.6	132.6	50.4	61.3
Balance Sheet					
Loans to customers (gross)	8 782	8 775	7 602	(1 179.2)	(13.4)
Customer deposits	11 441	11 517	10 820	(620.3)	(5.4)

1) In Jun-23, the Retail Banking segment incorporates Sole Proprietorships, Microenterprises and Companies with a turnover of up to €4M (up to €20M in Jun-22 and Dec-22) and Economic Groups where at least one of the participants has a turnover of up to €4M (up to €20M in Jun-22 and Dec-22).
2) Excluding the liquidity premium and campaign neutralization.
3) Direct operating costs only.

CORPORATE AND INVESTMENT BANKING

The Corporate and Investment Banking segment - which follows the internal classification criteria, including Companies and Economic Groups with a turnover of between 4 and 150 million euros (compared to a turnover of 20 million euros or more by 2022) - brings together the Group's activity with Small, Medium and Large Companies, accounted for by Banco Montepio and Banco de Empresas Montepio (BEM) in the Corporate Banking Division (DBE), through the commercial structure dedicated to this segment, as well as the business with institutional Clients, Central Administration and Public Entities, and the activity carried out in the Investment Banking area by Banco de Empresas Montepio (BEM).

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 business includes the Commercial Banking component and the Investment Banking business. The Corporate Banking area supports its Clients throughout all stages of their business cycle, with specific responses for each need, particularly with regard to treasury management, international trade and factoring, among others. The Investment Banking area - which incorporates the areas of Corporate Finance, Capital Markets, 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.

A summary of the indicators of the Corporate and Investment Banking segment is presented below, reflecting the integrated activity developed with the Companies monitored by Banco de Empresas Montepio, in accordance with the segment reporting under IFRS 8 and presented in the notes to the financial statements of this report. The variations compared to the same period in the previous year and the close of 2022 show the change in the organisational structure in the first half of 2023 and the consequent migration of Clients and portfolios between the sales divisions, as detailed above.

Summary of indicators - Corporate and Investment Banking 1) (million euros)

	Jun-22	Dec-22	Jun-23	Change Jun-23/Jun-22	
				Amount	%
Income Statement					
Net interest income 2)	21.2	45.3	44.5	23.3	>100
Net fees and commissions	5.4	12.7	10.2	4.8	87.5
Total operating income	25.9	12.7	53.4	27.5	>100
Operating costs 3)	4.5	9.2	6.0	1.5	35.6
Operating income before impairment	21.4	3.5	47.3	25.9	>100
Balance Sheet					
Loans to customers (gross)	1 828	1 829	2 928	1 099.8	60.2
Customer deposits	346	406	860	514.1	>100

1) In Jun-23, the Corporate and Investment Banking segment began to include Subsidiary Companies and the Resolution Fund, which in Dec-22 integrated the Social Economy segment.
2) Excluding the liquidity premium and campaign neutralization.
3) Direct operating costs only.

All other segments, namely comprising specialised credit, are analysed individually herein, by the respective Subsidiary in the “Subsidiary companies” 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. The variations compared to the same period in the previous year and the close of 2022 show the change in the organisational structure in the first half of 2023 and the consequent migration of Clients and portfolios between the commercial divisions, as detailed above.

Summary of indicators - Social Economy 1) (million euros)

	Jun-22	Dec-22	Jun-23	Change Jun-23/Jun-22	
				Amount	%
Income Statement					
Net interest income 2)	1.6	3.9	3.8	2.2	>100
Net fees and commissions	0.9	2.3	1.0	0.1	10.0
Total operating income	2.3	6.0	4.7	2.4	99.6
Operating costs 3)	1.6	3.3	1.5	(0.1)	(4.8)
Operating income before impairment	0.7	2.7	3.2	2.5	>100
Balance Sheet					
Loans to customers (gross)	312	333	263	(49.1)	(15.7)
Customer deposits	704	690	720	16.0	2.3

1) In Jun-23, the Social Economy segment no longer included Subsidiary Companies and the Resolution Fund, which became part of the Corporate and Investment Banking segment.
2) Excluding the liquidity premium and campaign neutralization.
3) Direct operating costs only.

SUBSIDIARY COMPANIES

Montepio Investimento, S.A.

Montepio Investimento, S.A., a bank wholly controlled by Banco Montepio, through Montepio Holding, SGPS, S.A., adopted the commercial name of Banco de Empresas Montepio (BEM) on 4 June 2019, and began to develop Commercial Banking and Investment Banking activities on an aggregated basis, with the objective of making available to the market a complete, integrated and global service offering. In accordance with the defined strategy, this activity and offer of value to Companies will be continued, but in a different organisational logic, centred on Banco Montepio, with a view to greater integration and simplification of the Group. The operational integration of BEM into Banco Montepio is underway in order to aggregate the offer of commercial banking and investment banking products and services to the Corporate customers.

In August 2022, Banco Montepio decided to integrate BEM, 100% owned by its subsidiary Montepio Holding, SGPS, S.A., including the transfer of all its assets, liabilities and operations, which triggered the operational integration plan as well as the carve-out of all activity to the parent company. In this context, on 8 September 2023, Montepio Holding, SGPS, S.A., agreed to sell its 100% stake in BEM's share capital to the fintech RAUVA Enterprises, S.A., which is expected to close in the short term, following approval by the supervisory and regulatory authorities. At a later date, all of BEM's assets, liabilities and operations will be transferred to Banco Montepio, as part of the process of integrating BEM's activity into Banco Montepio, which will enable capturing synergies and, at the same time, preserving and enhancing the integrated value proposition of commercial banking and investment banking.

As at 30 June 2023, BEM's net assets stood at 435.2 million euros, representing a decrease of 84.9 million euros (-16.3%) compared to the amount reported at the end of 2022, highlighting the reductions in Loans and advances to customers (-69.2 million euros), Loans and deposits to credit institutions payable on demand (-9.5 million euros) and Financial assets at fair value through profit or loss (-3.0 million euros), reflecting the pursuit of the new strategy of centralizing this business area within the parent company and not in a legally autonomous entity.

As at 30 June 2023, Equity (185.8 million euros) and Resources from other credit institutions (246.2 million euros) constituted the main source of asset funding, representing 99.3% of Total assets, compared to 99.2% at the end of 2022.

In the first half of 2023, there was a favourable evolution of the operating component compared to the first half of 2022, with an increase in the level of revenue along with a decrease in operating costs.

Operating income in the first half of 2023 amounted to 5.0 million euros, an increase of 0.2 million euros (+3.8%) compared to the same period in 2022, benefiting mainly from the favourable performance of Net interest income (+0.6 million euros) and Other operating income (+0.5 million euros).

Operating costs in the first half of 2023 fell to 2.3 million euros, compared to 2.6 million euros in the same half of 2022, as a result of the favourable evolution of staff costs (-11.1%), general and administrative expenses (-7.4%) and depreciation and amortisation (-32.7%).

Operating income before impairments and provisions increased to 2.7 million euros in the first half of 2023 compared to 2.2 million euros in the first half of 2022, reflecting the favourable evolution of operating income and operating costs in the first six months of the year.

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

Activity and Results (million euros)

	jun-22	dez-22	jun-23	Change Jun-23/Jun-22 Amount	Change Jun-23/Jun-22 %
Total assets	507.9	520.1	435.2	(72.7)	(14.3)
Loans to customers (net)	417.4	427.8	358.6	(58.8)	(14.1)
Securities portfolio 1)	70.9	54.1	51.2	(19.7)	(27.8)
Equity	181.1	183.2	185.8	4.7	2.6
Total operating income	4.8	10.6	5.0	0.2	3.8
Operating costs 2)	2.6	5.5	2.3	(0.3)	(13.1)
Net operating income before impairment and provisions	2.2	5.1	2.7	0.5	23.6

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 specialised credit in the automobile, home and services sectors, and equipment, complemented by a set of solutions for Customers that are Individuals, Companies and Institutions of the Social Economy sector. The specialised credit segment shows one of the vertices of the strategy of the Banco Montepio Group, reflecting the focus on consumer credit.

As a result of the solid relationship established with its partners, based on the experience gained over the years, Montepio Crédito continued to provide a comprehensive offer 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 specialised back-office.

As at 30 June 2023, net assets totalled 573.3 million euros, compared to 569.2 million euros at the end of 2022 (+4.1 million euros), as a result of increases in Loans and advances to customers (+1.8 million euros), Financial assets at fair value through profit or loss (+0.9 million euros) and Other assets (+1.8 million euros).

Loans and advances to customers (net) reached 549.5 million euros as at 30 June 2023, representing an increase of 1.8 million euros (+0.3%) compared to the figure at the end of 2022, still showing the effects of the constraints on the automotive sector's value chains as a result of the war in Europe, which influenced the dynamics of supply and demand for specialized loans in that sector.

Shareholders' equity rose to 68.1 million euros, compared to 67.9 million euros at the end of 2022, due to the accumulated net income for the period.

Operating income reached 7.4 million euros in the first half of 2023, representing a reduction of 1.7 million euros (-18.2%) compared to the 9.1 million euros recorded in the first half of 2022, penalized by the evolution of Net interest income (-1.3 million euros), the decrease in Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss (-1.0 million euros). It should be noted that Montepio Crédito's loan portfolio has a significant proportion of fixed-rate operations and the financing obtained is essentially variable-rate, the main component of which comes from Group funding. There was also a decrease in Fees and commissions (-0.2 million euros), partially offset by an increase in Other income (+0.9 million euros).

Operating costs in the first half of 2023 fell to 6.2 million euros (6.3 million euros in the first half of 2022), reflecting, on the one hand, the increase in staff costs and, on the other hand, the reduction in depreciation for the year.

Operating income before impairments and provisions in the first half of 2023 amounted to 1.2 million euros, down 1.6 million euros (-55.8%) on the figure recorded in the first half of 2022, as a result of the decrease in operating income.

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

Activity and Results (million euros)

	Jun-22	Dec-22	Jun-23	Change Jun-23/Jun-22 Amount	Change Jun-23/Jun-22 %
Total assets	556.1	569.2	573.3	17.2	3.1
Loans to customers (net)	534.8	547.7	549.5	14.7	2.7
Equity	65.8	67.9	68.1	2.3	3.5
Total operating income	9.1	20.4	7.4	(1.7)	(18.2)
Operating costs 1)	6.3	12.9	6.2	(0.1)	(1.2)
Net operating income before impairment and provisions	2.8	7.5	1.2	(1.6)	(55.8)

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., and its corporate object is the transaction and management of real estate properties.

As at 30 June 2023, the Assets of SSAGINCENTIVE amounted to 53.5 million euros, showing a 0.9% reduction in relation to the value of 53.9 million euros recorded at the end of 2022, as a result of the decrease registered in Inventories of real estate assets, partially offset by the increase in the heading of Cash and deposits at banks, reflecting the value received from the disposal of the real estate properties.

The heading of Inventories refers to the acquisitions made in the past from Banco Montepio, namely related to real estate properties that were intended for sale, in particular subdivisions of properties stated at market value. As at 30 June 2023, inventories totalled 15.7 million euros, of which 5.2 million euros related to buildings and 10.5 million euros to plots of land, a reduction of 1.9 million euros compared to the 17.6 million euros recorded as at 31 December 2022, due to the sales that took place during the first half of 2023, as a result of the successful implementation of the Banco Montepio Group's real estate deleveraging plan.

The heading of Cash and deposits at banks amounted to 37.7 million euros as at 30 June 2023, representing an increase of 1.4 million euros compared to the value of 36.3 million euros recorded at the end of 2022, showing the deposits made at Banco Montepio, which reflect the value received from the disposal of the real estate properties.

As at 30 June 2023, Equity stood at 53.1 million euros which was the main source of asset funding, representing 99.4% of Total assets (99.2% in 2022).

Sales and services rendered stood at 1.8 million euros in the first half of 2023, compared to the value of 3.2 million euros recorded in the first half of 2022, and correspond to the amounts from the sales of inventories, under SSAGINCENTIVE's current business activity. In turn, the Cost of goods sold and materials consumed amounted to 1.7 million euros in the first half of 2023, showing a reduction of 1.3 million euros compared to the same period in 2022, representing the acquisition cost of the properties sold, after deducting the respective impairment.

The heading of Impairment of inventories amounted to 0.19 million euros in the first half of 2023, evolving favourably in relation to the value of 0.24 million euros recorded in the first half of 2022, reflecting the impacts of the lower constitution of Impairments of real estate properties for trading.

Overall, operating profit for the first half of 2023 was -0.4 million euros, compared to -0.3 million euros for the first half of 2022, despite the lower level of impairment of inventories during the year.

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

Activity and Results (million euros)

	Jun-22	Dec-22	Jun-23	Change Jun-23/Jun-22	
				Amount	%
Total assets	54.5	53.9	53.5	(1.0)	(2.0)
Inventories	21.0	17.6	15.7	(5.3)	(25.2)
Equity	54.3	53.5	53.1	(1.2)	(2.2)
Total operating income	(0.3)	(1.1)	(0.4)	(0.1)	(15.2)

CAPITAL AND LIQUIDITY

CAPITAL

According to the provisions in force, as at 30 June 2023, the regulatory ratios, as measured by the overall capital requirements (OCR), which include the combined capital reserves, set by the supervisor for Banco Montepio, were 9.09%, 11.20% and 14.02% for Common Equity Tier 1, Tier 1 and Total Capital, respectively.

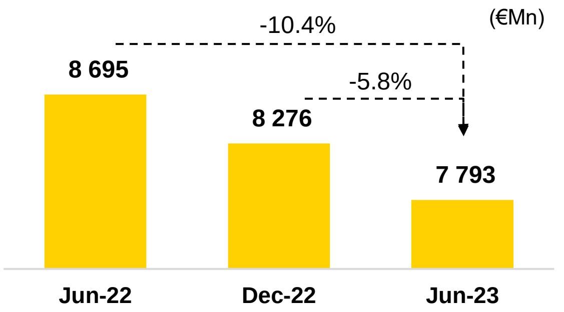
The capital ratios reported by Banco Montepio were at historical highs and above the required prudential levels, namely with significant gaps in relation to the overall capital requirement (OCR), not only in accordance with the phasing-in criteria, but also on a fully implemented basis, in a semester marked by the deconsolidation of Finibanco Angola. Nonetheless, the Board of Directors remains committed to strengthening capital ratios on an ongoing basis, and it is worth noting the very successful conclusion of the approved capital plan, both due to the favourable deviations from what was planned and the anticipation of the scheduled targets, which placed the Banco Montepio Group's total capital ratio at 17.2%, an all-time high, and at levels that compare adequately with the benchmarks for the sector, with an emphasis on CET1 at 14.5% at the end of June 2023.

Thus, and continuing the continuous reinforcement of capital ratios, Banco Montepio continued throughout the first half to implement of a set of measures aimed at improving solvency levels, through, in particular, the reduction of Risk Weighted Assets (RWA), focusing on deleveraging the balance sheet through the divestment of non-core or non-strategic assets, favouring the growth of the core business of granting credit in segments with lower risk and in a logic of maximising the return on allocated capital.

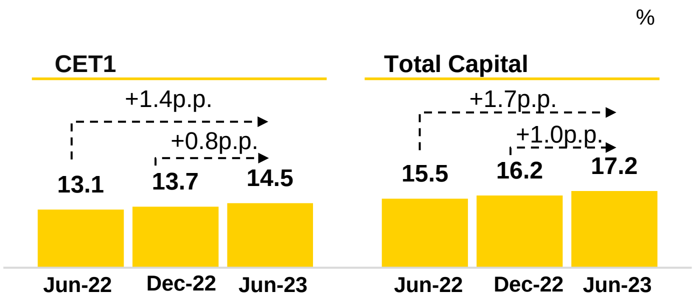
RWA continued their downward trend, showing a decrease of 902 million euros compared to the same period in 2022, as a result of the reduction in non-performing assets, the carrying out of a synthetic securitization at the end of 2022 and a new operation already during the first half of 2023, as well as, at the end of June, the deconsolidation of the stake held in Finibanco Angola. Of particular note is the reduction in the stock of non-performing loans (NPLs) and real estate, which notably contributed to the continued reduction in RWA and had a very positive impact in terms of capital ratios.

Total equity stood at 1,339 million euros as at 31 June 2023, compared to 1,343 million euros as at 31 December 2022, despite the significant devaluation of the kwanza in the period, which was reflected in a significant increase in negative foreign exchange reserves. It should be noted that the initial unfavourable impact resulting from the adjustment of the value of the stake was already incorporated in the 2022 accounts, so that in this first half of the year, in addition to the exchange rate evolution, there was a marginal positive impact on the reduction of RWA related to the deconsolidation of the subsidiary.

Risk-weighted assets (phasing-in)



Capital ratios (phasing-in)



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

Thus, as a result of the successful implementation of the outlined capital plan, Banco Montepio's Common Equity Tier 1 (CET1) and Total Capital ratios, according to the phasing-in rules, increased to 14.5% and 17.2% (13.7% and 16.2% at the end of 2022), reflecting an increase of 80 b.p. and 100 b.p., respectively, compared to the end of 2022, consolidating the strengthening trend registered throughout 2022, essentially reflecting the measures to reduce RWA, standing with a considerable gap in the face of regulatory requirements, namely the Overall Capital Requirement (OCR).

On a fully implemented basis, there is an even more favourable evolution compared to the end of 2022 to 14.4% in the CET1 ratio and to 17.1% in the total Capital ratio, an increase of 120 b.p. and 140 b.p., respectively, also showing a significant gap compared to the OCR. The differential compared to the phasing-in capital ratios is currently mainly explained by the IFRS 9 component, since at the end of 2019 the phasing-in relative to deferred tax assets was fully recorded and is currently only subject to the transitional prudential regime of IFRS 9.

As at 30 June 2023, the leverage ratio stood at 6.2% (5.9% at the end of 2022) pursuant to the phasing-in rules, and at 6.1% on a fully implemented basis (5.6% in December 2022), continuing to be above the benchmark minimum defined by the Basel Committee on Banking Supervision (3%).

A summary of the Banco Montepio Group's capital ratios for Jun-22, Dec-22 and Jun-23 is presented below:

CAPITAL RATIOS AND CAPITAL REQUIREMENTS

(million euros)

	Jun-22	Dec-22	Jun-23	Change Jun-23 / Jun-22		Change Jun-23 / Dec-22	
				Amount	**%**	**Amount**	**%**
Total own funds							
Common Equity Tier 1	1 137	1 135	1 133	(4)	(0.4)	(2)	(0.2)
Tier 1	1 138	1 136	1 133	(5)	(0.4)	(3)	(0.3)
Total Capital	1 345	1 343	1 339	(6)	(0.4)	(4)	(0.3)
Risk-weighted assets	**8 695**	**8 276**	**7 793**	**(902)**	**(10.4)**	**(483)**	**(5.8)**
Phasing-in ratios							
Common Equity Tier 1	13.1%	13.7%	14.5%	140 bp		80 bp	
Tier 1	13.1%	13.7%	14.5%	140 bp		80 bp	
Total Capital	15.5%	16.2%	17.2%	170 bp		100 bp	
Fully implemented ratios							
Common Equity Tier 1	12.6%	13.2%	14.4%	180 bp		120 bp	
Tier 1	12.6%	13.2%	14.4%	180 bp		120 bp	
Total Capital	15.0%	15.7%	17.1%	210 bp		140 bp	
Leverage ratios							
Phasing-In	5.7%	5.9%	6.2%	50 bp		30 bp	
Fully implemented	5.5%	5.6%	6.1%	60 bp		50 bp	

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

LIQUIDITY

Reflecting Banco Montepio's strategy regarding the diversification of funding sources, optimizing the management of alternative funding, on 30 June 2023 the value of the collateral pool for Eurosystem operations was 4,894 million euros, a value that compares with 5,555 million euros recorded at the end of 2022. This decrease of 661 million euros is due to recourse to funding sources other than the ECB. The collateral pool consisted mainly of liquid HQLA securities (essentially public debt securities from European countries) and also of retained issuance securities and credit rights.

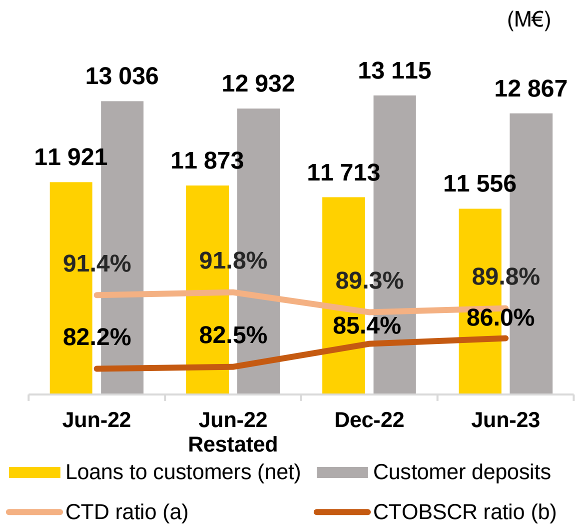
The use of the pool of eligible assets at the end of June 2023 amounted to 1,812 million euros (considering accrued interest), which includes financing transactions with the Eurosystem at the nominal value of 1,745 million euros. This figure is considerably lower than the nominal value of 2,930 million euros observed as at 31 December 2022, resulting from the repayment of TLTRO III operations. Framed under funding management, with a view to preserving stable financing, Eurosystem financing operations are currently exclusively made up of TLTRO-III (Targeted Longer-term Refinancing Operations) series, and in the first half of 2023, between early and scheduled repayments, a total of 1,185 million euros was repaid (285 million euros from TLTRO III series 3 and 900 million euros from TLTRO-III series 4).

In turn, in terms of collateral available to obtain liquidity, the reduction observed compared to the end of December 2022, amounting to 661 million euros, to 4,894 million euros, reflects the repayment of eligible assets in the banking portfolio that have reached their maturity, as well as the increase in activity in the collateralized money market (repos), with a maturity of up to 6 months, which totalled 485 million euros of funding obtained.

The first half of 2023 was also marked by continuous monitoring and careful management of the Customer deposit base and its respective cost, taking into account the importance of this source of funding and the current market context, with intensified competition in instruments for attracting Customer savings.

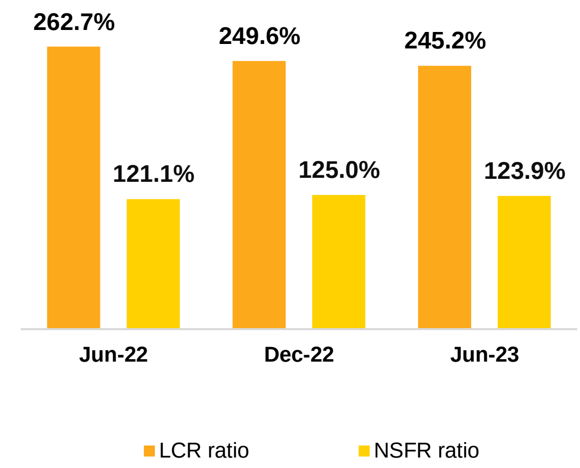
The performance of Customer deposits, on the one hand, and the progression of Loans to customers (net), on the other hand, led to a loan-to-deposit ratio, calculated in accordance with Banco de Portugal Instruction No. 16/2004, of 89.8% as at 30 June 2023, compared to 89.3% as at 31 December 2022.

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



The item deposits at Banco de Portugal, which amounted to 486 million euros as at 30 June 2023, fell by 736 million euros compared to the end of 2022 due to the liquidation of TLTRO, with an effective reduction in the financing obtained from the ECB.

The liquidity buffer, which reflects the liquidity immediately available, resulting from the aggregation of the value of assets available to obtain financing from the ECB and cash and deposits made with central banks, was 3,542 million euros as at 30 June 2023. This decrease of 250 million euros compared to the end of 2022, essentially reflects the evolution of deposits – a movement that is transversal to banking, with Banco Montepio managing to achieve gains in market share in the deposit portfolio throughout the semester – reflecting a comfortable position in terms of liquidity ratios.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(million euros)

	Jun-22	Dec-22	Jun-23	Change Jun-23 / Jun-22		Change Jun-23 / Dec-22	
				Amount	%	Amount	%
Pool of eligible assets [(a)]	4 982	5 555	4 894	(88)	(1.8)	(661)	(11.9)
Use of the pool	2 955	2 984	1 812	(1 143)	(38.7)	(1 172)	(39.3)
Pool of available assets	**2 027**	**2 571**	**3 082**	**1 055**	**52.0**	**511**	**19.9**

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

BALANCE SHEET AND RESULTS

As part of the strategic redefinition of its international holdings, and with a view to focusing on the domestic market, Banco Montepio concluded the process of voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde on 30 September 2022, and the sale of 51% of the share capital and voting rights it held in Finibanco Angola to Access Bank on 30 June 2023. As at 30 June 2023, the Banco Montepio Group held a stake equivalent to 29.22% of the share capital of Finibanco Angola, which was sold in August. In fact, on 10 August 2023, Banco Nacional de Angola authorized the transfer of the shares representing 29.22% of Finibanco Angola's share capital held by Montepio Holding in favour of the shareholder Access Bank, with the Banco Montepio Group having concluded the sale of its entire financial stake in Finibanco Angola's share capital.

The deconsolidation of this subsidiary had a significant positive impact on the capital ratios for the first half of 2023 and represents another important step in the implementation of the commitments made in the Adjustment Programme implemented at the Institution, namely with regard to simplifying the Group's corporate structure and focusing on the domestic market.

The Banco Montepio Group's consolidated financial statements reported as at 30 June 2023 consider the sale of the 51% stake held in Finibanco Angola to Access Bank, with Banco Montepio having deconsolidated the stake held in Finibanco Angola, recognized by the full method with the application of IFRS 5 through the derecognition of all assets and liabilities of the subsidiary entity and respective non-controlling interests.

For comparative purposes, restated information is presented in this Management Report, where relevant, of balance sheet items for the first half of 2022 that reflect the impacts arising from the application of IFRS 5 to the financial statements of Finibanco Angola, S.A. (information that is not audited and not present in the accounts and notes to the accounts of this Report and Accounts).

BALANCE SHEET

Faced with the changing circumstances and challenges faced by the Banco Montepio Group, the banking sector and the Portuguese economy, the Board of Directors adopted a multidimensional and multiannual Adjustment Programme, through the adoption of four main strategic pillars: revision of the business model, operational adjustment, capital preservation, and simplification of the Group, as presented in more detail in the strategy chapter.

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 reinforce the solid liquidity position even more. The set of initiatives outlined, namely the reinforcement of organic credit recovery, allowed Banco Montepio to continue with the plan to reduce non-performing loans, whose stock reached 531 million euros on 30 June 2023, representing a reduction of 4.7% compared to 598 million euros recorded on 31 December 2022 (11.2% compared to the same period).

SYNTHETIC BALANCE SHEET

(million euros)

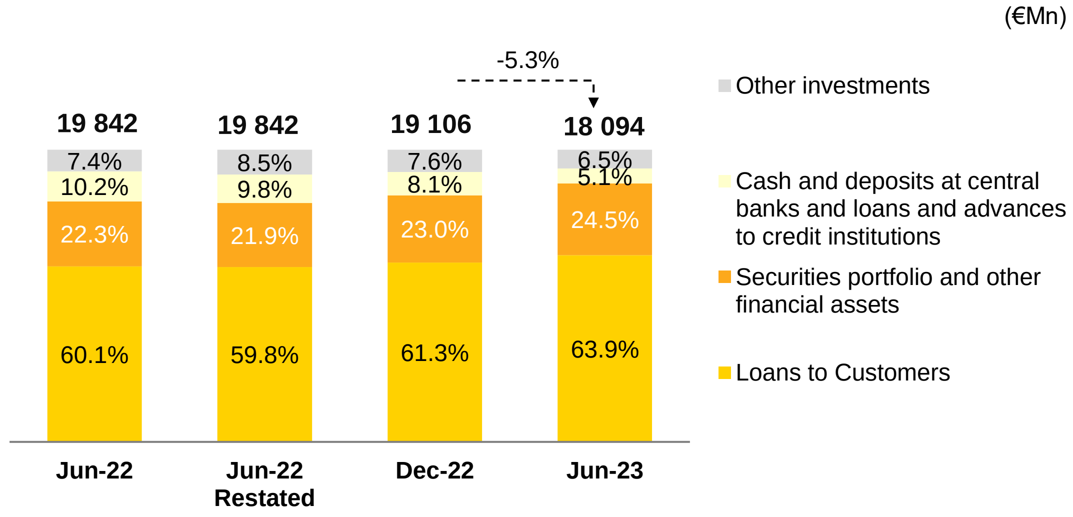
	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23 / Jun-22 Restated		Change Jun-23 / Dec-22	
					Amount	%	Amount	%
Cash and deposits at central banks	1 811	1 789	1 384	630	(1 159)	(64.8)	(754)	(54.5)
Loans and deposits to credit institutions payable on demand and Other loans and advances to credit institutions	219	156	159	296	140	89.9	137	86.6
Loans to customers	11 921	11 873	11 713	11 556	(317)	(2.7)	(157)	(1.3)
Securities portfolio and other financial assets*	4 419	4 341	4 387	4 441	100	2.3	54	1.2
Non current assets held for sale and investment properties	85	85	73	65	(20)	(22.9)	(8)	(10.2)
Non current assets held for sale - Discontinued operations	0	289	200	10	(279)	(96.5)	(190)	(94.9)
Current and deferred tax assets	455	456	420	387	(69)	(15.2)	(33)	(7.7)
Other	932	854	771	707	(147)	(17.1)	(64)	(8.3)
Total assets	**19 842**	**19 842**	**19 106**	**18 094**	**(1 748)**	**(8.8)**	**(1 012)**	**(5.3)**
Deposits from central banks and other credit institutions	3 264	3 262	3 232	2 610	(652)	(20.0)	(622)	(19.2)
Deposits from central banks	2 903	2 903	2 890	1 750	(1 153)	(39.7)	(1 140)	(39.5)
Deposits from other credit institutions	361	359	342	860	501	>100	518	>100
Customer resources	13 036	12 932	13 115	12 867	(65)	(0.5)	(248)	(1.9)
Debt issued	1 673	1 673	824	774	(899)	(53.8)	(50)	(6.0)
Non current liabilities held for sale - Discontinued operations	0	120	102	0	(120)	-	(102)	-
Other	328	314	314	303	(11)	(3.6)	(11)	(3.7)
Total liabilities	**18 301**	**18 301**	**17 587**	**16 553**	**(1 748)**	**(9.6)**	**(1 034)**	**(5.9)**
Share capital*	2 420	2 420	2 420	1 210	(1 210)	(50.0)	(1 210)	(50.0)
Reserves, results and other	(879)	(879)	(901)	331	1 210	>100	1 232	>100
Total equity	**1 541**	**1 541**	**1 519**	**1 541**	**0**	**(0.0)**	**22**	**1.4**
Total liabilities and equity	**19 842**	**19 842**	**19 106**	**18 094**	**(1 748)**	**(8.8)**	**(1 012)**	**(5.3)**

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

ASSETS

Net assets fell by 1,012 million euros (-5.3%) compared to the end of 2022, mainly due to the evolution observed in Cash and deposits at central banks, which reflects the liquidation of TLTRO, and in Non-current assets held for sale - discontinued operations, the latter resulting from the deconsolidation of Finibanco Angola (against the elimination of non-current liabilities held for sale - discontinued operations), leaving a minority position of 29.22% in that entity at this reference date, stated at fair value, taking into account the transaction price.

Asset structure



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

As at 30 June 2023, liquidity deposited with central banks and other credit institutions stood at 926 million euros, compared to 1.542 million euros recorded at the end of 2022, a decrease of 616 million euros (-40.0%), reflecting, on the one hand, a reduction of 754 million euros in Cash and deposits at central banks (-54.5%) and, on the other hand, an increase of 137 million euros in Cash and deposits at other credit institutions (+86,6%) compared to the end of 2022, largely explained by the effect of the deconsolidation of Finibanco Angola.

LOANS TO CUSTOMERS

On 30 June 2023, Loans to customers (gross) stood at 11,875 million euros, reflecting a reduction of 193 million euros (-1.6%) compared to the amount of 12,068 million euros recorded on 31 December 2022, an evolution that is impacted by the implementation of the deleveraging strategy on non-productive assets, consisting of a reduction in non-performing credit by 100 million euros (-15.9%). Performing loans fell by 93 million euros (-0.8%), reflecting the market trend as a result of the macroeconomic context of high interest rates, with lower demand for loans, both from companies (which has been the case for a long time) and from private individuals, particularly mortgage loans, and the evolution of this product's stock was also penalized by the increase in early repayments (partial and total). The higher level of repayments was boosted by the context of rising interest rates, as well as the regulatory changes in terms of the exemption from the early repayment commission or the possibility of mobilizing retirement saving plans in the case of own permanent housing.

It should be noted that credit quality indicators benefited from strict risk-taking discipline, as well as from the measures that were approved and adopted in the areas of credit monitoring and recovery. Thus, as a result of the actions that have been implemented, at the end of June 2023 there was a reduction in both the number of new[10] contracts that defaulted (-7.0%) and the amount in default (-48%), compared to the same period last

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

year. And despite the challenging context of a continued rise in interest rates, the figures remained below those recorded in the pre-moratorium period, -40% and -76%, respectively, compared to the end of June 2019.

In addition, the structure of the loan portfolio remained in line with previous periods (June 2022 and December 2022), with loans granted to Individuals accounting for 52%, and within this segment, mortgage loans continued to account for 88%

Throughout the first half of the year, Banco Montepio remained on the side of companies, maintaining the performing credit portfolio in this segment, seeking to support them in managing the impact of the crisis caused by the war in Europe, which led to accelerated inflation and a corresponding change in monetary policy by the main central banks, with an impact on the costs of factors of production and the management of the production chain and logistics system.

In view of the challenges that Portuguese companies still face, Banco Montepio has continued to provide support mechanisms for developing their businesses and improving their competitiveness, through the protocol established with the European Investment Bank (EIB), which has made it possible to support SMEs and Midcaps in Portugal. Alongside this, it continued to make a series of lines available, already in force, with the European Investment Fund (EIF) and Banco Português de Fomento (BPF), allowing companies to obtain financing with more advantageous market conditions.

The following table shows the evolution of gross loans by segment and activity sector, which is impacted by the reduction in non-performing loans under the NPL Reduction Plan. Excluding this effect, and analysing the evolution of performing loans, the stabilization in the corporate segment stands out compared to the end of the previous year and a drop of around 90 million euros (-1.5%) in the individual segment, essentially due to the mortgage loan product.

LOANS TO CUSTOMERS
(By sector of activity)

(million euros)

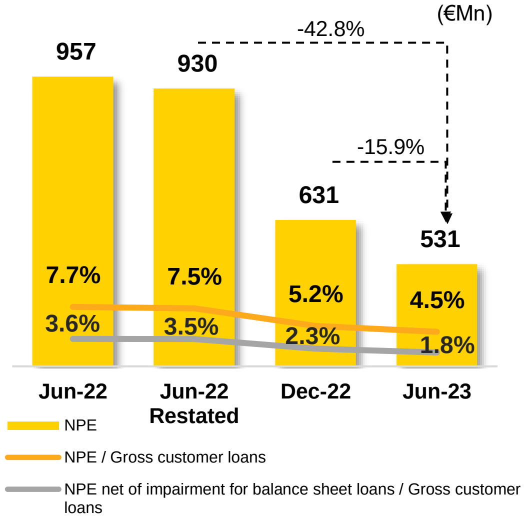
	Jun-22	Dec-22	Jun-23	Change Jun-23/ Dec-22	
				Amount	%
Individuals	**6 427**	**6 327**	**6 232**	**(95)**	**(1.5)**
Housing loans	5 664	5 581	5 505	(76)	(1.4)
Others	763	746	727	(19)	(2.5)
Corporate	**6 009**	**5 741**	**5 643**	**(98)**	**(1.7)**
Manufacturing industries	1 175	1 185	1 153	(32)	(2.8)
Wholesale and retail trade	934	886	855	(31)	(3.4)
Construction and Public works, and Real estat	1 050	990	960	(30)	(3.0)
Accommodation and catering activities	602	569	561	(8)	(1.3)
Financial and insurance activities	458	372	381	9	2.4
Transportation and storage	399	385	365	(20)	(5.3)
Business Services	373	406	420	14	3.5
Other collective service activities	363	379	372	(7)	(1.8)
Others	655	569	575	6	1.1
Gross loans	**12 436**	**12 068**	**11 875**	**(193)**	**(1.6)**
Impairment for credit risk	**515**	**355**	**319**	**(36)**	**(10.1)**
Net loans	**11 921**	**11 713**	**11 556**	**(157)**	**(1.3)**

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 (SME) and Social Economy Entities.

Notwithstanding the challenges of the context, and embodying the effect of the aforementioned measures, Banco Montepio reduced its stock of NPLs, which consequently resulted in a reduction in the ratio of

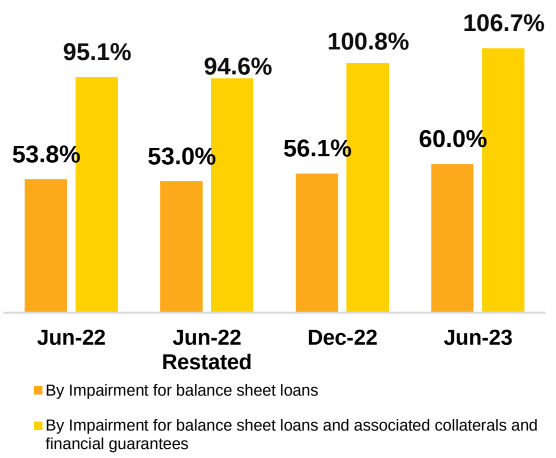
Non-Performing Exposures (NPE) to total Gross Loans and advances to customers, which stood at 4.5% as at 30 June 2023 (7.8% as at 30 June 2022 and 5.2% as at 31 December 2022) – lower than the reference threshold of 5% designated by the EBA, with Banco Montepio no longer being categorized as an "NPL Bank", having already achieved a value for this metric very close to the average for the Portuguese banking sector. This reflects the continued reduction in the NPE balance, which stood at 531 million euros at the end of June 2023, a decrease of 42.8% compared to June 2022 and 15.9% compared to the end of the year. In turn, the NPE ratio net of impairment for loans on the balance sheet loans stood at 1.8% as at 30 June 2023, compared to 3.7% in the same period in 2022 and 2.3% at the end of 2022.

Non-performing exposures (NPE)*



*EBA definition

NPE coverage*



*EBA definition

As at 30 June 2023, and despite the significant deleveraging of non-performing loans, Banco Montepio increased its balance sheet impairment coverage to 60.0% (53.0% at the end of June 2022 and 56.1% as at 31 December 2022) and its NPE impairment coverage for balance sheet loans and associated collateral and financial guarantees to 106.7% (94.6% at the end of June 2022 and 100.8% as at 31 December 2022). This favourable evolution reflects the recovery in significant NPL dossiers, which resulted in the significant reversal of impairment, with very favourable impacts on the cost of risk for the semester.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

In the context of the strategy of rebalancing the asset structure, Banco Montepio continued, throughout the first half of 2023, 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 2023, the securities and other instruments portfolio stood at 4,441 million euros, compared to 4,387 million euros as at 31 December 2022, showing an increase of 54 million euros, mainly due to increases of 29 million euros in positions held in debt of other issuers and 21 million euros in public debt.

A positive contribution was given by the increase in Financial assets held for trading by 63 million euros and Other financial assets at amortised cost by 4 million euros compared to the value at the end of 2022. In turn, the portfolio of Financial assets at fair value through other comprehensive income decreased by 11 million euros compared to 2022.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

(million euros)

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23 / Jun-22 Restated		Change Jun-23 / Dec-22	
					Amount	%	Amount	%
Financial assets held for trading	18	18	23	86	68	>100	63	>100
Financial assets at fair value through other comprehensive income	122	122	97	86	(36)	(29.6)	(11)	(11.8)
Other financial assets at amortised cost	4 128	4 050	4 119	4 123	73	1.8	4	0.1
Financial assets not held for trading mandatorily at fair value through profit or loss*	152	152	148	146	(6)	(3.6)	(2)	(0.9)
Total Securities portfolio and other financial assets	**4 419**	**4 341**	**4 387**	**4 441**	**100**	**2.3**	**54**	**1.2**

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

In analysing the securities portfolio by type of instrument, an increase is observed in relation to December 2022 of 49 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 financial assets of 1.2% in relation to the end of 2022.

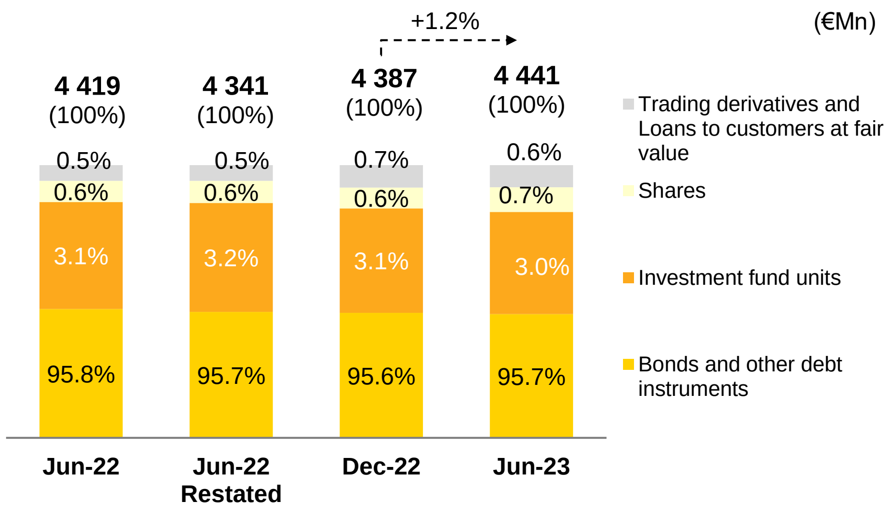
SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS BY TYPE OF INSTRUMENT

(million euros)

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23 / Jun-22 Restated		Change Jun-23 / Dec-22	
					Amount	%	Amount	%
Bonds and other debt instruments	4 233	4 154	4 198	4 247	93	2.2	49	1.2
Shares	28	28	27	32	4	15.4	5	20.7
Investment fund units	139	139	134	133	(6)	(4.0)	(1)	(0.7)
Trading derivatives	11	11	20	20	9	80.9	0	0.4
Loans to customers at fair value	9	9	9	9	0	(2.7)	0	(2.4)
Total securities portfolio and other financial assets	**4 419**	**4 341**	**4 387**	**4 441**	**100**	**2.3**	**54**	**1.2**

The structure of the Securities Portfolio and other financial assets remained, as at 30 June 2023, primarily composed of Bonds and other debt instruments, whose total weight in the portfolio increased to 95.7%. In turn, the proportion of shares remains insignificant, despite the increase to 0.7% of the portfolio, and the weight of the investment units fell to 3.0%.

Structure of the Securities portfolio and other financial assets

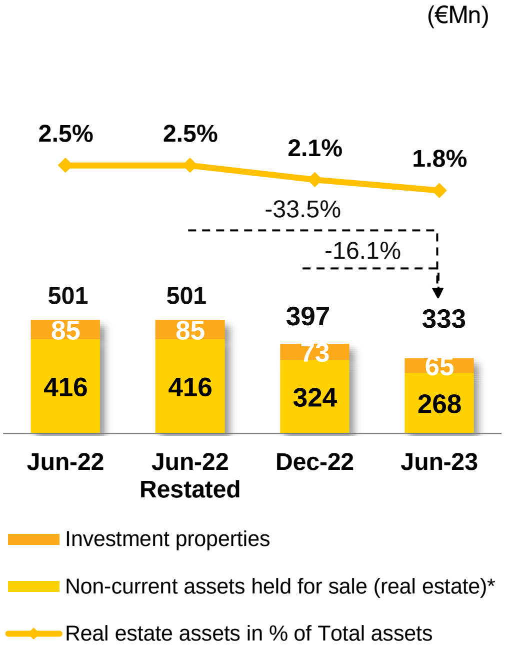


NON-CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

The evolution of these headings was impacted prior to the period under review by the reclassification of Non-current assets held for sale relating to real estate owned, to the Other assets heading, but with no change in terms of the strategy to reduce exposure to real estate risk.

Therefore, the analysis of the evolution of exposure to real estate assets is presented from a management perspective, considering that these are actually assets held on the balance sheet, but whose purpose is to be sold. Thus, considering all the real estate registered on Banco Montepio's consolidated balance sheet (resulting from the entry of real estate through loan recovery or real estate funds that are fully consolidated), there is a deleveraging of these non-productive assets in June 2023 of 33.5% compared to the same period in 2022 and -16.1% compared to 31 December 2022, standing at 333 million, in line with the orientation of integrated real estate management and the consequent reduction of exposure to the real estate sector.

Exposure to Real Estate Assets



* Including the amount reclassified to other assets.

Non-current assets held for sale, together with the amount reclassified to Other assets, decreased by 168 million euros compared to the same period in the previous year (-33.5%) and by 56 million euros compared to 31 December 2022 (-17.4%), standing at 268 million euros as at 30 June 2023, reflecting, on the one hand, the real estate sales made and, on the other, the coordinated management of the non-performing asset (NPA) reduction plans, favouring other forms of credit recovery that do not involve bringing real estate onto the balance sheet.

With regard to Investment properties, which includes the properties held by the Real Estate Investment Funds consolidated in Banco Montepio, there was a decrease of 20 million euros compared to the same period in 2022 (-23.0%) and 8 million euros compared to 31 December 2022 (-10.3%), totalling 65 million euros as at 30 June 2023.

The plan to reduce exposure to real estate risk has been successfully implemented, with the weight of total net assets showing a downward trend to 1.8% compared to 2.5% in the same period in 2022 (2.1% at the end of 2022), thus meeting the target set in strategic planning.

NON-CURRENT ASSETS HELD FOR SALE - DISCONTINUED OPERATIONS

As at 30 June 2023, the item Non-current assets held for sale - discontinued operations totalled 10 million euros (200 million euros as at 31 December 2022), and corresponded to the value of the asset accounted for by the Group's operations related to the subsidiary Finibanco Angola, S.A., after adjusting for the movements necessary for the consolidation process, having been recorded following the application of IFRS 5, as per Note 57 to the consolidated financial statements.

CURRENT AND DEFERRED TAX ASSETS

As at 30 June 2023, the aggregate of Current and deferred tax assets amounted to 387 million euros, compared to 420 million euros as at 31 December 2022.

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. Particular note is made of the regulatory change that took place in 2023 regarding the elimination of the expiry date for the use of tax losses carried forward for all years except, in the case of Banco Montepio, the years of 2020 and 2021.

OTHER

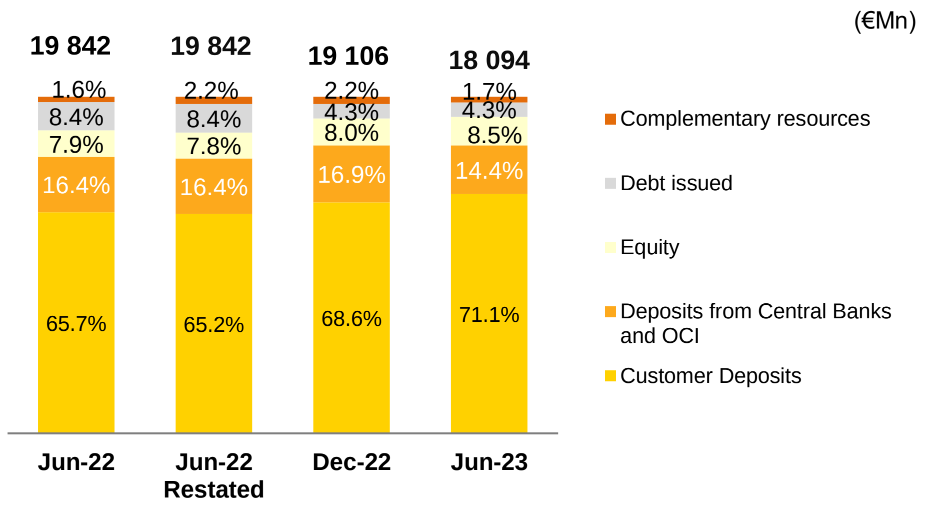
The aggregate of Other presented in the Assets of the synthetic balance sheet includes the headings of Assets with repurchase agreements, Hedge derivatives, Other tangible assets, Intangible assets, Investments in associates and Other assets.

As at 30 June 2023, the aggregate Other stood at 707 million euros, compared to 771 million euros as at 31 December 2022, of which 268 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 2023, Total liabilities stood at 16,553 million euros, a decrease of 1,034 million euros (-5.9%) compared to 31 December 2022, mainly due to the reduction in central bank resources (-1,140 million euros) with the liquidation of TLTRO and in customer resources (-248 million euros), which was partially offset by the contracting of funding operations with market counterparties (repos), as part of the strategy of diversifying the funding sources. As at 30 June 2023, shareholders' equity financed 8.5% of assets and customer deposits remained the main source of balance sheet funding, having increased their relative weight to 71.1% of total liabilities and shareholders' equity, while resources from central banks and other credit institutions fell to 14.4%.

Liabilities and equity structure



RESOURCES FROM CENTRAL BANKS AND RESOURCES FROM OTHER CREDIT INSTITUTIONS

As at 30 June 2023, funding obtained from central banks and other credit institutions amounted to 2,610 million euros, compared to 3,232 million euros at the end of 2022, showing a decrease of 19.2% due to the reduction of central bank resources by 1,140 million euros, which shows the repayment of TLTRO and the non-replacement by new ECB funding.

This evolution reveals the active management of liquidity by Banco Montepio, in particular the contracting of *repos* with financial counterparties during the first half of the year, which amounted to around 500 million euros at the end of June 2023.

CUSTOMER RESOURCES

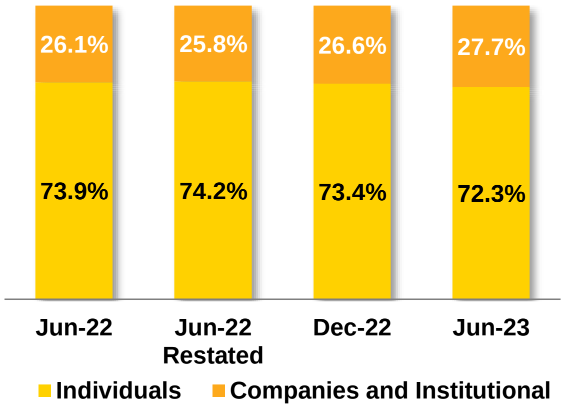
Total customer funds amounted to 14,064 million euros as at 30 June 2023, of which 91.5% corresponded to customer deposits.

As at 30 June 2023, customer deposits stood at 12.867 billion euros, concentrated mainly in Individual Customers, who account for 72.3% of the total. However, the weight of Corporate and Institutional Customer Deposits has increased, with a positive trend in the first half of the year, in contrast to the negative variation in Individual Customer Deposits, essentially the result of the outflow to savings certificates, but also penalized by the increase in early repayments of mortgage loans.

In this context, Corporate and Institutional Customer Deposits increased by 2.4% compared to the end of 2022 and Individual Customer Deposits decreased by 3.5%, with Term Deposits increasing by 241 million euros and Demand Deposits decreasing by 489 million euros. As a result, the demand deposit/term deposit portfolio mix stood at 48%/52% compared to 51%/49% at the end of 2022.

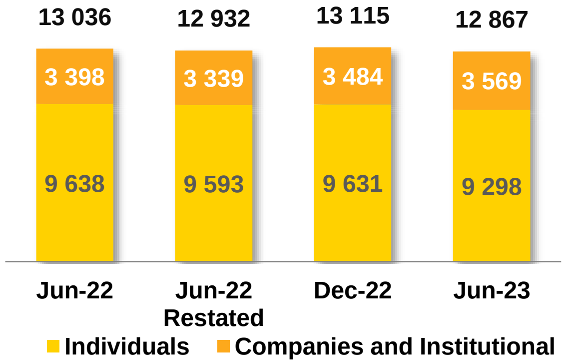
Off-balance sheet resources reached 1,197 million euros as at 30 June 2023, compared to 1,158 million euros at the end of December 2022, representing an increase of 3.4%, supported by the increase in real estate investment funds (+24 million euros) and securities investment funds (+17 million euros).

Customer deposit structure



Customer deposits

(M€)



CUSTOMER RESOURCES

(million euros)

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23 / Jun-22 Restated		Change Jun-23 / Dec-22	
					Amount	%	Amount	%
Customer deposits	**13 036**	**12 932**	**13 115**	**12 867**	**(65)**	**(0.5)**	**(248)**	**(1.9)**
Sight deposits	6 765	6 682	6 637	6 148	(534)	(8.0)	(489)	(7.4)
Term deposits	6 271	6 250	6 478	6 719	469	7.5	241	3.7
Off-balance sheet resources	**1 084**	**1 084**	**1 158**	**1 197**	**113**	**10.4**	**39**	**3.4**
Total customer resources	**14 120**	**14 016**	**14 273**	**14 064**	**48**	**0.3**	**(209)**	**(1.5)**

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 2023, the amount of debt issued stood at 774 million euros, representing a reduction of 50 million euros (-6.0%) compared to the figure of 824 million euros recorded as at 31 December 2022, essentially reflecting the decrease in liabilities represented by securities (-44 million euros), showing the profile of the repayments of securitization bonds.

NON-CURRENT LIABILITIES HELD FOR SALE – DISCONTINUED OPERATIONS

As at 30 June 2023, the heading Non-current liabilities held for sale - discontinued operations changed to a nil value, reflecting the deconsolidation of Finibanco Angola, having been recorded following the application of IFRS 5, in accordance with Note 58 to the consolidated financial statements.

OTHER

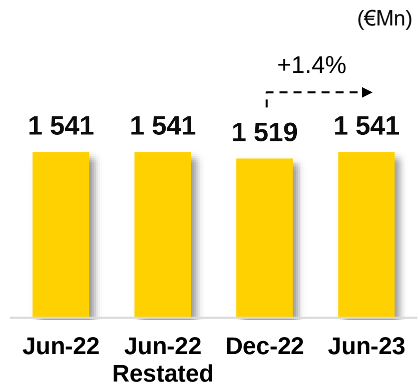
The aggregate Other, presented in the Liabilities of the synthetic balance sheet, stood at 303 million euros as at 30 June 2023 (314 million euros at the end of 2022), and incorporates the headings of Financial liabilities held for trading, Hedge derivatives, Provisions, Current tax liabilities and Other liabilities.

EQUITY

Shareholders' equity increased to 1,541 million euros as at 30 June 2023(+1.4%), compared to 1,519 million euros at the end of 2022.

It is worth noting that an extraordinary general meeting of shareholders was held on 10 February 2023, at which a unanimous decision was taken on the reformulation of the equity headings with the special purpose of reinforcing the funds that can be classified by the regulatory authorities as distributable, in order to cover the negative retained earnings, by reducing the share capital by 1.2 billion euros, without changing the number of existing shares or the total value of the net worth, having any impact on the amount of the institution's own funds.

Total equity



RESULTS

In the first half of 2023, Banco Montepio's net income, on a comparable basis with the previous period, excluding the exceptional effect of the recycling of foreign exchange reserves, amounted to 67.9 million euros, an increase of 44.6 million euros (+191%) compared to the 23.3 million euros recorded in the same period of the previous year.

This favourable evolution shows the good performance of the core business, a 76.1% growth in net interest income and a 12.7% growth in net fees and commissions, driven by the active management of the product and service offer and the pricing review.

It should be noted that the sale of 51% of the share capital of Finibanco Angola S.A. and the subsequent deconsolidation of this subsidiary, in accordance with the provisions of International Accounting Standard (IAS) 21, led to the recording in the accounts of an adverse extraordinary effect resulting from the recycling of the negative foreign exchange reserve of 116.1 million euros, but without any impact or change in the equity of the Banco Montepio Group. This figure reflects the effect of the variation in the kwanza on the historical acquisition cost of this subsidiary, which has been recorded over the years in the Banco Montepio Group's balance sheet (and therefore in consolidated equity), and is merely an accounting movement within equity, reclassifying the amount from reserves to net income. Considering this accounting movement – which, as mentioned above, had no impact on the net position – the consolidated net income was negative by 48.3 million euros.

SYNTHETIC INCOME STATEMENT

(million euros)

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23 / Jun-22 Restated	
					Amount	%
Net interest income	120.6	110.4	251.5	194.3	84.0	76.1
Net fees and commissions	59.6	58.0	120.5	65.3	7.3	12.7
Core total operating income	**180.2**	**168.4**	**372.0**	**259.6**	**91.2**	**54.2**
Income from equity instruments	0.9	1.0	1.0	0.8	(0.2)	(15.1)
Results from financial operations	20.7	18.8	12.0	(15.5)	(34.3)	(<100)
Other operating income	(23.4)	(22.3)	(14.9)	(15.3)	7.0	31.3
Total operating income	**178.4**	**165.8**	**370.1**	**229.6**	**63.8**	**38.5**
Staff Costs	72.8	69.1	152.6	77.3	8.2	11.9
General and administrative expenses	31.1	29.4	59.7	31.4	2.0	7.0
Depreciation and amortization	17.5	16.7	34.0	18.0	1.3	8.0
Operating costs	**121.4**	**115.1**	**246.3**	**126.8**	**11.7**	**10.1**
Operating costs, excluding specific impacts [a]	**121.5**	**115.2**	**235.8**	**121.3**	**6.1**	**5.3**
Net operating income before provisions and impairments	**57.0**	**50.7**	**123.8**	**102.9**	**52.2**	**>100**
Net provisions and impairments	11.9	2.7	44.5	15.6	12.9	>100
Share of profit (losses) booked under the equity method	(0.2)	(0.2)	0.5	(0.2)	0.0	(25.1)
Net income before income tax	**44.9**	**47.8**	**79.8**	**87.1**	**39.3**	**82.2**
Income tax	21.5	21.5	35.6	31.2	9.7	45.1
Net income after income tax from continuing operations	**23.4**	**26.3**	**44.2**	**55.9**	**29.6**	**>100**
Recurring net income	**(0.0)**	**(2.8)**	**(13.0)**	**13.7**	**16.5**	**>100**
Foreign exchange reserve	0.2	0.2	(2.7)	1.7	1.5	>100
Net Income	23.3	23.3	33.8	(48.3)	(71.6)	(<100)
Foreign exchange reserve	-	-	-	(116.1)	-	-
Net Income (excluding foreign exchange reserve) [b]	**23.2**	**23.3**	**33.9**	**67.9**	**44.6**	**>100**

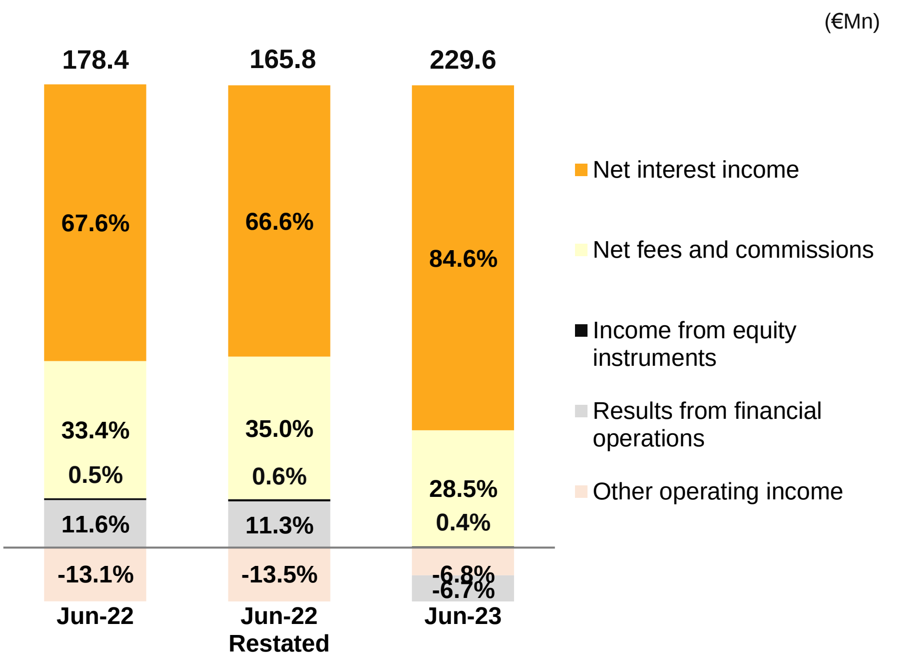
(a) Excludes the amount related to the increase in Personnel Costs generated by the operational adjustment measures of -0.1M€ in Jun-22, +10.5 M€ in Dec-22 and +5.5 M€ in Jun-23.

(b) Net income excluding the foreign exchange reserve, i.e., excluding the accumulated foreign exchange reserves, as a result of the exchange rate devaluation of the Kwanza, existing at the date of sale of Finibanco Angola and recorded in reserves of the Banco Montepio Group, transferred to the period's results.

TOTAL OPERATING INCOME

Operating income for the first half of 2023 rose favourably to 229.6 million euros (+68.3 million euros compared to the same period in 2022), benefiting from the increases in Net interest income (+84.0 million euros) and Net fees and commissions (+7.3 million euros), driven by the active management of the range of products and services made available to Customers and the repricing, and by Other income (+7.0 million euros), which nevertheless remained negative, along with the adverse evolution of Income from financial operations (-34.2 million euros), showing the lower net gains/(losses) from foreign exchange differences, due to the evolution of the kwanza, which registered a devaluation between the two homologous periods.

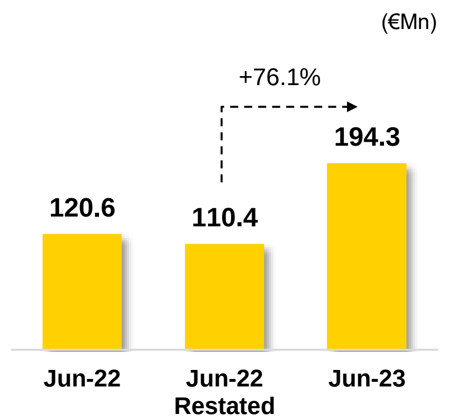
Total operating income breakdown



NET INTEREST INCOME

Net interest income for the first six months of 2023 amounted to 194.3 million euros, compared to 110.4 million euros in the same period in 2022 (+76.1%), essentially reflecting the increases in commercial net interest income[11], which benefited from the increases in interest on Loans to customers, mainly due to the effect of repricing contracts in the context of rising interest rates, and interest on investments in securities.

Net interest income



In the first half of 2023, the evolution of Net interest income reflected the prevalence of the price effect over the volume effect, with a higher increase in the implicit lending interest rate to 3.07% (+175.4 p.p. compared to the first half of 2022) compared to the increase in the implicit borrowing interest rate to 0.83% (+71.6 p.p. compared to the first half of 2022).

Consequently, in the first half of 2023, there was an increase in interest on the Loans and advances to customers portfolio of 127.2 million euros, due to the price effect, along with an increase in interest on the Customer deposits portfolio (+19.2 million euros), as a result of the pricing management aimed at

[11] Commercial net interest income: sum of the income statement items Income received from Loans and advances granted to customers and the Interest paid on Customer deposits.

attracting new deposits, as well as the renewal of existing deposits, and the increase in the proportion of demand deposits, with the average interest rates on Loans to customers and Customer deposits standing at 4.04% and 0.35%, respectively.

Thus, in the first half of 2023, the net interest income rate increased to 2.27% compared to 1.20% in the same period of the previous year, benefiting from the context of rising market interest rates.

BREAKDOWN OF NET INTEREST INCOME
BY INTEREST-GENERATING ASSETS AND LIABILITIES

(million euros)

	1st Half of 2022			1st Half of 2023		
	Avg. amount	Avg. rate (%) [(a)]	Interest	Avg. amount	Avg. rate (%) [(a)]	Interest
Assets						
Cash and deposits	2 294	(0.3)	(3.9)	657	2.4	7.8
Loans and advances to OCI	164	(0.2)	(0.2)	136	1.0	0.7
Loans to customers	12 210	1.9	116.1	11 982	4.0	243.3
Securities portfolio	3 558	0.3	4.9	4 263	0.5	10.9
Other assets at fair value	10	1.1	0.1	9	3.9	0.2
Other (includes derivatives)	0	0.0	3.3	0	0.0	0.0
subtotal	18 235	1.3	120.3	17 046	3.1	262.8
Liabilities						
Resources from central banks	2 901	(0.8)	(11.3)	2 409	2.5	30.7
Resources from OCI	398	0.1	0.2	464	0.7	1.7
Customer deposits	12 770	0.0	3.0	12 783	0.3	22.2
Senior debt	1 544	0.5	4.2	585	0.2	0.5
Subordinated debt	217	8.7	9.4	217	8.9	9.7
Other (includes derivatives)	0	0.0	4.4	0	0.0	3.6
subtotal	17 829	0.1	9.9	16 458	0.8	68.4
Net interest margin		**1.20**	**110.4**		**2.27**	**194.3**

(a) Average rate: implicit interest rate, i.e., it corresponds to the ratio between accounting interest and average balances at the end of the month.

EVOLUTION OF NET INTEREST INCOME
BETWEEN THE FIRST HALF OF 2022 AND THE FIRST HALF OF 2023

(million euros)

	Volume effect	Price effect	Residual effect	Total
Assets				
Cash and deposits	2.8	31.1	(22.2)	11.7
Loans and advances to OCI	0.0	1.0	(0.2)	0.8
Loans to customers	(2.2)	131.8	(2.5)	127.2
Securities portfolio	1.0	4.1	0.8	5.9
Other assets at fair value	(0.0)	0.1	(0.0)	0.1
Other (includes derivatives)	0.0	0.0	(3.3)	(3.3)
subtotal	(7.8)	160.8	(10.5)	142.5
Liabilities				
Resources from central banks	1.9	48.3	(8.2)	42.0
Resources from OCI	0.0	1.2	0.2	1.4
Customer deposits	0.0	19.2	0.0	19.2
Senior debt	(2.6)	(2.8)	1.7	(3.6)
Subordinated debt	(0.0)	0.3	(0.0)	0.2
Other (includes derivatives)	0.0	0.0	(0.7)	(0.7)
subtotal	(0.8)	64.2	(4.9)	58.5
Change in net interest income	**(7.1)**	**96.6**	**(5.5)**	**84.0**

INCOME FROM EQUITY INSTRUMENTS

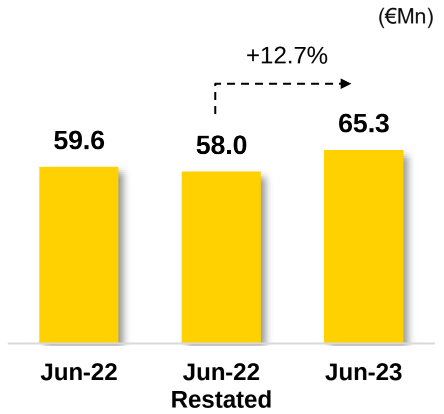
The heading of Income from equity instruments includes the income associated with variable yield securities, namely shares related to investments stated in the portfolio of assets available for sale, which currently have a negligible value, after the sale of non-strategic assets.

The book value as at 30 June 2023 totalled 0.8 million euros, essentially including dividends received from Unicre amounting to 0.6 million euros and from SIBS amounting to 0.2 million euros, and compares with 1.0 million euros as at 30 June 2022, of which 0.5 million euros were dividends received from Unicre and 0.4 million euros from SIBS.

NET FEES AND COMMISSIONS

Net fees and commissions amounted to 65.3 million euros in the first half of 2023, 7.3 million euros more than in the same half of 2022 (+12.7%), with higher income from account maintenance and management (+5.3 million euros) and market commissions (+1.0 million euros), which benefited from the management of the offer and value propositions, along with the repricing.

Net fees and commissions



RESULTS FROM FINANCIAL OPERATIONS

Results from financial operations were negative by 15.5 million euros in the first half of 2023, reflecting a decrease of 34.3 million euros compared to the figure of 18.8 million euros recorded in the same period of the previous year, explained by the evolution of net gains/(losses) from foreign exchange differences, which were lower by 41.3 million euros, mostly explained by the evolution of the Kwanza.

RESULTS FROM FINANCIAL OPERATIONS

(million euros)

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23/Jun-22 Restated	
					Amount	%
Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	(3.6)	(3.6)	(0.2)	4.6	8.2	>100
Net gains / (losses) from financial assets at fair value through other comprehensive income	1.2	1.2	1.4	0.1	(1.1)	(95.5)
Net gains / (losses) from foreign exchange differences	23.1	21.2	10.8	(20.1)	(41.3)	(<100)
Results from financial operations	**20.7**	**18.8**	**12.0**	**(15.5)**	**(34.3)**	**(<100)**

OTHER RESULTS

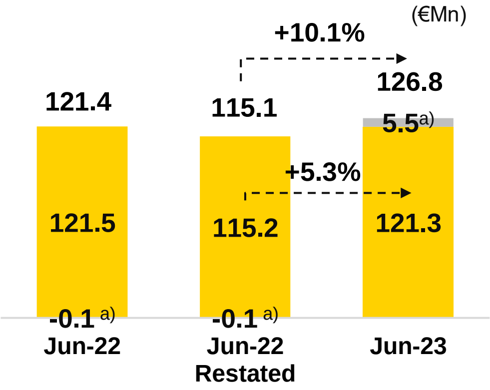
This aggregate incorporates the Net gains/(losses) from the sale of other assets and Other operating income, which include, among others, the income obtained from the revaluation of investment properties, from services rendered, from investment property rents and from the reimbursement of expenses, as well as the costs related to banking sector contributions to the Resolution Fund and Deposit Guarantee Fund, and to loan recovery services.

Other results for the first half of 2023 were negative by 15.3 million euros, compared to the 22.3 million euros negative recorded in the same period of the previous year, largely reflecting the reduction in the cost of sector contributions (IFRIC 21) by 6.6 million euros, with the evolution of the other items having an offsetting effect on each other.

OPERATING COSTS

Operating costs for the first half of 2023 totalled 126.8 million euros, an increase of 11.7 million euros (+10.1%) compared to the same period in 2022. Excluding the impact resulting from the implementation of staff adjustment measures (early retirements and terminations by mutual agreement), operating costs increased by 6.0 million euros (+5.3%) compared to the first six months of 2022.

Operating costs



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

Staff costs in the first half of 2023 amounted to 77.3 million euros, an increase of 8.2 million euros (+11.9%) compared to 69.1 million euros in the same period of the previous year. Excluding the impact of accounting for non-recurring costs related to the adjustment programme, there was an increase of 2.7 million euros (+3.9%) reflecting the effect of salary updates.

The Operational Adjustment Programme reflects the departure of 530 employees at Banco Montepio, up to 30 June 2023, comprising both early retirements and terminations by mutual agreement.

General and administrative expenses stood at 31.4 million euros in the first half of 2023, representing an increase of 2.0 million euros compared to the value of 29.4 million euros recorded in the first half of 2022 (+7.0 %), essentially highlighting the effect of inflation and the increase in costs incurred with contracted services, namely consultancy costs arising from supervisory exercises, specifically actions across the Portuguese financial sector.

Depreciations and Amortisations totalled 18.0 million euros in the first half of 2023, compared to 16.7 million euros in the same period of the previous year (+8%), showing the efforts made to implement the global strategy of investment in information technology and digitalization, aimed at continuous improvement in automation and process re-engineering.

Efficiency has improved, with the cost-to-income ratio - excluding the non-recurring costs related to the measures to adjust the workforce, as well as the more volatile components of results, such as Results from financial operations and Other results (Results from the sale of other assets and Other operating results) - decreasing to 46.6%, reflecting the increase in Core operating income, and comparing with 63.2% at the end of 2022 and 68.0% in the first half of 2022.

OPERATING COSTS

(million euros)

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23/Jun-22 Restated	
					Amount	%
Staff Costs	72.8	69.1	152.6	77.3	8.2	11.9
General and administrative expenses	31.1	29.4	59.7	31.4	2.0	7.0
Depreciation and amortisation	17.5	16.7	34.0	18.0	1.3	8.0
Operating costs	**121.4**	**115.1**	**246.3**	**126.8**	**11.7**	**10.1**
Operating costs, excluding specific impacts (a)	**121.5**	**115.2**	**235.8**	**121.3**	**6.1**	**5.3**
Efficiency ratios						
Cost-to-income (Operating costs / Total operating income) (b)	68.0%	69.4%	66.6%	55.2%	(14.2 p.p.)	
Cost-to-income, excluding specific impacts (a) (c)	67.0%	68.0%	63.2%	46.6%	(21.4 p.p.)	

(a) Excludes the amount related to the increase in Personnel Costs and in General administrative expenses generated by the operational adjustment measuresof -0.1M€ in Jun-22, +10.5 M€ in Dec-22 and +5.5 M€ in Jun-23.

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

(c) Excluding results from financial operations and Other income (proceeds from the sale of other assets and other operating income).

IMPAIRMENT AND PROVISIONS

Appropriations for impairment and provisions totalled 15.6 million euros in the first half of 2023, an increase of 12.9 million euros compared to the same period in 2022, influenced by the reinforcement of impairment of individually significant files.

Impairment of loans and advances to customers and investments in credit institutions (net of reversals) stood at 8.4 million euros in the first half of 2023, compared to -6.5 million euros in the first half of 2022 (+14.9 million euros), and reflects the impact of the collective approach and individual analysis. This led to the cost of credit risk standing at 0.1% in the first half of 2023, compared to -0.1% in the first half of 2022. It should be noted that the cost of risk in the first half was favourably impacted by the reversal of impairment associated with the recovery of significant stage 3 files.

Other impairments and provisions related to other financial assets, other assets and provisions totalled 7.1 million euros in the first half of 2023, compared to 9.2 million euros in the same period of the previous year, essentially reflecting the evolution of impairments for trading properties and the lower allocations made to other financial assets and other provisions.

Impairment of other financial assets totalled 1.7 million euros, reflecting the increase associated with the acquisition of public debt for the portfolio of other financial assets at amortised cost. Impairment of other assets amounted to 9.7 million euros in the first half of 2023 (10.3 million euros in the first half of 2022). In turn, Other provisions amounted to -4.2 million euros in the first half of 2023 (-2.7 million euros in the first half of 2022), and are the result of reversals in provisions for guarantees and commitments of 3.4 million euros and other risks and charges of 0.8 million euros.

IMPAIRMENT AND PROVISIONS

(million euros)

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23/Jun-22 Restated	
					Amount	%
Impairment of loans and advances to customers and to credit institutions	3.2	(6.5)	13.4	8.4	14.9	>100
Impairment of other financial assets	1.9	1.6	2.3	1.7	0.1	6.9
Impairment of other assets	10.3	10.3	24.9	9.7	(0.6)	(6.1)
Other provisions	(3.5)	(2.7)	3.9	(4.2)	(1.5)	(59.1)
Total net impairments and provisions	**11.9**	**2.7**	**44.5**	**15.6**	**12.9**	**>100**

INCOME TAX

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.

Current and deferred taxes in the first half of 2023 amounted to 31.2 million euros, compared to 21.5 million euros in the first half of 2022, having been calculated in accordance with International Accounting Standard (IAS) and observing the tax framework applicable to each subsidiary of the Banco Montepio Group.

INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations amounted to 13.7 million euros in the first half of 2023 and includes the contribution of the subsidiary Finibanco Angola, S.A., attributable to the Banco Montepio Group under the accounting policy defined in IFRS 5. In the first half of 2022, the item Income from discontinued operations includes the contribution from Banco Montepio Geral Cabo Verde, S.A. - In Liquidation, Finibanco Angola, S.A. and Montepio Valor, S.G.O.I.C., S.A.

NON-CONTROLLING INTERESTS

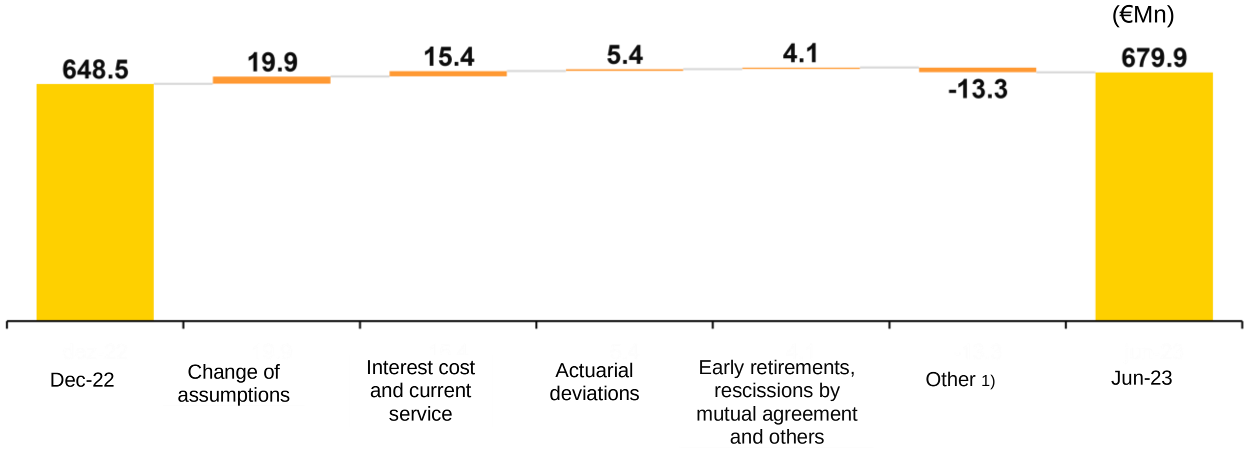
The Non-controlling interests recorded in the first half of 2023 (1.7 million euros) correspond to the portion of equity held by third parties in the subsidiary Finibanco Angola, S.A.

PENSION FUND

The liabilities related to post-employment and long-term benefits of Employees amounted to 679.9 million euros as at 30 June 2023, compared to 648.5 million euros recorded as at 31 December 2022, showing an increase of 31.5 million euros, which mainly reflects the effect of the change in assumptions, in particular the adjustment of the discount rate in the context of rising interest rates.

The evolution of liabilities was determined, on the one hand, by the effect associated with the change in actuarial assumptions, which resulted in an increase of 19.9 million euros, induced by the impact of the rise in the discount rate, by the increase in the cost of interest and current services of 15.4 million euros, by the impact of actuarial deviations of 5.4 million euros, and by the Early Retirement, termination by mutual agreement and other component amounting to 4.1 million euros, which includes Pensions paid by Banco Montepio, the Participants' Contribution and Other and, on the other hand, by the reduction of the Other component by -13.3 million euros, as illustrated in the following figure.

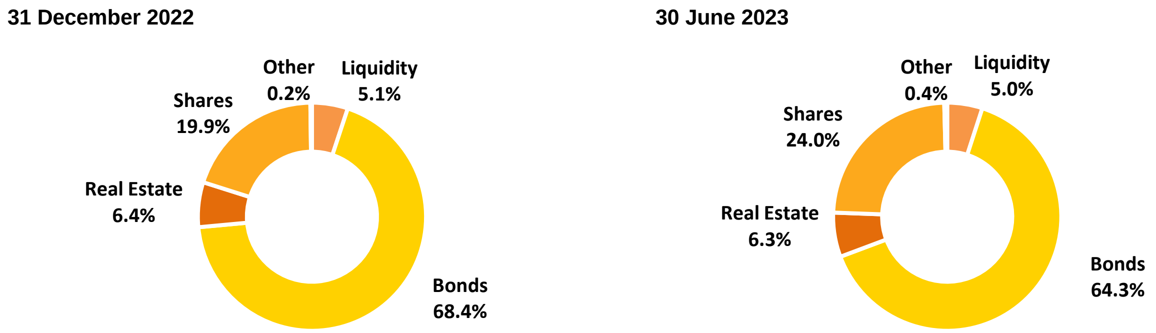
Evolution of pension liabilities



(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 amounted to 799.1 million euros as at 30 June 2023, compared to 787.0 million euros at the end of 2022 (+1.5%), reflecting the positive return generated in the first half of 2023. The Pension Fund's assets continued to show a conservative distribution, with 64.3% of those assets invested in Bonds (68.4% as at 31 December 2022).

Distribution of the pension fund assets portfolio



The evolution of the main Pension Fund indicators with reference to 31 December 2022 and 30 June 2023 is presented below, namely the liabilities, the value of the Pension Fund's assets and the respective funding levels.

PENSION FUND

(million euros)

	Dec-22	Jun-23	Change Jun-23/Dec-22	
			Amount	%
Total liabilities	648.5	679.9	31.4	4.9
Minimum liabilities to be financed	634.3	673.9	39.6	6.2
Value of the Pension Fund's assets	787.0	799.1	12.1	1.5
Coverage:				
Minimum liabilities (1)	125.2%	119.5%	(5.7 p.p.)	
Total liabilities (1)	122.5%	118.4%	(4.1 p.p.)	

(1) Also considering 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 118.4% 30 June 2023 (122.5% as at 31 December 2022).

According to Banco Montepio's accounting policy, and following the assessment made on the adequacy of the actuarial assumptions, the discount rate was changed to 4.00% at 30 June 2023, from 4.20% at 31 December 2022, taking into consideration the evolution of the main market indexes for high quality bonds and the duration of the Pension Fund's liabilities. As at 30 June 2023, the average duration of the liabilities related to Bank Montepio Group Employee pensions was 15.5 years (15.9 years as at 31 December 2022), including actively employed and pensioners.

The main actuarial assumptions used to determine the liabilities in Dec-22 and Jun-23 are presented in the following table. The information is supplemented by the details presented in Note 48 to the consolidated financial statements.

ACTUARIAL ASSUMPTIONS

	Dec-22	Jun-23
Financial Assumptions		
Salary growth rate	2.5% in the first three years and 0.75% in subsequent years	2.5% in the first three years and 0.75% in subsequent years
Pension growth rate	2.5% in the first three years and 0.75% in subsequent years	2.0% in the first three years and 0.50% in subsequent years
Rate of return of the Fund	4.20%	4.00%
Discount rate	4.20%	4.00%
Revaluation rate		
Salary growth rate - Social Security	1.50%	1.50%
Pension growth rate	1.25%	1.25%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90 -1 year	TV 88/90 -1 year
Women	TV 99/01 -2 years	TV 99/01 -2 years
Actuarial Valuation Methods (1)	UCP	UCP

(1) Projected Unit Credit method.

Banco Montepio

STRATEGY

STRATEGY

Banco Montepio's Board of Directors approved and adopted a multidimensional, multi-year adjustment programme, based on four main strategic pillars: **(I) updating the business model, (II) operational adjustment, (III) capital preservation, and (IV) simplification of the Group.**

I The **business model** update focuses on **strengthening Customer-oriented banking services** and **improving proximity relationships in a more comprehensive channel mix**, on **strengthening financing to the economy** by **supporting** the financial needs of **Households** and **SMEs**, and on **developing the distribution capacity and complementary margin** in order to reinforce the profitability of Banco Montepio's domestic operation.

II The **operational adjustment** is intrinsically linked to the **acceleration of the digital transition**, with the emergence and development of new remote channels, with the adoption of best market practices aimed at improving the customer experience, adapting to demand and market trends, with gains in terms of efficiency. In line with the simplification of the activities and operations of the Banco Montepio Group, **the operating and Customer service model is being adjusted, aimed in particular at**:

- **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;
- **Adjust the distribution model** by merging geographically redundant branches; and
- Implementing **new concepts and forms of working**, valuing collaboration and flexibility, and promoting greater balance between personal and professional life.

As part of the optimization of **distribution channels**, Banco Montepio continued to **resize its physical network** according to geographical coverage, profitability and market size, without affecting the adequate coverage of the Customer base and without compromising the development of the business: since the end of 2019, the Bank has closed 94 branches (39 in 2020, 37 in 2021, 15 in 2022, and 3 in the first half of 2023), which has resulted in significant savings in operating costs on a recurring basis significant savings in operating costs on a recurring basis, with a view to improving the cost-to-income metric.

In this context, the Bank approved the **downsizing of staff** through a set of measures, including early retirements, terminations by mutual agreement, and labour flexibility measures to accommodate new forms of work, 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. The measures implemented contributed to a net reduction in the Banco Montepio Group's workforce by 605 employees compared to the end of 2019 (excluding the effect of the deconsolidation of Banco Montepio Geral Cabo Verde and Finibanco Angola), with 75 having taken place during the first half of 2023, thus achieving the Programme's objectives.

With regard to **accelerating the digital transition**, Banco Montepio improved the automation and re-engineering of internal processes, through the advances implemented in data collection and processing models, the adjustment of the service model, the optimization of customer journeys and the strengthening of cybersecurity mechanisms.

With regard to the **Customer experience**, initiatives were developed to increase the efficiency and effectiveness of Customer interaction with the Bank, including the launch of the new APProva app, the availability of new online International Business features, the evolution of the M.A.R.I.A. voice bot, and the provision of the M24 app in Huawei's AppGallery.

The successful implementation of the aforementioned measures regarding the **business model and distribution model**led to a continued improvement in the efficiency ratio, which stood at 46.6%, compared to 63.2% in December 2022 and 68.0% in June 2022.

III Concerning **capital preservation**, the Bank significantly improved its capital ratios by adopting various measures aimed at **reducing the risk-weighted assets** (RWA) through efficient management of the credit and securities portfolio and **divestment in non-productive or non-strategic assets**, focusing on the growth of the core business of lending in segments with lower risk and in a logic of maximizing the return on capital employed.

Thus, in the first half of 2023, Banco Montepio continued to **consolidate its growing capital trajectory**, with the Total Capital Ratio reaching 17.2%, clearly above the Overall Capital Requirement (OCR) and the Pillar 2 Guidance (P2G), successfully executing the outlined capital plan, which allowed it to reach historical highs and without recourse to shareholders.

Of particular note is the strengthening of **profitability** levels in the core business, with an impact on organic capital generation capacity, with Net current income, excluding the exceptional event of the recycling of Finibanco Angola's foreign exchange reserves, resulting from the respective deconsolidation, reaching a record 67.9 million euros in the first half of 2023, continuing the growth trajectory that began in 2021.

The goal of ceasing to be an "NPL Bank" was achieved ahead of schedule, with the **NPL ratio** reaching 4.5% in June 2023, due to the marked reduction in the stock of NPLs, especially the outcome of significant recovery processes, and without conditioning the favourable evolution of capital ratios – on the contrary, the deleveraging *per se* of non-performing loans has been reflected in a marginal positive contribution, after the cost of risk borne in previous years – one of the critical success factors for the successive rating increases in the last 12 months.

Banco Montepio also fulfilled the objectives outlined in the **Real Estate Risk Reduction Plan** with the Real Estate to Net Asset Ratio reaching 1.8%, anticipating the commitment made by the end of 2024.

In line with the defined strategic measures, the sale of all shareholdings held in Monteiro Aranha S.A. and Almina Holding S.A. had already taken place in 2021, measures that were also part of the approved capital plan and which had significant impacts in terms of capital ratios.

IV 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 the **international market**, following the completion of the liquidation of Banco Montepio Geral Cabo Verde in 2022, the Banco Montepio Group deconsolidated Finibanco Angola in the first half of 2023, following the sale of 51% of the share capital and voting rights held in this subsidiary to Access Bank. As at 30 June 2023, the Banco Montepio Group still held a stake equivalent to 29.22% of Finibanco Angola's share capital. In August 2023, the Banco Montepio Group completed the sale of its entire financial stake in Finibanco Angola, and no longer has any exposure to the Angolan market. The deconsolidation of this subsidiary had a positive impact on the capital ratios and represents another important step in the implementation of the commitments made in the Adjustment Programme implemented at the Institution, namely with regard to simplifying the Group's corporate structure and focusing on the domestic market.

In 2022, with a view to focusing on the domestic market, the entire shareholding held in Montepio Valor - Sociedade Gestora de Organismos de Investimento Coletivo, S.A. was sold.

In the **domestic market**, the operational integration of Banco de Empresas Montepio (BEM) into Banco Montepio is underway, in order to aggregate the offer of commercial banking and investment banking products and services to Corporate Customers. On 08 September 2023, Montepio Holding, SGPS, S.A. (100% owned by the Banco Montepio Group), agreed to sell its 100% stake in the share capital of Montepio Investimento, S.A. (Banco Empresas Montepio), to the fintech RAUVA Enterprises, S.A., and it is estimated that the operation should close in the coming months, following approval by the supervisory and regulatory authorities. Prior to the closing of the operation, all of BEM's assets, liabilities and operations will be transferred to Banco Montepio, as part of the process of integrating BEM's activity into

Banco Montepio, which will make it possible to capture synergies and, at the same time, preserve and enhance the integrated value proposition of commercial banking and investment banking.

In the first half of 2023, Banco Montepio continued to implement its ongoing restructuring strategy, with a structural impact on the organisation, earning the recognition of its Stakeholders for its success in meeting the objectives outlined in the operational adjustment programme, namely with regard to reducing non-performing assets and strengthening capital ratios. Of particular note in this regard are the rating agencies, which have given Banco Montepio successive ratings upgrades, with Fitch, in particular, increasing the rating of Banco Montepio's senior unsecured debt three consecutive times in 12 months.

The success already achieved in the implementation of the operational adjustment plan makes it possible to continue implementing the strategic initiatives for the 2023-2025 period and ensure the sustainability of the business, despite the challenging macroeconomic and financial context, marked by geopolitical tensions and lower economic growth and higher interest rates.

The measures included in the **Action Plan** reinforce the **4 strategic objectives** that support Banco Montepio's activities, in line with the mission letter approved at the General Shareholder Meeting - Maximisation of the Total operating income, Digital Transformation and Operational Adjustment, Capital Preservation and Simplification and Governance, and consider **5 analysis vectors** identified in the face of the challenges of the current context, as part of the preparation of the multiannual Budget - Retail, Companies, Organisation, Processes and IT, Talent and Social Economy.

ACTION PLAN

07 RISK

Banco Montepio

RISK

RISK MANAGEMENT

The Banco Montepio Group's risk management framework encompasses a set of policies and procedures, the definition of limits in the context of risk appetite (RAS - Risk Appetite Statement), as well as the establishment of controls that allow, in an appropriate and integrated way, to identify, assess, monitor, report and mitigate the risks resulting from the activities carried out in the various business lines and entities. Risk management falls under the overall strategy, embodied in the definition of risk appetite in its various dimensions, in consolidated terms as well as individual terms for the entities comprising the Group.

INTERNAL CONTROL SYSTEM

In line with Banco de Portugal Notice 3/2020 and other provisions, the Banco Montepio Group's internal control system includes a set of strategies, policies, procedures, systems and controls aimed at ensuring that the following objectives are achieved:

- Profitable and sustainable performance: ensure compliance with the objectives established in strategic planning, the efficiency of operations, the efficient use of resources, the safeguarding of assets and, consequently, the sustainability of the business in the medium and long term;
- Prudent risk management: an adequate identification, assessment, monitoring and control of the risks to which the Group is or may be exposed;
- Quality information and sound accounting procedures: the existence of timely, objective, complete and reliable accounting, financial and management information, and of mechanisms for the independent reporting of that information to management and oversight bodies and to internal control functions;
- Normative compliance: respect for the legal and regulatory provisions of prudential or performance-related nature, as well as compliance with Banco Montepio's own internal rules and with the professional and ethical rules, practices and codes of conduct endorsed by Banco Montepio.

The governance of the internal control and risk management system of the Banco Montepio Group follows the model with three lines of defence:

- First line: composed of the business generating units and related areas, which generate risk for the institution and are primarily responsible for the identification, assessment, monitoring and control of the risks they incur.
- Second line: composed of the support and control functions that include, namely, the risk management and compliance functions, that interact with the first line functions with a view to the appropriate identification, assessment, monitoring and control of the risks inherent to the activity pursued by the first line functions.
- Third line: composed of the internal audit function, which is responsible for independently examining and assessing the efficacy of the policies, processes and procedures supporting the governance, risk management and internal control system by conducting tests on the effectiveness of the implemented controls.

Accordingly, the internal control system is based on:

- An adequate control environment supported by a well-defined organisational structure and safeguarding the segregation of functions, and by a code of conduct applicable to all Employees, which defines the standards of ethics, integrity and professionalism;
- 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;

- An efficient information and communication system, implemented to ensure the capture, processing and exchange of relevant, comprehensive and consistent data, on time and in a way that allows the effective and timely performance of the management and control of the Group's activities and risks;
- 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 internal Control System monitoring process considers the set of actions and control evaluations developed by the institution with a view to ensuring the appropriateness and effectiveness of the institution's organisational culture and of the governance and internal control systems:

- The monitoring of the internal control system is carried out through actions and control evaluations, implemented by the risk management and compliance control functions within the scope of its activities;
- The internal audit function carries out autonomous and periodic assessments, with its own resources or through subcontracting coordinated and supervised by the latter, with a view to ensuring the alignment, throughout the Group, of internal auditing practices, compliance with professional and regulatory requirements;
- All Banco Montepio employees, at the most varied hierarchical levels, participate in control actions, namely through the execution of procedures to review the tasks performed and in the fulfilment of their daily responsibilities;
- Those responsible for the Organic Units carry out control actions over the areas of their responsibility, verifying that the employees adequately perform the responsibilities assigned to them, analysing any deviations from the established objectives, maintaining an appropriate and sufficient control environment and communication channels and ensuring that the risks are properly identified;
- The Board of Directors also carries out control actions, although focused on the organisational culture, on the internal governance structure, on the main business areas and on the evolution of the institution's global objectives, as well as on internal and external changes that may jeopardise the execution of the strategy and defined objectives;
- The Audit Committee monitors the internal control system and monitors, in particular, the process of remedying internal control deficiencies;
- The deficiencies identified in the context of any of these actions and control evaluations that are considered to have a material impact, when considered individually or aggregated or because of their foreseeable continued occurrence, are duly recorded and documented in the respective database, as well as the corresponding risk mitigating measures and respective objective implementation dates;
- The Internal Control Commission (COMCI), supported by the Internal Control Office, monitors issues related to the Banco Montepio Group's internal control system, in a transverse and integrated manner and seeks to enhance the effectiveness of the process of monitoring the deficiencies/measures and its follow-up.

The main mission of the COMCI is to support Banco Montepio’s Executive Committee in the process of implementing an effective internal control system, at the level of the Group, namely through a continuous and effective process of follow-up and monitoring of detected deficiencies, contributing to promote a robust control environment and a solid risk management. The scope of this commission includes the follow-up and monitoring of detected deficiencies related to the internal control system.

The Internal Control Office, in close coordination with the internal control functions, has the following responsibilities:

- Define and keep updated the framework, methodologies and other internal regulations supporting the internal control system;

- Monitor and centralise, in an integrated and global manner, the internal control deficiencies and respective mitigation measures (action plans) and internal control recommendations identified/detected by the control functions, external auditors and supervisors, fostering their implementation with the owners of the measures taking into account all the entities of the Banco Montepio Group;
- Support the Organic Units of the Group's various entities in characterizing and reassessing internal control deficiencies and the respective mitigating measures, ensuring that all potential deficiencies identified are recorded and duly classified;
- Follow-up on existing deficiencies and monitor the implementation of action plans with the respective owners, carrying out regular follow-ups and identifying constraints to their implementation in all the Group's entities;
- Manage the internal control management support tool (deficiency database), ensuring that there is reliable and timely information on internal control, considering all the Group's entities;
- Ensure compliance with the Internal Control Manual, which defines the procedures and responsibilities of each of those involved in the process of remedying deficiencies;
- Draw up the appropriate *reports* for the Management and Supervisory Bodies to enable correct monitoring of the internal control system in its various aspects.

The periodic report by the Internal Control Office to the Board of Directors and the Audit Committee ensures a global view of all the Group's internal control deficiencies, with the aim of improving the efficiency and effectiveness of resolving them.

RISK MANAGEMENT SYSTEM

The Banco Montepio Group has a risk management system that is one of the pillars on which the internal control system is based, and which consists of a set of processes that ensure the correct understanding of the material risks to which the institution is or may be exposed. Its purpose is to identify, assess, monitor and control all the material risks to which the institution is or may be exposed, both internally and externally, in order to ensure that they remain within the levels previously defined by the management body.

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 at Banco Montepio is performed by the Risk Division (DRI), is responsible for the effective application of the risk management system, being one of the three key functions on which Banco Montepio's internal control system is based, in parallel with the compliance and internal auditing functions, which, together, constitute the core of the three-line of defence model established by the EBA guidelines on the best practices of internal governance.

The risk function operates as a second line of defence of the internal control system, ensuring the existence of an appropriate risk management system and aimed at obtaining a vision of the 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) Ensure that all the risks to which the Group is currently exposed, or may be exposed to in the future, are identified, assessed, monitored and controlled appropriately and properly reported to this function by all the structural units;

b) Develop and present proposals aimed at defining the necessary policies and guidelines for the overall risk management and control, and ensuring their effective implementation;

c) Participate in the definition of the Group's risk strategy and in decisions related to risk management, presenting a global or holistic view of all the risks to which the Group is currently exposed, or may be exposed to in the future;

d) Identify the risks inherent to the activity pursued by the Bank, in an individual, aggregate, current and prospective manner, assess those risks and measure exposure to them, through appropriate methodologies;

e) Develop and implement timely warning mechanisms for decisive situations or of breach of the risk tolerance thresholds;

f) Collaborate in the implementation of the risk management measures to be adopted by the Bank's different structural units that take risks, including the business generating units, and monitor their application, in order to ensure that the implemented risk control and management processes and mechanisms are adequate and effective;

g) Issue opinions on the risks associated with new products, services and markets, as well as significant change of the existing risks, as well as on exceptional transactions;

h) Coordinate the implementation of the risk management strategies and policies at the Group level;

i) Regularly assess, on an integrated basis, the adequacy and efficacy of the different components of the Group’s risk management system, their interactions and concentrations;

j) Conduct a prior analysis of transactions with related parties, appropriately identifying the inherent risks, both real or potential, to the Group;

k) Conduct the prior analysis and advise the management and supervisory boards before the taking of decisions entailing the taking of significant risks, namely when involving operations of values considered high to the Bank, acquisitions, disposals, mergers or the launch of new activities, products or services, with a view to ensuring an opportune and appropriate assessment of their impact on the Group’s risk profile;

l) Provide expert and independent information, analyses and evaluations on the risk positions, in addition to issuing opinions on the compatibility of the proposals and decisions related to risks in view of the risk tolerance thresholds defined by the Group; and

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

- Implementation of the Credit Risk Policy and Regulation;
- Review of scoring (completed) and rating models (ongoing activity);
- Continued strengthening of the model for estimating impairment of the loan portfolio, particularly with regard to incorporating macroeconomic effects;
- Computer implementation of the new definition of default (in progress);
- Continuation of the reinforcement and improvement of the risk management information system and reporting produced by the Risk Division (DRI);
- Updating and review of internal regulations on the various processes related to risk management;
- Pursuit of the strengthening of processes for calculation and reporting interest rate risk, pursuant to Banco de Portugal Instruction 34/2018 and most recent EBA guidelines;
- Monitoring of the bank's risk taxonomy, as well as the process of identifying material risks;
- Participation in the European Central Bank's exercises called “Quantitative Impact Study - QIS”, which aim to estimate the impacts of CRR III on the solvency of Financial Institutions;
- Consolidation of the use of the MGIRO (Montepio Integrated Operational Risk Management) application, by all areas of the Bank, to support operational risk management in all its phases; and

- Implementation of framework for the management of climate risks and other ESG risk factors (ongoing activity).

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. Exercised by the Compliance Division; that has the necessary autonomy to perform its functions independently, reporting functionally to the Board of Directors and Audit Committee, namely on relevant matters such as the activities and training plans, activity reports, compliance policies, as well as any indications of breach of legal obligations or rules of conduct that may cause Banco Montepio to commit unlawful conduct of the nature of an administrative offence.

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 this type of risk. For the purposes of managing compliance and reputational risks, Banco Montepio has a Compliance Risk Management Policy and Methodological Approach and a Reputational Risk Management Policy and Methodological Approach, which are communicated to all the institution's Employees and support the adoption of a compliance culture based on identifying, assessing, monitoring and mitigating these risks.

The Code of Conduct is also a fundamental instrument in the mitigation of compliance risk, as it sets out the values, principles of action and rules of professional conduct that all the Employees and members of the governing bodies should observe in performing their duties.

Adopting ethical business conduct is essential for Banco Montepio in order to serve its Customers well, meet the expectations of its Shareholders and other Stakeholders, satisfy and motivate its Employees and, in general, contribute to consolidating its position as a financial institution that is unique on the national scene due to its origin and mutualist basis.

In turn, the internal auditing function in Banco Montepio Group is carried out by the Audit and Inspection Division (DAI) of Banco Montepio, which ensures, as a shared service, the auditing function of the other entities of the Group, with the exception of an entity abroad which has its own auditing function. In this situation, DAI ensured the corporate function, through the functional coordination of the local function, with the aim of guaranteeing the alignment of practices and procedures at Group level, including carrying out local audits, and to date there are only entities left operating in Portugal, following the sale of Finibanco Angola.

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 organisational culture, governance and internal control systems and, as the third line of defence, carries out independent and risk-oriented analyses, activities, and systems and processes, including the risk management function and the compliance function.

The 2023 Audit Plan approved by the Board of Directors of the Banco Montepio Group, with the favourable opinion of the Audit Committee, covers activities of a regulatory nature, business processes, risk management and continuous monitoring of identified deficiencies, which are being carried out in accordance with expectations.

Risk Appetite Framework (RAF)

The RAF is the main element of the Group's risk management system, consisting of 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 Division (DRI), the organic unit that conducts this function in a manner independent from the functional areas subject to assessment.

In Banco Montepio's current internal governance model, the head of DRI reports hierarchically to the member of the Executive Committee responsible for risk. There is also a functional report to the Risk Committee, the Audit Committee, as the supervisory body of Banco Montepio, and to the Board of Directors.

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 the supervisory body of Banco Montepio, whose competencies include: the supervision of the Company's management; the supervision of auditing activities, the process of preparing and disseminating financial information, and the effectiveness of the internal control systems and; the preparation of opinions on the policies and procedures to support the risk management system prior to approval by the Board of Directors, compliance control and the activity and independence of the statutory auditor and of the 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 Risk Committee's mission is to constantly monitor the definition and execution of the institution's risk strategy and risk appetite and to verify that these are compatible with a sustainable medium and long-term strategy and with the approved action programme and budget, advising the Audit Committee and the Board of Directors in these areas.

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 Commission (CC) meets on a weekly basis, where credit transactions are reviewed and decided in accordance with the credit granting policy and regulations.

The Asset-Liability Commission (ALCO), which holds monthly meetings, is responsible for following up the management of Capital, the Balance Sheet and the Income Statement. Its functions include the issuance of proposals or recommendations with a view to managing liquidity, interest rate or capital positions, considering the scenarios of the evolution of the activity, the macroeconomic context and the indicators related to the real and projected evolution of the different risks.

As part of its risk management function, Risk Division also participates in the Impairment Commission (COMIMP), the Non-Performing Assets Monitoring Commission (COMAANP), the Business Commission (COMNEG), the Pension Fund Monitoring Commission (COMAFP), the Technology Commission (COMTECH), the Internal Control Commission (COMCI), the Solvability Commission (CRES), the Cybersecurity Commission (COMCIBER), the Data Commission (COMDATA) and in the Sustainability Commission (COMSESG).

Risk Division (DRI)

The Risk Division (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 regulatory requirements.

It ensures the analysis and management of risks, providing advice to the management body, namely through the proposal of regulations and management models for the different risks, the preparation of management reports that serve as the basis for decision-making and the participation in Support Committees for the Board of Directors and the Executive Committee.

The Risk Division also ensures compliance with the set of prudential reports to the supervision authority, namely in the area of capital requirements, control of major risks, liquidity risk, interest rate risk, country risk, counterparty risk, self-assessment of the adequacy of capital and liquidity (ICAAP and ILAAP), 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 Division 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 Division 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 believes that the development of these responsibilities by Banco Montepio's, as parent company, Risk Division 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.

During the first half of the year, the Model Validation Office completed a number of validation procedures, including the periodic validation of the models, methodologies and results of the ICAAP and ILAAP processes, and the completion of the validation of a number of Rating and Scoring models and IFRS 9 models is planned for the second half of the year.

Within the framework of the internal governance model, the Model Validation Office ensured the presentation and reporting to the Risk Committee and the Executive Committee, in accordance with the requirements defined in the Corporate Model Risk Management Policy. It also controlled the inventory of models, followed up on recommendations with the model owners, the analysis of overrides of rating models with the respective quarterly reports, and the monitoring of model risk limits. A new risk tiering methodology was also developed, which will enable more effective model risk management, suited to the current strategic and business context.

Information Management

Banco Montepio has defined a data policy and the respective implemented operative model. This policy is aligned with the DAMA DMBOK reference framework (DAMA International Guide to Data Management Body of Knowledge) and with the principles of BCBS 239 (Principles of effective risk data aggregation and risk reporting) and was reviewed and aligned as part of Banco Montepio's organic reorganisation in June 2023. Along with a technological renovation that began in 2022, a number of actions and activities began in 2023 that will enable the implementation of Banco de Portugal Notice 3/2020, with regard to information governance and quality control systems, as well as the promotion and adoption of behaviour consistent with the preservation of data quality and consequent financial stability and protection of the interests of the Bank's Customers.

The creation of the new Data and Analytics Division demonstrated the growing importance that Banco Montepio has placed on this dimension, bringing a holistic and integrated reading, in line with the regulatory framework mentioned and the bank's strategy to maximize the value of the corporate information it holds, allowing it to improve its ability to identify and manage risks.

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

The decision-making process for loan operations is based on a series of policies using scoring models for the retail and business portfolios and rating models for the Corporate segment. These models, developed based on internal historical data, enable obtaining an assessment which is reflected in the attribution of a risk category to the Customer/operation, aggregated in a single risk scale, representing the respective probability of default. These models are subject to validation by a unit independent of the one responsible for their development, which reports to the Risk Committee (composed of non-executive directors) where the respective validation reports and opinions to modify the models are approved.

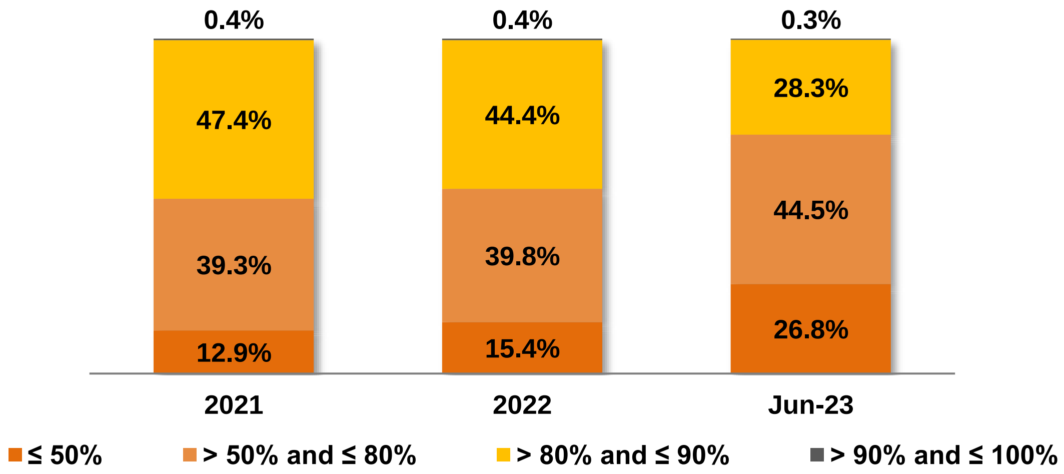
The implemented models are monitored on a regular basis by the Risk Division, with a process also existing for regular updating in light of the results obtained, business or regulatory alterations that imply the need to review these models.

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 2023 recorded a decrease, in relation to 2022, of the Loan-to-Value (LTV) ratio (the loan value divided by the valuation of the collateral), to 65.6%

(72.9% in 2022 and 74.3% in 2021), excluding financing of real estate properties held by Banco Montepio, essentially explained by the component of own and permanent residence.

Mortgage loans distribution granted by LTV level



At 30 June 2023, the weight of non-performing exposures (NPE) measured on the basis of the Gross loans to customer item decreased compared to 31 December 2022 by 0.7 p.p., standing at 4.5%, determined by the positive effect of the reduction of non-performing exposures by 100 million euros (-15.9%), compared to the same period (-42.8%).

The amount of impairments for credit risk reached 319 million euros as at 30 June 2023, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 160.8%. Moreover, the coverage of non-performing exposures stood at 60.0%, while the coverage ratio, also considering total collateral and associated financial guarantees, stood at 106.7%.

LOAN QUALITY INDICATORS

(million euros)

	Jun-22	Jun-22 Restated	Dec-22	Jun-23	Change Jun-23/ Jun-22 Restated		Change Jun-23/ Dec-22	
					Amount	%	Amount	%
Gross loans to customers	12 436	12 366	12 068	11 875	(491)	(4.0)	(193)	(1.6)
Loans and interest overdue by more than 90 days	433	429	270	198	(231)	(53.8)	(72)	(26.7)
Loans impairment	515	493	355	319	(174)	(35.4)	(36)	(10.1)
Ratios (%)								
Cost of credit risk	0.1	(0.1)	0.1	0.1	0.2 p.p.		0.0 p.p.	
Loans and interest overdue by more than 90 days	3.5	3.5	2.2	1.7	(1.8 p.p.)		(0.5 p.p.)	
Non-performing exposures (NPE) [(a)] / Gross loans to customers	7.7	7.5	5.2	4.5	(3.0 p.p.)		(0.7 p.p.)	
Forborne exposures [(a)] / Gross loans to customers	5.5	5.6	4.3	3.6	(2.0 p.p.)		(0.7 p.p.)	
Coverage by Impairments for balance sheet loans (%)								
Loans and interest overdue by more than 90 days	118.8	115.0	131.2	160.8	45.8 p.p.		29.6 p.p.	
Non-performing exposures (NPE) [(a)]	53.8	53.0	56.1	60.0	7.0 p.p.		3.9 p.p.	
Non-performing exposures (NPE) [(a)], also including associated collaterals and financial guarantees	95.1	94.6	100.8	106.7	12.1 p.p.		5.9 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 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 Division. 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 VaR limits and Stop Loss and Loss Trigger limits for positions held for trading and in other comprehensive income, as well as exposure limits per issuer and per type/class of asset.

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 include the analysis of scenarios, namely the sensitivity of the bond portfolio to variations in interest rates, spreads, as well as analyses of stress scenarios based on extreme events that occurred in the past, including the “Covid scenario for the period from 19 February to 31 March 2020”.

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.

The following is a summary of the VaR indicators in December 2022 and June 2023. It should be noted that the percentage drop in the VaR of the banking and trading portfolios is the result of a combination of 2 factors: (i) the removal from the VaR calculation of observed extreme observations and (ii) the fact that the trading portfolio as at 31 December 2022 showed a reduced value compared to that observed in the first half of 2023, especially in terms of bonds, which contributed to the greater weight of the VaR in the trading portfolio's assets.

VaR INDICATORS (1)

	Jun-23		Dec-22	
	Banking Book	**Trading Portfolio**	**Banking Book**	**Trading Portfolio**
Market VaR (1) (2)	**2.38%**	**1.37%**	**3.01%**	**8.44%**
Interest Rate Risk	1.99%	1.03%	2.36%	8.28%
Exchange Rate Risk	0.09%	0.49%	0.10%	2.04%
Price Risk	0.01%	0.60%	0.01%	2.57%
Credit risk (spread)	0.63%	0.13%	1.04%	2.18%
Commodity Risk	0.00%	0.16%	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.

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 Banco Montepio Group's current foreign exchange exposure in consolidated terms, after the sale of the 51% stake in Finibanco Angola, is essentially the result of the positions in Kwanza relating to Montepio Holding's deposits, as well as the maintenance, at the end of June 2023, of a stake equivalent to 29.22% of that entity's share capital. In August 2023, the Banco Montepio Group completed the sale of its entire stake in Finibanco Angola.

With regard to the exchange rate risk of the bank portfolio, exposure limits are defined, which are monitored by the management and oversight bodies and by the Asset-Liability Commission (ALCO), and any possible exceeding of the established limits follows the defined circuit, which may require approval by the management body or the implementation of measures to cover said 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 Basel recommendations and the Banco de Portugal Instruction No. 34/2018, the Group calculates, on a monthly basis, its exposure to balance sheet interest rate risk based on the Bank of International Settlements (BIS) methodology, classifying all asset, liability and off-balance sheet items that do not belong to the trading portfolio, by repricing levels.

In this context, limits are defined for exposure to interest rate risk factors which are monitored by the Asset-Liability Commission (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 carried out with six interest rate curve shock scenarios, which measures the impact on net interest income at one year and on the economic value of the interest rate curve shocks prescribed in the BIS document of April 2016, Standards – Interest rate risk in the banking book.

Based on the financial features of each contract, the respective expected cash flow projection is made, according to the rate repricing dates and any pertinent performance assumptions that are considered.

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 and reverse 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. The liquidity risk is monitored on a daily basis and is monitored through a weekly report, and various reports are prepared for control purposes and to monitor and support decision-making of the Asset-Liability Commission (ALCO). 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 2023, the liquidity gaps up to 12 months were as presented in the table below.

LIQUIDITY POSITION GAPS IN JUNE 2023

(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	3 867	3 853	3 825	3 529	3 235

Customer resources constitute the main source of funding, accounting for 77.7% of total funding sources in June 2023.

Liabilities	%
Resources from central banks	10.6%
Resources from other credit institutions	5.2%
Resources from customers	77.7%
Debt securities issued	3.4%
Other liabilities	3.1%
Total	**100.0%**

The Liquidity Coverage Ratio (LCR) reached 245.2% in June of 2023, comfortably above the minimum requirement of 100%. Also noteworthy is the strengthening of the commercial gap with the loan-to-deposit ratio, considering Net loans to customers and Customer deposits, standing at less than 100%.

The Net Stable Funding Ratio (NSFR) stood at 123.9% in June 2023, also with a significant gap 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, as well as for 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 the year, the Banco Montepio Group's exposure to real estate risk, in the components described above, fell by approximately 64.4 million euros, from 459.6 million euros at the end of 2022 to 395.2 million euros as at 30 June 2023.

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. Faced with scenarios of this type, Banco Montepio will have to make unforeseen contributions in order to maintain the benefits defined by the Fund.

The Pension Fund Monitoring Commission is responsible for the regular analysis and monitoring of the management of Banco Montepio's Pension Fund. Complementing the above, the Risk Division produces monthly reports on the evolution of the market value of the Pension Fund portfolio and associated risk indicators.

As at 30 June 2023 the accumulated negative actuarial deviation of the Pension Fund stood at 153.0 million euros, compared to 135.3 million euros in December 2022.

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.

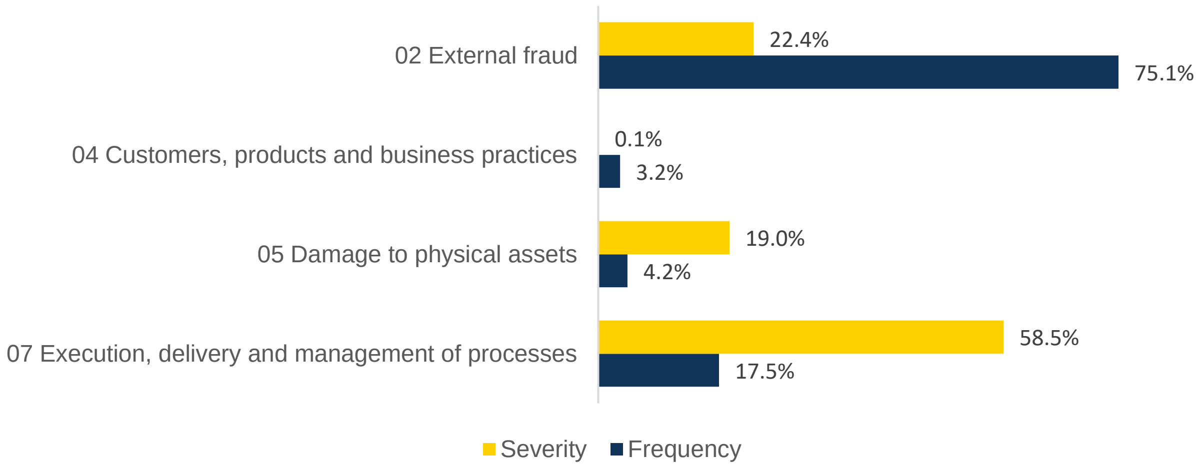
The implemented operational risk management model follows the principle of the 3 lines of defence, in line with the internal control system.

The Risk Division 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 monitoring operational risk in the first half of the year, the profile of loss events maintained the inversely proportional relationship between frequency and severity of losses, typical of Operational Risk.

Operational Risk Typologies by Frequency and Severity June 2023



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, allowing the identification of the potential exposure of each body/organic unit to operational risk, determining its risk profile and prioritising possible 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 Division.

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.

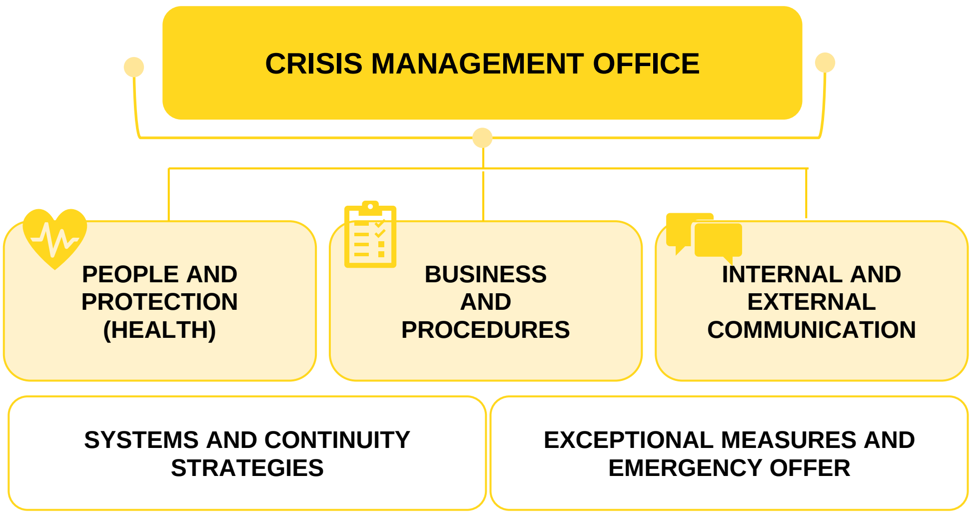
Business Continuity Management

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 Crisis Management Office, which is responsible for crisis management, for the management and execution of the Operational Continuity Plans and for the coordination of business recovery teams, remained operational, in terms of operational continuity and business recovery monitoring until the end of July 2022, in the aftermath of the pandemic crisis and the War in Ukraine.

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

Business Continuity Management



INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The internal capital adequacy assessment 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 Group's solvency 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 it 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 the suitable documentation of the demonstrated results, by reinforcing the integration of the risk management processes in the risk culture of the Group and in the decision-making processes; and

- 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.

In the first phase, based on quantitative and qualitative criteria, the material risks to which the Group's activity is subject are identified based on an internal risk taxonomy, in alignment with Banco de Portugal Instruction No. 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, and potential contingency plans must be identified to address possible domestic capital shortages, 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 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 crisis situations, which were activated promptly during the Covid-19 crisis, in order to mitigate the impacts on the operational and business component.

ESG RISKS

Within the scope of ESG Risks, the first half of 2023 marks the start of activity of the ESG Risk Management Centre within the Risk Division structure, which aims to support Banco Montepio in managing environmental, social and governance risks.

This semester also saw the development of methodologies for calculating exposure to climate risks as part of the Market Discipline report. However, it should be noted that, given the scarcity of data and the still premature stage of the methodologies for quantifying climate risk, they were developed on an exploratory and best-effort basis, and are expected to be gradually improved.

As part of ESG risk mitigation, is worth notice the preparatory work for the inclusion of ESG scores for companies, which resulted in the award of a scoring service to an external entity in July of this year. Banco Montepio is currently working on integrating these scores into its systems, with a view to classifying its portfolio, mitigating risks and supporting its decisions.

Another important milestone is associated with the approval of ESG key performance indicators (KPIs) in the Risk Appetite Statement, which now includes an exposure limit for the seven sectors with the highest greenhouse gas emissions.

RISK RATINGS

In March 2023, DBRS Ratings GmbH (DBRS Morningstar) revised Banco Montepio's Long Term Issuer Rating upwards from ‘B’ to ‘B (high)’, keeping the Trend Stable. Additionally, the following ratings were also revised upwards: (i) Long-term deposits to BB (low); (ii) Long Term Senior Debt) from B (high) to BB (low); (iii) Subordinated Debt to B from CCC (high) to B (low).

On May 2023, Moody's Investors Service (“Moody's”) raised the credit rating of Senior Unsecured Medium-Term Note and Junior Senior Unsecured Medium-Term Note, issued under Banco Montepio's Euro Medium Term Note (EMTN) Programme, from (P)B2 to (P)B1. Moody's has also revised its rating upwards: (i) Long-term Counterparty Risk Rating from Ba2 to Ba1; (ii) Long-term Bank Deposits from Ba3 to Ba2, with positive Outlook; (iii) Banco Montepio Intrinsic (Baseline Credit Assessment) from b2 to b1; (iv) Subordinated debt issued under the EMTN Programme: Junior Subordinate Medium-Term Note from (P)Caa1 to (P)B3 and Subordinate Medium-Term Note from (P)B3 to (P)B2.

The successive upward revisions, in a trend that already began in 2021 and 2022, reflect Banco Montepio's significant progress in reducing non-productive assets and non-strategic assets, the reinforcement of capital ratios to levels above regulatory requirements, and also the successful fulfilment of the objectives of the operational adjustment plan, namely with regard to the optimisation of the branch network, the digitalisation and the reduction of staff, with the objective of reducing balance sheet risk and increasing productivity levels, which will contribute to consolidating an improvement based on profitability and efficiency.

The credit ratings awarded to Banco Montepio with reference to 30 June 2023 and 30 June 2022 are as shown in the table below:

Rating Agencies	**Covered Bonds (CPT)** [1]		**Long-term** [2]		**Deposits**		**Outlook**	
	30 de June 2022	**30 June 2023**	30 de June 2022	**30 June 2023**	30 de June 2022	**30 June 2023**	30 de June 2022	**30 June 2023**
Fitch	AA-	**AA**	B-	**B**	B	**B+**	Positive	**Positive**
Moody's	Aa3	**Aa2**	b3	**b1**	B1	**Ba2**	Stable	**Positive**
DBRS	--	**--**	B	**B (high)**	B (high)	**BB (low)**	Stable	**Stable**

(1) Issued under the 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.

On 30 July 2023, the financial rating agency Fitch Ratings (Fitch) upgraded Banco Montepio's senior unsecured debt (senior preferred) from B- to B+, maintaining a positive outlook, the third consecutive upgrade of this rating in 12 months. The long-term ratings were also revised upwards: (i) Long Term Deposits from B+ to BB-; (ii) Viability Rating (VR) from b to b+; (iii) Long Term Issuer Default Rating (IDR) from B to B+; (iv) Senior non-preferred debt from CCC+ to B; and (v)Subordinated debt from CCC+ to B-.

Fitch also upgraded Banco Montepio's covered bonds (OHs) by one level, from AA to AA+, with a stable outlook. With this upward revision, the rating of the covered bonds reached the maximum score that can be awarded by the agency to Portuguese issuers, reinforcing the Investment Grade classification.

08 REGULATORY INFORMATION

1ST HALF 2023

Banco Montepio

CONSOLIDATED FINANCIAL STATEMENTS

Banco Montepio

Interim Condensed Consolidated Balance Sheet on 30 June 2023 and 31 December 2022

(Euro thousand)

	Jun 2023	Dec 2022
Assets		
Cash and deposits at central banks	630 052	1 383 802
Loans and deposits to credit institutions payable on demand	127 116	52 287
Other loans and advances to credit institutions	168 923	106 376
Loans and advances to customers	11 556 384	11 713 097
Financial assets held for trading	85 705	23 070
Financial assets at fair value through profit or loss	146 446	147 770
Financial assets at fair value through other comprehensive income	85 707	97 222
Other financial assets at amortized cost	4 123 419	4 119 387
Investments in associated companies	3 982	4 390
Non-current assets held for sale	54	11
Non-current assets held for sale - discontinued operations	10 092	199 687
Investment properties	65 262	72 726
Other tangible assets	191 611	191 998
Intangible assets	49 657	47 551
Current tax assets	1 770	5 966
Deferred tax assets	385 315	413 604
Other assets	462 243	527 307
Total Assets	18 093 738	19 106 251
Liabilities		
Deposits from central banks	1 749 727	2 889 991
Deposits from other credit institutions	859 918	341 623
Deposits from customers	12 866 536	13 115 366
Debt securities issued	562 618	606 651
Financial liabilities held for trading	13 553	17 697
Non-current liabilities held for sale - discontinued operations	-	101 738
Provisions	26 131	30 752
Current tax liabilities	957	4 438
Other subordinated debt	211 301	217 029
Other liabilities	262 130	261 480
Total Liabilities	16 552 871	17 586 765
Shareholders' Equity		
Share capital	1 210 000	2 420 000
Legal reserve	196 833	193 266
Fair value reserves	4 820	4 065
Other reserves and Retained earnings	177 464	(1 143 081)
Consolidated net income for the period attributable to the Shareholder	(48 250)	33 794
Total Equity Attributable to Shareholders	1 540 867	1 508 044
Non-controlling Interests	-	11 442
Total Shareholders' Equity	1 540 867	1 519 486
Total Liabilities and Shareholders' Equity	18 093 738	19 106 251

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Banco Montepio

Interim Condensed Consolidated Income Statement
for the six months periods ended on 30 june 2023 and 2022

(Euro thousand)

	Jun 2023	Jun 2022 (restated)
Interest and similar income	262 774	135 522
Interest and similar expense	68 425	25 162
Net interest income	194 349	110 360
Dividends from equity instruments	807	951
Net fee and commission income	65 336	57 998
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	4 567	(3 614)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	55	1 233
Net gains/(losses) arising from exchange differences	(20 135)	21 235
Net gains/(losses) arising from sale of other financial assets	5 594	13 550
Other operating income/(expense)	(20 942)	(35 880)
Total operating income	229 631	165 833
Staff costs	77 343	69 093
General and administrative expenses	31 406	29 358
Depreciation and amortization	18 015	16 680
Total operating cost	126 764	115 131
Impairment of loans and advances to customers and to credit institutions	8 432	(6 529)
Impairment of other financial assets	1 674	1 566
Impairment of other assets	9 699	10 329
Other provisions	(4 246)	(2 668)
Operating income	87 308	48 004
Share of profits/(losses) booked under the equity method	(209)	(167)
Profit/(loss) before income tax	87 099	47 837
Income Tax		
Current	2 751	(8 692)
Deferred	(34 000)	(12 829)
Profit/ (loss) after income tax from continuing operations	55 850	26 316
Profit/ (loss) from discontinued operations	(102 358)	(2 796)
Consolidated net income after income tax	(46 508)	23 520
Consolidated net income after income tax		
to the shareholders	(48 250)	23 328
Non-controlling Interests	1 742	192
Consolidated net profit / (loss) for the period	(46 508)	23 520
Earnings per share (in Euro)		
From continuing operations		
Basic	0.0231	0.0109
Diluted	0.0231	0.0109
From discontinued operations		
Basic	(0.0430)	(0.0012)
Diluted	(0.0430)	(0.0012)

THE CHIEF 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 first half 2023 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 102 (notes 22, 23, 24, 25)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Financial assets held for trading	17 581	17 581	23 070	85 705
(b)	Financial assets at fair value through other comprehensive income	121 772	121 691	97 222	85 707
(c)	Other financial assets at amortised cost	4 127 844	4 049 790	4 119 387	4 123 419
(d)	Financial assets at fair value through profit or loss*	151 939	151 939	147 770	146 446
(e)	Securities portfolio and other financial assets* (a + b + c + d)	4 419 136	4 341 001	4 387 449	4 441 277
(f)	Total net assets	19 842 210	19 842 210	19 106 251	18 093 738
	% Securities portfolio and other financial assets (e / f)	**22.3%**	**21.9%**	**23.0%**	**24.5%**

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

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 102 (notes 18, 19, 20, 21, 22, 23, 24, 25)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Total net assets	19 842 210	19 842 210	19 106 251	18 093 738
(b)	Cash and deposits at central banks and loans and advances to credit institutions	2 029 825	1 944 901	1 542 465	926 091
(c)	Net loans to customers	11 920 990	11 873 250	11 713 097	11 556 384
(d)	Financial assets held for trading	17 581	17 581	23 070	85 705
(e)	Financial assets at fair value through other comprehensive income	121 772	121 691	97 222	85 707
(f)	Other financial assets at amortised cost	4 127 844	4 049 790	4 119 387	4 123 419
(g)	Financial assets at fair value through profit or loss	151 939	151 939	147 770	146 446
(h)	Other investments (a - b - c - d - e - f - g)	1 472 259	1 683 058	1 463 240	1 169 986
	% of Other investments (h / a)	**7.4%**	**8.5%**	**7.7%**	**6.5%**

DEBT ISSUED

Definition	Sum of the balance sheet items 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Assess the relative weight of this item from a funding structure perspective.
Reference to FSNO	Page 102 (notes 36, 38)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Debt securities issued	1 462 147	1 462 147	606 651	562 618
(b)	Other subordinated debt	211 289	211 289	217 029	211 301
(c)	Debt issued (a + b)	1 673 436	1 673 436	823 680	773 919
(d)	Total liabilities	18 301 249	18 301 249	17 586 765	16 552 871
	% of Debt issued (c / d)	**9.1%**	**9.1%**	**4.7%**	**4.7%**

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 102 (notes 33, 34, 35, 36, 38)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Total liabilities	18 301 249	18 301 249	17 586 765	16 552 871
(b)	Central bank resources and OCI	3 263 709	3 262 085	3 231 614	2 609 645
(c)	Customer resources	13 035 664	12 931 665	13 115 366	12 866 536
(d)	Debt securities issued	1 462 147	1 462 147	606 651	562 618
(e)	Other subordinated debt	211 289	211 289	217 029	211 301
(f)	Complementary resources (a - b - c - d - e)	328 440	434 063	416 105	302 771
	% of Complementary resources (f / a)	**1.8%**	**2.4%**	**2.4%**	**1.8%**

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 48)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Securities investment funds	169 798	169 798	180 913	197 898
(b)	Real estate investment funds	607 526	607 526	662 868	686 549
(c)	Pension funds	276 420	276 792	284 930	285 472
(d)	Capitalization Insurance	30 052	30 052	28 807	26 638
	Off-balance sheet resources (a + b + c + d)	**1 083 796**	**1 084 168**	**1 157 518**	**1 196 556**

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 2)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Interest received from loans to customers	119 770	116 113	258 588	243 293
(b)	Interest paid on customers' deposits	3 118	2 966	7 045	22 207
	Commercial net interest income (a - b)	**116 652**	**113 147**	**251 543**	**221 086**

OPERATING COSTS

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 103 (notes 10, 11, 12)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Staff costs	72 769	69 093	152 617	77 343
(b)	General and administrative expenses	31 098	29 358	59 740	31 406
(c)	Depreciation and amortisation	17 513	16 680	34 006	18 015
	Operating costs (a + b + c)	**121 380**	**115 131**	**246 363**	**126 764**

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 103 (notes 2, 4, 10, 11, 12)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Commercial net banking income	116 652	113 147	251 543	221 086
(b)	Net commissions	59 627	57 998	120 496	65 336
(c)	Operating costs	121 380	115 131	246 363	126 764
	Results from the commercial activity (a + b - c)	**54 899**	**56 014**	**125 676**	**159 658**

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 102 (notes 21, 35, 36)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Net loans to customers	11 920 990	11 873 250	11 713 097	11 556 384
(b)	Customer resources	13 035 664	12 931 665	13 115 366	12 866 536
(c)	Debt securities issued	1 462 147	1 462 147	606 651	562 618
	Net loans to customers / On-balance sheet customer resources (a / (b + c))	**82.2%**	**82.5%**	**85.4%**	**86.0%**

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 103 (notes 5, 6, 7,8, 9, 10, 11, 12)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Total operating income	178 458	165 833	370 057	229 631
(b)	Results from financial operations (i + ii + iii)	20 703	18 854	12 041	(15 513)
(i)	Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(3 614)	(3 614)	(217)	4 567
(ii)	Net gains / (losses) from financial assets at fair value through other comprehensive income	1 233	1 233	1 449	55
(iii)	Net gains / (losses) from foreign exchange differences	23 084	21 235	10 809	(20 135)
(c)	Other income (i + ii)	(23 446)	(22 330)	(14 947)	(15 348)
(i)	Net gains / (losses) arising from the sale of other financial assets	13 550	13 550	33 280	5 594
(ii)	Other operating income / (expenses)	(36 996)	(35 880)	(48 227)	(20 942)
(d)	Operating costs, excluding specific impacts [1)]	121 446	115 197	235 825	121 273
	Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	**67.0%**	**68.0%**	**63.2%**	**46.6%**

1) Excluding the amount related to Personnel Costs generated by the operational adjustment measures, of €-0.1M in Jun-22/Jun-22 Restated, €+10.5M in Dec-22 and €+5.5M in Jun-23.

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 13, 21)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Impairment of loans and advances to customers and to credit institutions (annualized[1])	6 488	(13 167)	13 371	17 004
(b)	Average gross loans to customers[2]	12 264 285	12 202 677	12 211 320	11 981 645
	Cost of credit risk (a / b)	**0.1%**	**-0.1%**	**0.1%**	**0.1%**

1) Annualized values considering the total number of days elapsed and total days of the year.
2) Average balance for period.

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 21)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Loans and interest overdue by more than 90 days	433 447	428 769	270 210	198 171
(b)	Gross loans to customers	12 435 814	12 366 306	12 067 614	11 874 977
	Ratio of loans and interest overdue by more than 90 days (a / b)	**3.5%**	**3.5%**	**2.2%**	**1.7%**

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 21)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Impairment for credit risk (balance sheet)	514 824	493 056	354 517	318 593
(b)	Loans and interest overdue by more than 90 days	433 447	428 769	270 210	198 171
	Coverage of loans and interest overdue by more than 90 days (a / b)	**118.8%**	**115.0%**	**131.2%**	**160.8%**

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 58)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Stock of Non-performing exposures	956 858	929 715	631434	531343
(b)	Gross loans to customers	12 435 814	12 366 306	12 067 614	11874 977
	Non-performing exposures / Gross loans to customers (a / b)	**7.7%**	**7.5%**	**5.2%**	**4.5%**

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 58)

Components and calculus

(milhares de euros)

		jun-22	jun-22 Reexpresso	dez-22	jun-23
(a)	*Stock* de Exposições não produtivas	956 858	929 715	631434	531343
(b)	Imparidade para riscos de crédito em balanço	514 824	493 056	354 517	318 593
(c)	Crédito a clientes bruto	12 435 814	12 366 306	12 067 614	11874 977
	***Non-performing exposures* líquidas de imparidade para riscos de crédito em balanço/ Crédito a clientes bruto (a-b)/c**	**3.6%**	**3.5%**	**2.3%**	**1.8%**

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 58)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Impairment for credit risk (balance sheet)	514 824	493 056	354 517	318 593
(b)	Stock of Non-performing exposures	956 858	929 715	631 434	531 343
	Coverage of Non-performing exposures by Impairment for credit risk (a / b)	**53.8%**	**53.0%**	**56.1%**	**60.0%**

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 58)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Impairment for credit risk (balance sheet)	514 824	493 056	354 517	318 593
(b)	Associated collaterals and financial guarantees	395 032	386 605	281 741	248 318
(c)	Stock of Non-performing exposures	956 858	929 715	631 434	531 343
	Coverage of Non-performing exposures by Impairment for credit risk and associated collaterals and financial guarantees ((a + b) / c)	**95.1%**	**94.6%**	**100.8%**	**106.7%**

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 58)

Components and calculus

(thousand euros)

		Jun-22	Jun-22 Restated	Dec-22	Jun-23
(a)	Stock of Forborne exposures	687 932	687 932	520 662	430 450
(b)	Gross customer loans	12 435 814	12 366 306	12 067 614	11 874 977
	Forborne exposures / Gross loans to customers (a / b)	**5.5%**	**5.6%**	**4.3%**	**3.6%**

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.

Core operating income: sum of the income statement headings of Net interest income and Net fees and commissions.

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) 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.

REPORT AND ACCOUNTS

ACCOUNTS, NOTES TO THE ACCOUNTS AND OPINIONS

PART II

Banco Montepio

1ST HALF 2023

REPORT AND ACCOUNTS

ACCOUNTS AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

1ST HALF

2023

Banco Montepio

Banco Montepio

Interim Condensed Consolidated Income Statement
for the six months periods ended on 30 june 2023 and 2022

(Euro thousand)

	Notes	Jun 2023	Jun 2022 (restated)
Interest and similar income	2	262 774	135 522
Interest and similar expense	2	68 425	25 162
Net interest income	2	194 349	110 360
Dividends from equity instruments	3	807	951
Net fee and commission income	4	65 336	57 998
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	5	4 567	(3 614)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	6	55	1 233
Net gains/(losses) arising from exchange differences	7	(20 135)	21 235
Net gains/(losses) arising from sale of other financial assets	8	5 594	13 550
Other operating income/(expense)	9	(20 942)	(35 880)
Total operating income		229 631	165 833
Staff costs	10	77 343	69 093
General and administrative expenses	11	31 406	29 358
Depreciation and amortization	12	18 015	16 680
Total operating cost		126 764	115 131
Impairment of loans and advances to customers and to credit institutions	13	8 432	(6 529)
Impairment of other financial assets	14	1 674	1 566
Impairment of other assets	15	9 699	10 329
Other provisions	16	(4 246)	(2 668)
Operating income		87 308	48 004
Share of profits/(losses) booked under the equity method	17	(209)	(167)
Profit/(loss) before income tax		87 099	47 837
Income Tax			
Current	31	2 751	(8 692)
Deferred	31	(34 000)	(12 829)
Profit/ (loss) after income tax from continuing operations		55 850	26 316
Profit/ (loss) from discontinued operations	57	(102 358)	(2 796)
Consolidated net income after income tax		(46 508)	23 520
Consolidated net income after income tax			
to the shareholders		(48 250)	23 328
Non-controlling Interests	44	1 742	192
Consolidated net profit / (loss) for the period		(46 508)	23 520
Earnings per share (in Euro)			
From continuing operations			
Basic		0.0231	0.0109
Diluted		0.0231	0.0109
From discontinued operations			
Basic		(0.0430)	(0.0012)
Diluted		(0.0430)	(0.0012)

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Condensed Consolidated Statement of Comprehensive Income for the period ended on 30 June 2023 and 2022

(Euro thousand)

	Jun 2023	Jun 2022
Items that may be reclassified to the Income Statement		
From continuing operations:		
Fair value reserves		
Financial assets at fair value through other comprehensive income and loans and advances to customers		
Debt instruments	770	(4 717)
Taxes related to fair value changes	(330)	1 449
	440	**(3 268)**
From discontinued operations:		
Exchange rate difference resulting from consolidation	(27 578)	27 441
Attributable to interests they do not control	(5 455)	5 510
	(33 033)	**32 951**
	(27 138)	**24 173**
Items that will not be reclassified to the Income Statement		
Fair value reserves		
Financial assets at fair value through other comprehensive income and loans and advances to customers		
Equity instruments	315	(62)
Actuarial gains/(losses) for the period recorded against retained earnings	(17 688)	130 686
Taxes	5 865	-
	(11 508)	**130 624**
Other comprehensive income/(loss) for the period	**(38 646)**	**154 797**
Attributable continuing operations	(11 068)	127 356
Attributable discontinued operations	(33 033)	32 951
Attributable to shareholders	(38 646)	154 797
Attributable to interests they do not control	(5 455)	5 510
Consolidated net income for the period	**(46 508)**	**23 520**
Attributable continuing operations	55 850	21 410
Attributable discontinued operations	(102 358)	2 110
Attributable to shareholders	(48 250)	23 328
Attributable to interests they do not control	1 742	192
Total consolidated comprehensive income/(loss) for the period	**(85 154)**	**178 317**

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Condensed Consolidated Balance Sheet on 30 June 2023 and 31 December 2022

(Euro thousand)

	Notes	Jun 2023	Dec 2022
Assets			
Cash and deposits at central banks	18	630 052	1 383 802
Loans and deposits to credit institutions payable on demand	19	127 116	52 287
Other loans and advances to credit institutions	20	168 923	106 376
Loans and advances to customers	21	11 556 384	11 713 097
Financial assets held for trading	22	85 705	23 070
Financial assets at fair value through profit or loss	23	146 446	147 770
Financial assets at fair value through other comprehensive income	24	85 707	97 222
Other financial assets at amortized cost	25	4 123 419	4 119 387
Investments in associated companies	26	3 982	4 390
Non-current assets held for sale	27	54	11
Non-current assets held for sale - discontinued operations	57	10 092	199 687
Investment properties	28	65 262	72 726
Other tangible assets	29	191 611	191 998
Intangible assets	30	49 657	47 551
Current tax assets	31	1 770	5 966
Deferred tax assets	31	385 315	413 604
Other assets	32	462 243	527 307
Total Assets		18 093 738	19 106 251
Liabilities			
Deposits from central banks	33	1 749 727	2 889 991
Deposits from other credit institutions	34	859 918	341 623
Deposits from customers	35	12 866 536	13 115 366
Debt securities issued	36	562 618	606 651
Financial liabilities held for trading	22	13 553	17 697
Non-current liabilities held for sale - discontinued operations	57	-	101 738
Provisions	37	26 131	30 752
Current tax liabilities	31	957	4 438
Other subordinated debt	38	211 301	217 029
Other liabilities	39	262 130	261 480
Total Liabilities		16 552 871	17 586 765
Shareholders' Equity			
Share capital	40	1 210 000	2 420 000
Legal reserve	41	196 833	193 266
Fair value reserves	42	4 820	4 065
Other reserves and Retained earnings	42	177 464	(1 143 081)
Consolidated net income for the period attributable to the Shareholder		(48 250)	33 794
Total Equity Attributable to Shareholders		1 540 867	1 508 044
Non-controlling Interests	44	-	11 442
Total Shareholders' Equity		1 540 867	1 519 486
Total Liabilities and Shareholders' Equity		18 093 738	19 106 251

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Condensed Consolidated Statement of Cash Flows
for the six months period ended on 30 June 2023 and 2022

(Euro thousand)

	Jun 2023	Jun 2022
Cash arising from operating activities		
Interest income received	250 188	128 128
Interest expense paid	(13 336)	(28 519)
Commission received	78 377	73 764
Commission paid	(13 061)	(14 156)
Costs with staff and suppliers	(102 353)	(101 065)
Recovery of loans and interest	4 205	3 439
Other payments and receivables	22 246	72 430
Income tax payment	3 466	(4 443)
	229 732	129 578
(Increases)/Decreases in operating assets		
Loans and advances to credit institutions and customers	91 485	(218 153)
(Purchase)/Sale of financial assets held for trading	(66 029)	43 449
Purchase)/Sale of financial assets at fair value through profit or loss	3 711	-
(Purchase)/Sale of financial assets at fair value through other comprehensive income	12 992	(1 600)
(Purchase)/Sale of other assets at amortized cost	(47 168)	(1 175 982)
Discontinued operations	2 145	-
Other assets	61 202	85 537
	58 338	(1 266 749)
Increases/(decreases) in operating liabilities		
Deposits from customers	(262 367)	249 883
Deposits from credit institutions	517 442	(193 666)
Deposits from central banks	(1 185 000)	-
	(929 925)	56 217
	(641 855)	(1 080 954)
Cash from investing activities		
Dividends received (note 3)	807	951
Dividends paid	-	(965)
Sales of fixed assets and investment properties (notes 29 and 30)	(17 370)	(20 462)
	(16 563)	(20 476)
Cash from financing activities		
Repayment of cash bonds and subordinated debt (notes 36 and 38)	1	(93 300)
Finance lease agreements	(304)	(4 288)
	(305)	(97 588)
Effects of exchange rate changes on cash and cash equivalents	(20 135)	23 084
Net change in cash and cash equivalents	(678 858)	(1 175 934)
Cash and cash equivalents at the beginning of the year		
Cash and deposits at central banks (note 18)	1 383 739	2 967 996
Loans and deposits to credit institutions payable on demand (note 19)	52 287	67 360
	1 436 026	3 035 356
Cash and cash equivalents at the end of the period		
Cash and deposits at central banks (note 18)	630 052	1 810 861
Loans and deposits to credit institutions payable on demand (note 19)	127 116	48 561
	757 168	1 859 422

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Condensed Consolidated Statement of Changes in Equity for the six months periods ended on 30 June 2023 and 2022

(Euro thousand)

	Share capital (Note 40)	Fair value reserves (Note 42)	Legal reserve (Note 41)	Other reserves and Retained earnings (Note 42)	Consolidated net income/ (loss) for the period	Equity attributable to Shareholders	Non-controlling interests (Note 44)	Total Shareholders Equity
Balance on 01 January 2022	**2 420 000**	**9 267**	**193 266**	**(1 278 873)**	**6 570**	**1 350 230**	**12 903**	**1 363 133**
Other comprehensive income:	-	(3 330)	-	152 617	-	149 287	5 510	154 797
Exchange rate difference resulting from consolidation	-	-	-	21 931	-	21 931	5 510	27 441
Remeasurements of post-employment and long-term benefits (note 47)	-	-	-	130 686	-	130 686	-	130 686
Changes in the fair value of debt instruments (note 46)	-	(4 717)	-	-	-	(4 717)	-	(4 717)
Taxes on changes in fair value (notes 31 e 42)	-	1 449	-	-	-	1 449	-	1 449
Changes in the fair value of capital instruments (note 46)	-	(62)	-	-	-	(62)	-	(62)
Consolidated net income for the period	-	-	-	-	23 328	23 328	192	23 520
Total comprehensive income for the period	-	(3 330)	-	152 617	23 328	172 615	5 702	178 317
Incorporation into reserves of 2021 net income	-	-	-	6 570	(6 570)	-	-	-
Dividends paid	-	-	-	-	-	-	(965)	(965)
Other consolidation moviments	-	-	-	476	-	476	-	476
Balance on 30 June 2022	**2 420 000**	**5 937**	**193 266**	**(1 119 210)**	**23 328**	**1 523 321**	**17 640**	**1 540 961**
Other comprehensive income:	-	(1 872)	-	(22 951)	-	(24 823)	(3 340)	(28 163)
Exchange rate difference resulting from consolidation	-	-	-	(12 555)	-	(12 555)	(3 340)	(15 895)
Remeasurements of post-employment and long-term benefits (note 47)	-	-	-	7 833	-	7 833	-	7 833
Changes in the fair value of debt instruments (note 46)	-	(1 602)	-	-	-	(1 602)	-	(1 602)
Taxes on changes in fair value (notes 31 e 42)	-	817	-	-	-	817	-	817
Changes in the fair value of capital instruments (note 46)	-	(1 087)	-	-	-	(1 087)	-	(1 087)
Gains on capital instruments	-	-	-	1 873	-	1 873	-	1 873
Taxes on changes in liabilities (note 31)		-		(20 102)	-	(20 102)	-	(20 102)
Consolidated net income for the period	-	-	-	-	10 466	10 466	(2 858)	7 608
Total comprehensive income for the period	-	(1 872)	-	(22 951)	10 466	(14 357)	(6 198)	(20 555)
Other consolidation reserves	-	-	-	(920)	-	(920)	-	(920)
Balance on 31 December 2022	**2 420 000**	**4 065**	**193 266**	**(1 143 081)**	**33 794**	**1 508 044**	**11 442**	**1 519 486**
Other comprehensive income:								
Exchange rate difference resulting from consolidation	-	-	-	(22 123)	-	(22 123)	(5 455)	(27 578)
Remeasurements of post-employment and long-term benefits (note 47)	-	-	-	(17 688)	-	(17 688)	-	(17 688)
Changes in the fair value of debt instruments (note 46)	-	770	-	-	-	770	-	770
Taxes on changes in fair value (notes 31 e 42)	-	(330)	-	-	-	(330)	-	(330)
Changes in the fair value of capital instruments (note 46)	-	315	-	-	-	315	-	315
Taxes on changes in liabilities (note 31)	-	-	-	5 865	-	5 865	-	5 865
Consolidated net income for the period	-	-	-	-	(48 250)	(48 250)	1 742	(46 508)
Total comprehensive income for the period	-	755	-	(33 946)	(48 250)	(81 441)	(3 713)	(85 154)
Deconsolidation of Finibanco Angola	-	-	-	116 098	-	116 098	(7 066)	109 032
Dividends paid	-	-	-	-	-	-	(663)	(663)
Incorporation into reserves of 2022 net income	-	-		33 794	(33 794)	-	-	-
Reduction of share capital / Coverage of negative carried forward results	(1 210 000)	-	-	1 210 000	-	-	-	-
Reserves realized	-	-	3 567	(3 567)	-	-	-	-
Other consolidation reserves	-	-	-	(1 834)	-	(1 834)	-	(1 834)
Balance on 30 June 2023	**1 210 000**	**4 820**	**196 833**	**177 464**	**(48 250)**	**1 540 867**	**-**	**1 540 867**

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"), with registered office at Rua Castilho, no. 5, 1250-066, Lisbon, is a credit institution majority held by Montepio Geral Associação Mutualista (hereinafter "MGAM"), which was incorporated on 24 March 1844. Banco Montepio 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. Banco Montepio is authorized to perform banking operations in addition to those mentioned in its By-laws, if generally 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. As at 30 June 2023, the following entities integrate the Banco Montepio Group:

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

Montepio Holding integrates Companies offering a range of financial products and services to Companies and institutional investors and Individuals. As at 30 June 2023, 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 Crédito) and Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.. Until 30 June 2023, Montepio Holding held a shareholding of 80.22% in Finibanco Angola, S.A. (Finibanco Angola), starting to hold at the end of June 2023 29,22%, after the sale of 51% to Access Bank Plc.

The Investees of Montepio Holding thus develop a varied set of activities, including the banking activity, the rendering of complementary financial services in the insurance area, specialized consumer credit and long-term rental.

Finibanco Angola, S.A.

As at 31 December 2022 and until 30 June 2023, the Group held 80.22% of Finibanco Angola, starting to hold at the end of June 2023 29,22%, following the sale of 51% to Access Bank Plc, a commercial bank with registered office in Lagos, Nigeria. In accordance with the applicable accounting standards, this sale represents a loss of control and requires the full deconsolidation of the entire shareholding held with reference to 30 June 2023. Finibanco Angola, engages in the taking of third-party funds in the form of deposits or other, which it applies, together with its own funds, in the granting of loans, in deposits at Banco Nacional de Angola, in other loans and advances to credit institutions, on the acquisition of securities and other assets, activities which it is duly authorized to carry out. Finibanco Angola also renders other banking services and realizes various types of foreign-currency operations.

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

Montepio Crédito, 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 several 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 Individuals 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, undertook, in 2019, a strategic approach 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.

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.

Montepio Serviços, A.C.E.

The purpose of this Grouping is to improve the conditions for the exercise and results of the economic activities of the grouped members, aiming to optimize resources, achieve greater operational efficiency and obtain economies of scale through the elimination of replicated cost structures.

The remining entities of the consolidation perimeter are disclosed in note 56.

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 2023 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2023.

The consolidated financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 29 September 2023. The condensed interim consolidated financial statements herein presented relate to 30 June 2023. 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 2022.

The consolidated financial statements are presented in Euro, rounded to the nearest thousand, and 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, financial assets at fair value through other comprehensive income and investment properties. Financial assets and liabilities that are classified under hedge accounting are stated at fair value in respect of the risk that is being hedged.

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

Comparability of information

The Group adopted IFRS and interpretations of mandatory application for periods beginning on or after 1 January 2022, as described in note 54. 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 period. However, following the signing of the agreement for the sale of Finibanco Angola, in October 2022, and subsequent application of IFRS 5, this entity came to be presented as a discontinued unit, with a restatement of the income statement as at 30 June 2022 taking place and the presentation of the result of this subsidiary under the caption Income/(loss) from discontinued operations, as shown in the following table:

(Euro thousand)

	Jun 2022 reported	**Effect of reexpression**	**Jun 2022 (restated)**
Interest and similar income	146 009	(10 487)	135 522
Interest and similar expense	25 386	(224)	25 162
Net interest income	120 623	(10 263)	110 360
Dividends from equity instruments	951	-	951
Net fee and commission income	59 627	(1 629)	57 998
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(3 614)	-	(3 614)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	1 233	-	1 233
Net gains/(losses) arising from exchange differences	23 084	(1 849)	21 235
Net gains/(losses) arising from sale of other financial assets	13 550	-	13 550
Other operating income/(expense)	(36 996)	1 116	(35 880)
Total operating income	178 458	(12 625)	165 833
Staff costs	72 769	(3 676)	69 093
General and administrative expenses	31 098	(1 740)	29 358
Depreciation and amortization	17 513	(833)	16 680
Total operating cost	121 380	(6 249)	115 131
IImpairment of loans and advances to customers and to credit institutions	3 217	(9 746)	(6 529)
Impairment of other financial assets	1 850	(284)	1 566
Net gains/(losses) arising from sale of other financial assets	10 329	-	10 329
Other provisions	(3 493)	825	(2 668)
Operating income	45 175	2 829	48 004
Share of profits/(losses) booked under the equity method	(167)	-	(167)
Profit/(loss) before income tax	45 008	2 829	47 837
Income Tax			
Current	(8 651)	(41)	(8 692)
Deferred	(12 829)	-	(12 829)
Profit or loss after tax from continuing operations	23 528	2 788	26 316
Results of discontinued operations	(8)	(2 788)	(2 796)
Consolidated net income after tax	23 520	-	23 520
Consolidated net income for the period attributable to the shareholders	23 328		23 328
Non-controlling Interests	192		192
Consolidated net profit / (loss) for the period	**23 520**		**23 520**

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 Associates, as well as the book value of these financial investments measured under the equity method, for the periods ended 30 June 2023 and 2022.

Subsidiaries

Subsidiaries are entities controlled by the Group (including investment funds and securitization vehicles). 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.

Associates

Associates 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. Associates 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 associates accounted for under the equity method. In applying the equity method, unrealized gains or losses on transactions between the Group and its associates are eliminated. Dividends attributed by the associates are deducted from the investment amount in the consolidated balance sheet.

Associates' 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 associates 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 one year after the acquisition of control of the business, or if the determination of this price occurs less than one 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, which 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 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 resident subsidiaries and associates

The financial statements of the foreign subsidiaries and associates 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.

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 associates 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 Other 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.

  This portfolio also includes 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; and
  - 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 the management body, (iii) how risks are assessed and managed and (iv) how directors are remunerated.

Securities held for trading serve, essentially, 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, considering the frequency, value, the timing of sales in previous financial periods, the reasons for such sales and the expectations regarding future sales. Near-maturity sales and those motivated by the increased credit risk of the financial assets, or to manage concentration risk, among others, may be consistent with the model of holding assets to receive contractual cash flows, if those sales are infrequent (albeit significant in value) or if they are of an immaterial value, both individually and in aggregate (even if frequent). To the effect, 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 coincide with the reference interest rate term (for example, the interest rate is adjusted every three months), the Group assesses, on initial recognition, such inconsistency in the interest component to determine whether the contractual cash flows represent only payments of principal and interest on the principal outstanding.

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

SPPI assessment

When the business model consists of 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.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. 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.3) *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.4) *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.5) *<u>Subsequent valuation of financial instruments</u>*

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

Whenever there is a change in the estimate of future cash flows, the new estimate of future cash flows is discounted at the initially estimated effective interest rate. The difference between the sum of these new future cash flows discounted at the initially estimated effective interest rate and the amount currently on the balance sheet is recognized in the income statement. Subsequently, interest continues to be accrued based on the original effective interest rate considering the estimated new cash flows and the amortized cost of the recalculated liability.

TLTRO III

Upon initial recognition of the TLTRO III programme, the Group defined its effective interest rate based on its best estimate as to its compliance with the metrics defined by the programme. Subsequently, with the Group having ensured compliance, in the second half of 2021, with the metrics for the change in the volume of eligible credit defined by the ECB for the special reference period between 1 March 2020 and 31 March 2021, which was confirmed by the ECB in September 2021, and in accordance with the provisions of IFRS 9 and to the extent that there was a significant change in future cash flows, the Group updated the book value estimate of this financial liability, discounting the new estimate of future cash flows at the initially estimated effective interest rate. The difference between the sum of new future cash flows discounted at the initially estimated effective interest rate and the amount currently on the balance sheet was recognized directly in the income statement under the caption Other operating income/expense (see note 9).

Notwithstanding the additional special observation period having already ended on 31 December 2021, it is important to note that the policy followed by the Group in this matter was to only update the effective interest rate of the TLTRO III programme after receipt of formal confirmation by the ECB, which only occurred in June 2022. Thus, on 30 June 2023, the Group booked this formal confirmation by the ECB regarding the fulfilment of the targets for the variation of the volume of credit for the periods already ended, having carried out the respective remeasurement of the liability, through the recalculation of the amortized cost of the operation (for application of paragraph B5.4.6 of IFRS 9). With regard to subsequent periods, and considering that future cash flows no longer depend on compliance with metrics, being only subject to the volatility of the respective index, the policy followed by the Group coincides with the calculation in each reporting period of the future cash flows using the best estimate of the available interest rate, recalculating the effective interest rate to be applied prospectively for the purposes of calculating the amortized cost of the operation.

c.6) *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 is that from financial assets and liabilities at fair value through profit or loss.

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

For the determination of the effective interest rate, 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 in 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.7) *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.

c.8) *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. On the renegotiation date the initial recognition date is considered for the purpose of calculating impairment, including for the purpose of assessing whether a significant increase in credit risk has occurred. The Group 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 the 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, which situation can only occur when the performance of the modified asset is in accordance with the new contract terms for a period of twelve consecutive months. Additionally, the Group shall continue to monitor whether there has been a significant increase in the credit risk of these assets, applying specific models for modified assets.

c.9) *De-recognition that does not result from a modification*

Financial assets granted are derecognized when the associated cash flows are extinguished, collected or disposed of to third parties and (i) the Group substantially transfers all risks and rewards associated with holding the asset, or (ii) the Group neither transfers nor substantially holds all risks and rewards associated with holding the asset and does not have control of 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 channel those cash flows to other entities and substantially transfers all the risks and rewards. These transactions result in de-recognition of the asset if the Group:

- Does not have any obligation to make payments unless it receives equivalent amounts from the assets;
- It is prohibited from selling or pledging the assets;
- If it is obliged to remit any cash flow it receives from assets without material delays.

Guarantees granted by the Group (shares and bonds) through repurchase agreements and securities' lending and borrowing operations are not derecognized because the Group substantially holds all risks and rewards based on the pre-established repurchase price, thus not meeting the de-recognition criteria. Financial liabilities are derecognized when the underlying obligation is settled, expires or is cancelled.

c.10) *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.11) *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 a cumulative balance sheet caption, which reduces the book value of the asset, while impairment of assets measured at fair value through other comprehensive income is recognized against other comprehensive income.

Impairment losses of loans and advances to customers and of other loans and advances to credit institutions in the financial year, measured at amortized cost, are recognized in the income statement in the caption Impairment of loans and advances, 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 allocations and reversals are recorded in the caption Other provisions in the income statement.

For the purpose of accounting for impairment losses of debt instruments, the following definitions shall be 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, considering 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, considering: (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 twelve-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 twelve months from the reference date.

c.12) *<u>Impairment model of loans and advances to customers</u>*

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 the Group that are not measured at fair value through profit or loss:

- Financial assets at amortized cost (including Loans and advances to customers, Other 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 originated 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.

c.12.1) *Calculation of ECLs*

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

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

c.12.2) *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;
- Unproductive loans, that is, when interest relating to loan obligations is no longer recognized in the financial statements due to the degradation of credit quality;
- Individually significant customers with individual impairment;
- Sale of loan contract with loss in excess of 5%;
- Bankruptcy/insolvency customers;
- Customers with loans written off from assets in the Group or in the CCR, in the case of Corporate customers;
- 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.12.3) *Significant increase in credit risk (SICR)*

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 Bank of Portugal's Central Credit Register ("CCR") ("Central de Responsabilidades de Crédito").

c.12.4) *Additional Stage criteria and deterioration of credit ratings*

In the context of the recent energy crisis, high inflation environment and the consequent successive increases in the reference interest rates, and with the aim of anticipating the risk degradation associated with exposures most impacted, the following additional criteria were considered for Stage 2 classification level:

Stage 2

- Corporate customers for which the Bank, through a specific analysis of their activity sector, concludes that they are in a more vulnerable situation and, therefore, are at greater risk of default;
- Individuals, whose average balances of demand and time deposits are lower than the value of the instalment, which rating, according to the internal scale, is equal to or greater than 11. For these customers, a worsening of the scoring rating to the minimum rating for classification in stage 2 is also considered, considering their original rating and the thresholds for classification in stage 2 defined internally.

c.12.5) *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 includes 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 supported on 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 and arrear 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.

c.12.6) *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 the debtor, 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. If the impairment value determined is zero, the average impairment rate of financial assets classified in Stage 2 of the same segment is attributed, calculated on a collective basis, in accordance with the collective analysis methodology. Likewise, whenever, through individual analysis, a lower rate than the one previously mentioned is determined, said rate prevails.

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 determined.

All Customers or economic groups that meet the following criteria are subject to individual analysis:

- Economic Groups with a global exposure amount ≥ 0.5 m€ in which at least one of the participants is the holder of operations classified as Stage 3, with Customers with an exposure amount ≥ 0.5 m€ being selected;

- Customers holding Stage 2 operations with an exposure amount ≥ 2.5 m€ and Customers with an exposure amount ≥ 2.5 m€ that are part of the same Economic Group;
- Customers holding Stage 1 operations with an exposure amount ≥ 5.0 m€;
- Customers corresponding to Shareholding Management Companies (SGPS) with an economic activity code (CAE) starting with 642 (holding and financial holding companies) with an exposure amount ≥ 2.5 m€;
- Customers holding loans under Project Finance with an exposure amount ≥ 2.5 m€;
- Customers that met the above-mentioned criteria in the last 3 months;
- 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 written off.

The individual analysis is the responsibility of the Individual Impairment Office 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 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 materializes 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 of the Company:

- In the case of a 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 a 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 the above referred 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.13) *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.14) *Synthetic securitization*

On 31 May 2023, the Group carried out an operation that configures a synthetic securitization structure, which has underlying it a portfolio of loans to individuals with mortgage guarantee. As this is a synthetic operation, it does not involve any credit assignment, being based on the contracting of credit risk protection insurance that focuses on the mezzanine component of the structure, with Banco Montepio maintaining an exposure to the senior, junior and Synthetic Excess Spread components (equivalent to one year's Expected Loss of the securitized portfolio). The mezzanine risk of the operation is thus assumed by market counterparties, in order to substantiate the significant transfer of risk, with reference to the underlying portfolio, promoting its prudential derecognition. This new securitization is uncollateralized in nature, without recourse to SPV or similar, thus not constituting a Simple Transparent and Standardized (STS) operation.

On 21 December 2022, the Group carried out an operation that configures a synthetic securitization structure, which has underlying it a portfolio of loans to individuals with mortgage guarantee. As this is a synthetic operation, it does not involve any credit assignment, being based on the contracting of a financial guarantee that focuses on the mezzanine component of the operation, with Banco Montepio maintaining an exposure to the senior, junior and Synthetic Excess Spread components (equivalent to one year's Expected Loss of the securitized portfolio). The mezzanine risk of the operation is thus assumed by market counterparties, in order to substantiate the significant transfer of risk, with reference to the underlying portfolio, promoting its prudential derecognition. The securitization in question was structured in such a way that it can be categorized as Simple Transparent and Standardized (STS), with same being certified by Prime Collateralized Securities (PCS). As this is a collateralized operation, the structuring uses a Special Purpose Vehicle (SPV) established for this purpose in Ireland. This SPV is not subject to consolidation by Banco Montepio.

On 18 December 2020, the Group contracted an operation that configures a synthetic securitization structure, which is based on a loan portfolio of Small and Medium-sized Enterprises (SMEs). 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 (18.0% 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 are the guarantors of the senior and mezzanine tranches, with the Group bearing a commission of 0.3% and 4.5% (after the retrocession effect) to guarantee each of the tranches, respectively. The Montepio Group retained the risk of the junior and of the excess spread tranches.

The operations in question aim to reinforce the CET1 ratio, not generating any increase in liquidity, and only capturing prudential effects. In these operations there were no sales of loans to third parties, with no transfers of collections taking place.

With these operations, the Group reduced the risk-weighted assets (RWAs) associated with the loan and advances to customers' portfolio without, however, there being any accounting de-recognition of financial assets. However, as most of the risks and benefits associated with the loans in question were not transferred, the derecognition criteria of the financial assets defined in the accounting policy presented in c.9) above are not met.

d) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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 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 other loans and advances to credit institutions. The receivables are collateralized by the related securities.

Securities sold through repurchase agreements (repos) continue to be recognized 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 (Investment properties), with the unrealized losses being recorded in the profit or loss for the financial year. When the book value corresponds to the fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds to level 3.

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

Lessee 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 modification 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;
- a modification 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 modification of the lease agreement 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.

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.

Regarding the classification of the cash flows originated by the lease agreements, these are recorded in the consolidated 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) in the caption Cash flows from financing activities - Finance lease agreements, which includes the amounts related to payments of the capital portion of the lease liabilities.

Lessor perspective

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

Within the scope of its activity, the Group classifies as finance leases, operations in which, substantially, all the risks and rewards associated with the leased asset are transferred to the lessee.

These are recorded as a loan granted in the Loans and advances to customers caption of the balance sheet by the sum of the present value of all instalments receivable from the lessee during the lease term and any unsecured residual value that the lessee is responsible for. These include fixed instalments (less payments made by the lessee) as well as variable instalments determined with reference to an index or rate, as well as the exercise price of the purchase option, if there is reasonable certainty that it will be exercised by the lessee, and lessee termination penalties if the lease term reflects the exercise of the termination option.

Financial income obtained as a lessor is recorded in the income statement under the caption Interest and similar income.

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: income in the form of 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) are received in advance and are deferred and recognized over the life of the operation;

   (ii) Commissions agreed for the commitment to provide financing 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 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
Other fixed assets	4 to 10

Whenever there is an indication that a tangible fixed asset might be impaired, its recoverable amount is estimated, and an impairment loss is recognized if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use, this being calculated based on the present value of the future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life. The impairment losses of tangible fixed assets are recognized in profit or loss for the period. Gains or losses on the disposal of assets are determined by the difference between the realizable value and the book value of the asset and are recognized in the income statement.

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 properties 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 considering 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, deposits at central banks and deposits at other credit institutions.

The concepts used in the presentation of the statements of cash flow are as follows:

- Cash Flows: Cash and cash equivalents include cash, deposits at central banks and 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;

- Investing activities: the acquisition, sale or other disposals of long-term assets, such as financial shareholdings in subsidiaries and associates, 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, payment of lease agreements, 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 plan

Banco Montepio and Montepio Crédito 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 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.

Employment termination benefits

The occurrence that gives rise to this obligation is (i) the termination of the employment relationship between the Bank and the employee as a consequence of a Bank decision, (ii) the creation of a valid expectation for the employee or (iii) 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, 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 came to be 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.

The recording of the tax impacts of transactions carried out by the Group corresponds to Management's understanding of the applicable tax treatment in light of the legislation issued. In situations where interpretation takes place and this is questioned by the Tax Administration, Management reanalyses same, assessing the probability of there being a liability to be recorded, depending on whether the probability of paying same is higher or lower than 50%.

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 its performance; and (iii) for which distinct financial information is available.

The Group controls its business activity through the following operating segments: (i) Commercial Banking, Corporate and Investment Banking, International Activity, Markets, Non-Core and Other Segments. The Group also prepares financial information based on geography for Management purposes, as presented in note 52.

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 considers 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: (i) It is unlikely that an outflow of resources incorporating economic benefits will be required to settle that obligation; and (ii) 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 Bank analyses events occurring after the balance sheet date, that is, favourable and/or unfavourable events that occur between the balance sheet date and the date on which the financial statements were authorized for issue. Within this scope, two types of events can be identified:

i) those that provide proof of conditions that existed at the balance sheet date (events after the balance sheet date that give rise to adjustments); and

ii) those that are indicative of conditions that arose after the balance sheet date (events after the balance sheet date that do not give rise to adjustments).

Events that occur after the date of the financial statements that are not considered adjustable events, if significant, are disclosed in the notes to the financial statements.

z) Significant judgements and estimates in the application of the accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgment and make the necessary estimates in deciding which treatment is most appropriate. 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 military conflict underway in Ukraine. 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 twelve-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 variables and how each 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:*

The loss given default 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.

The use of alternative methodologies and 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 the Group.

Given the uncertainty of the current international economic context caused by the military conflict in Ukraine, in accordance with the provisions of IFRS 9, Banco Montepio updated, for the purposes of measuring credit impairment losses, the prospective information related to the macroeconomic data available on risk parameters, determining impacts at the level of the expected credit loss (see notes 13 and 52).

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 and 24.

The detail of the fair value calculation of derivative financial instruments and other financial assets carried at fair value is presented in note 46.

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 must 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 56.

Income taxes

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 financial year and presented in note 31.

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.

The National Assembly approved at Plenary Meeting no. 108, on 19 July 2019, 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. 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 with reference to 30 June 2023, the tax rules resulting from Law no. 98/2019, of 4 September, were applied, 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.

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. Hence, corrections to the assessments may occur, mainly because of differences in interpretation of tax law. The Board of Directors considers it improbable that these will have a materially relevant effect on the financial statements.

Pensions and other post-employment and long-term benefits

The determination of the pension payment liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as the discount rate, pension and salary growth rates and mortality tables, estimated return on investments and others factors that may have an impact on the pension plan costs and liabilities.

Changes to these assumptions could have a significant impact on the amounts determined and presented in note 47.

Classification and valuation of assets received in recovery of credit, 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 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 27, 28 and 32.

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 37.

Recoverable amount of own properties

The measurement of impairment considers the principles defined in IAS 36, which requires that their recoverable amount be determined as the lower of their fair value and their value in use, being calculated based on the present value of the estimated future cash flows expected to be obtained from the continued use of the assets and from their disposal. Alternative methodologies and the use of different assumptions and estimates could result in different conclusions about the recoverable amount of the Bank's own properties, which are presented in note 29.

2 Net interest income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Interest and similar income		
Deposits from central banks and other loans and advances to credit institutions	8 442	11 165
Loans and advances to customers	243 293	116 113
Financial assets held for trading	495	41
Financial assets at fair value through profit or loss	173	55
Financial assets at fair value through other comprehensive income	396	525
Hedging derivatives	-	3 263
Other financial assets at amortized cost	9 966	4 360
Other interest and similar income	9	-
	262 774	135 522
Interest and similar expense		
Deposits from central banks and other credit institutions	32 367	4 226
Deposits from customers	22 207	2 966
Debt securities issued	531	4 179
Hedging derivatives	-	1 116
Other subordinated debt	9 684	9 435
Lease liabilities	257	300
Other interest and similar expense	3 379	2 940
	68 425	25 162
Net interest income	194 349	110 360

The caption Interest and similar income – Loans and advances to customers, as at 30 June 2023, includes, respectively, the amount of Euro 9,799 thousand and the amount of Euro 9,253 thousand (30 June 2022: Euro 9,074 thousand and Euro 6,542 thousand, respectively), related to commissions and to other expenses, 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 2023, includes the amount of Euro 173 thousand (30 June 2022: 55 thousand) related to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

For financing lines under the TLTRO III programme, the Group considers that the operation consists of a loan with a floating rate, indexed to the Deposit Facility Rate (DFR), which is also subject to the achievement of the targets in respect of the change in the volume of eligible credit defined by the ECB. In June 2022, the Bank obtained confirmation from the European Central Bank of the compliance with the change in the volume of the eligible credit targets defined by the ECB, namely for the period 24 June 2020 through 23 June 2022. Hence, for the referred interest counting period, the Group used the rate of -1%. The rate of the subsequent periods coincided, until 23 November 2022, with the DFR's average verified since the start of each one of the tranches; as from that date the rate is adjusted with the DFR in force at each moment.

The caption Interest and similar expense – Other interest and similar charges includes, as at 30 June 2023, the amount of Euro 3,289 thousand (30 June 2022: Euro 2,506 thousand) related to costs incurred with the synthetic securitization operations.

3 Dividends from equity instruments

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Financial assets at fair value through other comprehensive income	807	951

As at 30 June 2023, this caption includes, essentially, dividends received from Unicre in the amount of Euro 573 thousand and from SIBS in the amount of Euro 186 thousand (30 June 2022: Euro 505 thousand received from Unicre and Euro 406 thousand from SIBS).

4 Net fee and commission income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Fee and commission income		
From banking services	56 481	50 999
From transactions on behalf of third parties	11 466	11 879
From insurance brokerage services	5 656	4 595
Guarantees provided	2 050	1 711
Commitments to third parties	792	608
Operations with financial instruments	54	75
Other fee and commission income	1 878	1 847
	78 377	71 714
Fee and commission expense		
From banking services rendered by third parties	11 626	11 408
From transactions with securities	144	223
Other fee and commission expense	1 271	2 085
	13 041	13 716
Net fee and commission income	65 336	57 998

As at 30 June 2023 and 2022, the caption Insurance brokerage services has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Life insurance	2 768	2 178
Non-life insurance	2 888	2 417
	5 656	4 595

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..

5 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 2023			Jun 2022		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	1 105	578	527	1 185	4 326	(3 141)
Issued by other entities	49	23	26	38	31	7
Shares	783	436	347	410	871	(461)
Investment units	5	17	(12)	67	321	(254)
	1 942	1 054	888	1 700	5 549	(3 849)
Derivative financial instruments						
Interest rate contracts	38 244	36 786	1 458	55 927	59 605	(3 678)
Exchange rate contracts	11 951	12 056	(105)	14 048	14 097	(49)
Futures contracts	5 535	6 310	(775)	5 750	3 850	1 900
Option contracts	4 156	3 875	281	1 657	1 614	43
Commodities contracts	-	151	(151)	195	216	(21)
	59 886	59 178	708	77 577	79 382	(1 805)
Financial assets at fair value through profit or loss						
Investment units	2 112	893	1 219	2 292	1 091	1 201
Loans and advances to customers	70	77	(7)	20	437	(417)
	2 182	970	1 212	2 312	1 528	784
Other financial assets at fair value through profit or loss						
Bonds and other fixed-income securities						
Issued by other entities	2 386	2 119	267	(73)	(1 171)	1 098
Shares	16	-	16	-	(23)	23
Loans and advances to customers	21	16	5	-	67	(67)
	2 423	2 135	288	(73)	(1 127)	1 054
Financial liabilities at fair value through profit or loss						
Deposits from customers	2 229	758	1 471	737	-	737
	2 229	758	1 471	737	-	737
Hedging derivatives						
Interest rate contracts	-	-	-	6 360	9 608	(3 248)
Hedged financial liabilities						
Debt securities issued	-	-	-	2 713	-	2 713
	68 662	64 095	4 567	91 326	94 940	(3 614)

Financial assets at fair value through profit or loss include, on 30 June 2023, in terms of Investment units, a positive impact of Euro 1,219 thousand (30 June 2022: positive impact of Euro 1,201 thousand), determined by the positive effects of Fundo C2 Growth I (fund) of Euro 942 thousand, of Fundo VIP (fund) of Euro 853 thousand, of Fundo Discovery Portugal Real Estate (fund) of Euro 690 thousand, of Fundo CR Revitalizar Centro - Categoria 2 (fund) of Euro 440 thousand and of Fundo Veja – FCR (fund) of Euro 159 thousand, which partially offsets the negative effects of Fundo de Reestruturação Empresarial Categoria 1 (fund) of Euro 1,824 thousand, of Fundo SC1 Fundo Capital de Risco (fund) of Euro 92 thousand and of Fundo NovEnergia II (fund) of Euro 75 thousand.

6 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 2023			Jun 2022		
	Gains	Losses	Total	Gains	Losses	Total
Fixed-income securities						
Bonds						
Issued by public entities	2	-	2	18	1 058	(1 040)
Issued by other entities	53	-	53	2 273	-	2 273
	55	-	55	2 291	1 058	1 233

As at 30 June 2023, the caption Bonds – Issued by public entities includes net gains obtained on the sale of Portuguese sovereign bonds in the amount of Euro 2 thousand. As at 30 June 2022, this caption included net losses generated on the sale of Portuguese sovereign bonds in the amount of Euro 1,040 thousand.

7 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023			Jun 2022		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	19 154	39 289	(20 135)	38 383	17 148	21 235

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

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

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Disposal of other assets	4 182	9 432
Disposal of loans and advances to customers	342	4 118
Disposal of financial assets at amortized cost	1 070	-
	5 594	13 550

The caption Disposal of other assets considers the result of the sale of properties related to assets received in recovery of credit.

In the first half of 2023, the caption Disposal of loans and advances to customers considers the result of the sale of secured loans and advances under the Minho operation with the realization of a capital gain of Euro 342 thousand.

In the first half of 2022, the caption Disposal of loans and advances to customers considers the result of the sale of secured loans and advances under the Gerês operation with the realization of a capital gain of Euro 4,118 thousand.

9 Other operating income/(expense)

The amount of this caption has the following breakdown:

	Jun 2023	Jun 2022
	(Euro thousand)	
Other operating income		
Reimbursement of expenses	2 957	3 122
Revaluation of investment properties	847	1 727
Management fees on demand deposits	1 690	1 656
Services provided	2 157	1 652
Rentals of investment properties	487	641
Income from the valuation of financial liabilities	-	19
Repurchase of own issues	-	2 106
Other	5 325	5 800
	13 463	16 723
Other operating expenses		
Contributions:		
Banking sector	11 674	12 258
Ex-ante to the Single Resolution Fund	5 188	8 355
National Resolution Fund	2 291	5 106
Deposits Guarantee Fund	145	154
Expense from the valuation of financial liabilities	-	11 921
Revaluation of investment properties	951	2 057
Taxes	884	1 422
Servicing and expenses with recovery and disposal of loans	1 911	1 535
Expenses with issuances	636	424
Donations and memberships	178	398
Other	10 547	8 973
	34 405	52 603
Other operating income/(expense)	(20 942)	(35 880)

On 30 June 2022, the caption Other operating income – Repurchase of own issues considers Euros 2,106 thousand related to the income earned on the acquisition of debt issued in the amount of Euro 93,300 thousand, as referred in note 36.

On 30 June 2023, the caption Other operating income – Other, includes income associated with the recovery of credit in the amount of Euro 821 thousand (30 June 2022: Euro 556 thousand) and with the restitution of taxes in the amount of Euro 253 thousand (30 June 2022: Euro 1,191 thousand).

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 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 first half of 2023 and 2022, 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 2023, Banco Montepio had settled Euro 11,325 thousand (30 June 2022: Euro 9,867 thousand) in the form of irrevocable payment commitments, recorded under the caption Other loans and advances to credit institutions abroad - Term deposits, as disclosed in note 20. For irrevocable payment commitments only cash collateral is accepted.

The caption Contribution to the National Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are 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 expense - 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.

On 30 June 2022, the caption Other operating expense – Losses on the valuation of financial liabilities considers Euro 11,921 thousand in respect of a loss arising from the change in the estimate of the book value of the financing lines in the TLTRO III programme which occurred in the first half of 2023 (see note 1 c.4). This change resulted from (i) the formal confirmation in June 2022 by the ECB of compliance with the targets for the change in the volume of credit for the periods already ended and (ii) the revision of the interest rate to be applied to the next periods, which are no longer dependent on compliance with metrics, being only associated with the future evolution of the DFR, which was revised upwards by the ECB, with the Group proceeding to update the estimate of future cash flows accordingly. As a result, the difference between the sum of the new future cash flows discounted at the initially estimated effective interest rate and the balance sheet value at the time was recognized directly under Other operating income (by application of paragraph B5.4.6 of IFRS 9).

The caption Other operating expense - Other includes, on 30 June 2023, the amount of Euro 1,517 thousand (30 June 2022: Euro 1,469 thousand) related to services provided by Montepio - Gestão de Activos Imobiliários, A.C.E.. This caption 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 32), and legal costs.

10 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Remuneration	55 833	51 102
Mandatory social charges	15 386	14 684
Charges with the Pension Fund	1 851	1 282
Other staff costs	4 273	2 025
	77 343	69 093

On 30 June 2023, the caption Staff costs includes the amount of Euro 5,491 thousand, within the scope of the Employee Adjustment Programme related to the resulting charges arising from early retirements and mutual-agreement terminations.

In 2022, the members of the Corporate Bodies did not receive any variable remuneration. In the first half of 2023, members of the Corporate Bodies received the amount of Euro 96 thousand, related to variable remuneration of 2021. 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 Board of Directors of Banco Montepio's subsidiaries and Other key management personnel of the Group are presented as follows:

(Euro thousand)

	Jun 2023					
	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	29	81	1 578	279	2 728	4 695
Pension costs	-	-	310	2	92	404
Costs with healthcare benefits (SAMS)	-	-	8	3	57	68
Social Security charges	7	17	340	65	599	1 028
	36	98	2 236	349	3 476	6 195

(Euro thousand)

	Jun 2022					
	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	108	1 645	267	2 585	4 612
Pension costs	-	-	411	2	139	552
Costs with healthcare benefits (SAMS)	-	-	8	2	57	67
Social Security Charges	1	23	314	75	577	990
	8	131	2 378	346	3 358	6 221

As at 30 June 2023, loans granted to members of the Board of Directors of Banco Montepio (including the members of the Audit Committee) amounted to Euro 122 thousand (30 June 2022: Euro 571 thousand), to members of the Boards of Directors of Banco Montepio's subsidiaries, Euro 1,998 thousand (30 June 2022: Euro 2,887 thousand) and to key management personnel, Euro 2,772 thousand (30 June 2022: Euro 2,819 thousand).

11 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Rental costs	313	259
Specialized services		
Other specialized services	10 192	9 299
IT services	7 840	6 550
Independent work	1 522	1 137
Communication costs	2 052	1 973
Maintenance and repairs	2 508	2 683
Advertising costs	1 728	2 093
Water, energy and fuel	897	1 248
Transportation	1 251	1 040
Insurance	539	547
Consumables	243	258
Travel, accommodation and entertainment expenses	498	363
Training	424	508
Other general and administrative costs	1 399	1 400
	31 406	29 358

The caption Rents and hires includes, as at 30 June 2023, the amount of Euro 110 thousand (30 June 2022: Euro 45 thousand) relating to short-term leases, of which Euro 60 thousand (30 June 2022: Euro 19 thousand) correspond to rents paid on properties and Euro 50 thousand (30 June 2022: Euro 26 thousand) refer to rents paid on vehicles, in both cases used by Banco Montepio Group while 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.

12 Depreciation and amortization

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Intangible assets (note 30)		
Software	11 155	9 436
Other tangible assets (note 29)		
Real estate		
For own use	1 388	1 408
Leasehold improvements in rented buildings	63	139
Equipment		
IT equipment	972	1 218
Fixtures	782	779
Furniture	66	69
Transportation	92	87
Security equipment	47	48
Machinery and tools	20	21
Assets under operating leases		
Real estate	2 353	2 627
Motor vehicles	1 077	848
	6 860	7 244
	18 015	16 680

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).

13 Impairment of loans and advances to customers and to credit institutions

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Other loans and advances to credit institutions (note 20)		
Charge for the period	490	60
Reversals for the period	(590)	(395)
	(100)	(335)
Loans and advances to customers (note 21)		
Charge for the period	171 977	194 947
Reversals for the period	(159 240)	(197 704)
Recovery of loans and interest	(4 205)	(3 437)
	8 532	(6 194)
	8 432	(6 529)

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

14 Impairment of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Financial assets		
at fair value through other comprehensive income (note 24)		
Charge for the period	31	207
Reversals for the period	(1)	(11)
	30	196
Other financial		
assets at amortized cost (note 26)		
Charge for the period	1 644	1 375
Reversals for the period	-	(5)
	1 644	1 370
	1 674	1 566

15 Impairment of other assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Investments in associated companies (note 27)		
Charge for the period	-	106
	-	106
Non-current assets held		
for sale (note 28)		
Charge for the period	13	-
Reversals for the period	-	(11)
	13	(11)
Other tangible assets (note 30)		
Charge for the period	1 107	514
Reversals for the period	-	(265)
	1 107	249
Other assets (note 33)		
Charge for the period	11 355	11 392
Reversals for the period	(2 776)	(1 407)
	8 579	9 985
	9 699	10 329

As part of the Distribution network resizing plan, the Bank closed several branches, having consequently obtained the market value of those spaces from independent appraisers. Based on the values shown by those assessments, a net allocation of impairment reversals at the level of other tangible assets of Euro 1,107 thousand as at 30 June 2023 (30 June 2022: Euro 249 thousand) was found to be necessary.

16 Other provisions

The amount of this caption has the following breakdown:

(Euro thousand)	Jun 2023	Jun 2022
Guarantees and commitments (note 37)		
Charge for the period	9 858	11 292
Reversals for the period	(13.268)	(11.366)
	(3.410)	(74)
Other risks and charges (note 37)		
Charge for the period	333	171
Reversals for the period	(1.169)	(2.765)
	(836)	(2.594)
	(4.246)	(2.668)

17 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 2023	Jun 2022
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	(209)	(167)

18 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousands)	Jun 2023	Dec 2022
Cash	147 444	149 889
Deposits at central banks		
Bank of Portugal	482 608	1 233 913
	630 052	1 383 802

The caption Deposits at central banks – Bank of 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 Deposits and loans and advances to credit institutions repayable on demand

This caption is presented as follows:

		(Euro thousand)
	Jun 2023	**Dec 2022**
Credit institutions in Portugal	3 302	859
Credit institutions abroad	92 112	19 614
Amounts to be collected	31 702	31 814
	127 116	52 287

The caption Amounts to be collected refers to cheques drawn by third parties on other credit institutions, and which are due for collection.

In the first half of 2023, the Deposits at other credit institutions and central banks were remunerated at the average rate of 2.36% (2022: 1.12%).

20 Other loans and advances to credit institutions

This caption is presented as follows:

		(Euro thousand)
	Jun 2023	**Dec 2022**
Loans and advances to credit institutions in Portugal	2 810	3 863
Loans and advances to credit institutions abroad		
Term deposits	67 093	29 690
CSA's	11 209	16 039
Reverse repos	19 360	-
Other loans and advances	68 480	56 791
	166 142	102 520
	168 952	106 383
Impairment for credit risk of loans and advances to credit institutions	(29)	(7)
	168 923	106 376

As at 30 June 2023, the caption Term deposits, recorded under Other loans and advances to credit institutions abroad, includes the amount of Euro 11,325 thousand (31 December 2022: Euro 9,867 thousand) related to a deposit made and accepted as collateral within the scope of the ex-ante contribution to the Single Resolution Fund, as per note 9.

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. Despite the fact that collaterals under the CSA contracts can take the form of securities or cash, in the Bank's case, all collaterals are in the form of 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 Bank negotiated with each one of the counterparties and are materialized through an effective transfer of cash, processed through TARGET2 transfers to each one of the counterparties in question, as a guarantee/security of the Bank'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 2023, the Bank holds an amount of Euro 11,209 thousand (31 December 2022: Euro 16,039 thousand) related to other loans and advances to credit institutions given as collateral for the above-mentioned operations.

The caption Other loans and advances, included in the caption Other loans and advances to credit institutions abroad – Other loans and advances includes the amounts deposited by vehicles incorporated in the scope of the Group's securitization operations.

In the first half of 2023, the Other loans and advances to other credit institutions were remunerated at the implicit average rate of 0.97% (2022: 1.04%).

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

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	7	464
Charge for the period	490	1 505
Reversals for the period	(590)	(1 593)
Exchange rate differences	(93)	73
Other	215	(215)
Discontinuing operations	-	(227)
Closing balance	29	7

21 Loans and advances to customers

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Corporate		
Loans not represented by securities		
Loans	3 098 211	3 204 493
Current account loans	396 044	385 349
Finance leases	389 270	398 059
Discounted bills	26 699	26 786
Factoring	243 394	224 020
Discounted bills	1 371	602
Other loans	338 768	327 166
Loans represented by securities		
Commercial paper	191 769	197 672
Bonds	390 598	332 153
Retail		
Mortgage loans	5 308 527	5 402 609
Finance leases	38 026	41 426
Consumer credit and other loans	1 248 185	1 248 728
	11 670 862	11 789 063
Value correction of assets subject to hedging operations	(69)	(74)
Past due loans and advances and interest		
Less than 90 days	6 013	8 415
More than 90 days	198 171	270 210
	204 184	278 625
	11 874 977	12 067 614
Impairment for credit risks	(318 593)	(354 517)
	11 556 384	11 713 097

As at 30 June 2023, the caption Loans and advances to customers includes the amount of Euro 2,751,612 thousand (31 December 2022: Euro 2,753,360 thousand) related to the issue of covered bonds realized by the Group, as referred to in note 36.

As at 30 June 2023, the loans and advances that the Group granted to its shareholders and to related parties amounted to Euro 32,187 thousand (31 December 2022: Euro 25,375 thousand), as described in note 49. The celebration of business between the Group and its shareholders or with individual or legal persons related to these, according to article 20 of the Portuguese Securities Code, regardless of the value, is always submitted to deliberation and assessment by the Board of Directors and the Audit Committee, under a proposed made by the commercial network, supported by analyses and opinions as to the compliance with the limit established in article 109 of the Legal Framework of Credit Institutions and Financial Companies issued by the Risk Directorate. The impairment for credit risks related to these contracts amounts to Euro 56 thousand as at 30 June 2023 (31 December 2022: Euro 62 thousand).

As at 30 June 2023, the caption Loans and advances to customers includes the amount of Euro 700,902 thousand (31 December 2022: Euro 775,886 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 referred 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). 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 46.

The analysis of the caption Loans and advances to customers, by interest rate type, as at 30 June 2023 and 31 December 2022, is as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Variable-rate loans and advances	9 641 922	10 024 229
Fixed-rate loans and advances	2 233 055	2 043 385
	11 874 977	12 067 614

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

(Euro thousand)

	Jun 2023	Dec 2022
Asset-backed loans	160 991	189 868
Other guaranteed loans	22 487	30 665
Finance leases	6 014	4 299
Secured loans	-	33 000
Other loans and advances	14 692	20 793
	204 184	278 625

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

(Euro thousand)

	Jun 2023	Dec 2022
Corporate		
Construction/Production	22 895	33 270
Investment	118 613	141 395
Treasury	24 534	56 017
Other	8 147	11 009
Retail		
Mortgage loans	14 128	15 809
Consumer credit	13 373	17 767
Other	2 494	3 358
	204 184	278 625

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 30 June 2023 and 31 December 2022, is as follows:

(Euro thousand)

	Jun 2023				
	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	209 814	631 127	8 142 119	160 991	9 144 051
Other guaranteed loans	371 243	127 536	230 445	22 487	751 711
Finance leases	27 896	210 738	188 662	6 014	433 310
Secured loans	191 154	245 857	145 356	-	582 367
Other loans and advances	222 384	155 530	570 932	14 692	963 538
	1 022 491	1 370 788	9 277 514	204 184	11 874 977

(Euro thousand)

	Dec 2022				
	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	199 599	672 972	8 340 893	189 868	9 403 332
Other guaranteed loans	320 352	119 690	239 156	30 665	709 863
Finance leases	28 725	209 336	201 424	4 299	443 784
Secured loans	196 458	214 989	118 378	33 000	562 825
Other loans and advances	220 377	212 572	494 068	20 793	947 810
	965 511	1 429 559	9 393 919	278 625	12 067 614

The outstanding amount of Finance leases, by residual maturity, is as follows:

(Euro thousand)

	Jun 2023			
	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	64 704	247 922	131 122	443 748
Outstanding interest	(15 914)	(47 336)	(32 833)	(96 083)
Residual values	19 003	40 812	19 816	79 631
	67 793	241 398	118 105	427 296

(Euro thousand)

	Dec 2022			
	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	62 976	238 565	118 213	419 754
Outstanding interest	(11 798)	(35 577)	(23 754)	(71 129)
Residual values	19 309	42 559	28 992	90 860
	70 487	245 547	123 451	439 485

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 2023	Dec 2022
Opening balance	354 517	521 777
Charge for the period	171 977	436 981
Reversals for the period	(159 240)	(415 003)
Utilization	(50 150)	(188 938)
Exchange rate differences	(479)	2 195
Transfers and others	-	3 234
Stage 3 interest	1 968	4 459
Discontinuing operations	-	(10 188)
Closing balance	318 593	354 517

The use of impairment corresponds to the loans and advances written off by 30 June 2023 and 31 December 2022 and to loan assignment operations to third parties.

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

(Euro thousand)

	Jun 2023	Dec 2022
Asset-backed loans and Finance leases	249 182	264 829
Other secured loans	37 615	53 093
Unsecured loans	31 796	36 595
	318 593	354 517

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

(Euro thousand)

	Jun 2023	Dec 2022
Asset-backed loans and Finance leases	22 766	109 805
Other guaranteed loans	6 245	21 335
Unsecured loans	21 139	57 798
	50 150	188 938

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 2023, 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 430,683 thousand (31 December 2022: Euro 520,558 thousand) and present an impairment of Euro 150,586 thousand (31 December 2022: Euro 164,182 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 2023 and 31 December 2022, by credit type, is as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Corporate		
Loans not represented by securities		
Loans	7 751	99 644
Current account loans	1 362	28 989
Finance leases	460	2 853
Other loans	637	31 013
Retail		
Mortgage loans	5 363	7 661
Consumer credit and other loans	719	4 208
	16 292	174 368

As at 30 June 2023, and as regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 2,806 thousand, which corresponds to an impairment rate of 17.2% (31 December 2022: Euro 40,998 thousand, impairment rate of 23.5%). The decrease in the impairment rate compared with December 2022 is explained by the greater collateralization of the newly restructured contracts.

Synthetic securitization

On 31 May 2023, Banco Montepio carried out a new synthetic securitization, which has underlying it a portfolio of loans to individuals with mortgage guarantee. The operation's legal maturity is 4 February 2066 and it amounts to Euro 807,797 thousand as at 30 June 2023.

On 21 December 2022, Banco Montepio carried out an operation that configures a synthetic securitization structure, which has underlying it a portfolio of loans to individuals with mortgage guarantee. The operation's legal maturity is 29 December 2052 and it amounts to Euro 739,852 thousand as at 30 June 2023 (31 December 2022: Euro 878,848 thousand).

On 18 December 2020, the 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 Enterprises (SMEs). The operation's legal maturity is 25 March 2036 and the respective amount is Euro 343,092 thousand as at 30 June 2023 (31 December 2022: Euro 402,444 thousand). As mentioned in accounting policy c.14), 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 4.5%, 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 2023	Dec 2022
Financial assets held for trading		
Securities		
Shares	6 620	1 373
Bonds	58 986	1 869
Investment Units	200	-
	65 806	3 242
Derivative instruments		
Derivative instruments with positive fair value	19 899	19 828
	85 705	23 070
Financial liabilities held for trading		
Derivative instruments		
Derivative instruments with negative fair value	13 553	17 697
	13 553	17 697

As provided for in IFRS 13, as at 30 June 2023 and 31 December 2022, the financial instruments measured in accordance with the valuation levels described in note 46, are as follows:

(Euro thousand)

	Jun 2023			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	6 620	-	-	6 620
Bonds	58 986	-	-	58 986
Investment Units	200	-	-	200
	65 806	-	-	65 806
Derivative instruments				
Derivative instruments with positive fair value	-	7 211	12 688	19 899
	65 806	7 211	12 688	85 705
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	8 974	4 579	13 553
	-	8 974	4 579	13 553

(Euro thousand)

	Dec 2022			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	1 373	-	-	1 373
Bonds	1 869	-	-	1 869
	3 242	-	-	3 242
Derivative instruments				
Derivative instruments with negative fair value	-	6 817	13 011	19 828
	3 242	6 817	13 011	23 070
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	7 694	10 003	17 697
	-	7 694	10 003	17 697

As at 31 December 2022, there are no securities given as collateral classified as held for trading.

The book value of the derivative financial instruments as at 30 June 2023 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 2023								
		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)	Fair value	Changes in fair value in the financial year	Book value	Reimbursement amount at maturity date
Interest rate swap	Deposits from customers	72 782	19	(2 213)	(2 194)	(669)	(3 564)	(1 471)	69 103	72 667
Interest rate swap	Loans and advances to customers	903	10	(5)	5	4	(69)	5	812	875
Interest rate swap	-	540 087	15 691	(7 497)	8 194	5 076	-	-	-	-
Currency Swap (Short)	-	41 222	12	(5)	7	(5)	-	-	-	-
Currency Swap (Long)	-	41 187								
Futures (Short)	-	14 869	-	-	-	-	-	-	-	-
Futures (Long)	-	31 232								
Forwards (Short)	-	8 870	-	-	-	-	-	-	-	-
Forwards (Long)	-	8 876								
Options (Short)	-	118 960	4 167	(3 833)	334	(191)	-	-	-	-
Options (Long)	-	116 213								
		995 201	19 899	(13 553)	6 346	4 215	(3 633)	(1 466)	69 915	73 542

(1) Includes the result of derivatives disclosed in note 5

Derivatives held for risk management include derivatives contracted for the purpose of hedging certain financial assets and liabilities, but that were not designated as hedging derivatives.

The book value of the derivative financial instruments as at 31 December 2022 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 2022								
		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 year(1)	Fair value	Changes in fair value in the year	Book value	Reimbursement amount at maturity date
Interest rate swap	Recursos de clientes	63 906	-	(1 525)	(1 525)	(1 443)	(2 093)	(2 246)	61 565	63 658
Interest rate swap	Crédito a clientes	959	7	(6)	1	23	(74)	(104)	863	931
Interest rate swap		577 433	16 386	(13 268)	3 118	3 442	-	-	-	-
Currency Swap (Short)	-	36 834	37	(25)	12	(96)	-	-	-	-
Currency Swap (Long)	-	36 860								
Futures (Short)	-	10 392	-	-	-	-	-	-	-	-
Futures (Long)	-	1 712								
Forwards (Short)	-	19 887	-	-	-	-	-	-	-	-
Forwards (Long)	-	19 912								
Options (Short)	-	107 286	3 398	(2 873)	525	92	-	-	-	-
Options (Long)	-	107 549								
		982 730	19 828	(17 697)	2 131	2 018	(2 167)	(2 350)	62 428	64 589

(1) Includes the result of derivatives disclosed in note 5

23 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)	Jun 2023	Dec 2022
Variable income securities		
Investment Units	137 690	138 800
Loans and advances to customers at fair value		
Loans not represented by securities	8 756	8 970
	146 446	147 770

The caption Variable-income securities – Investment units includes, as at 30 June 2023, the amount of Euro 61,598 thousand (31 December 2022: Euro 62,441 thousand) related to investment units in specialized credit funds acquired in the scope of the disposal of loans and advances to customers, as referred in note 54.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 46, as follows:

(Euro thousand)	Jun 2023	Dec 2022
	Level 3	
Variable income securities		
Investment Units	137 690	138 800
Loans and advances to customers at fair value		
Loans not represented by securities	8 756	8 970
	146 446	147 770

As at 30 June 2023, 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 137,690 thousand (31 December 2022: Euro 138,800 thousand), of which Euro 57,787 thousand (31 December 2022: Euro 58,281 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 2023, for 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 13,769 thousand (31 December 2022: Euro 13,880 thousand) having been determined.

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

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	138 800	193 659
Acquisitions	355	761
Remeasurements	94	(380)
Disposals	(1 559)	(55 240)
Closing balance	137 690	138 800

The movements occurring in level 3 of the Loans and advances to customers at fair value relate, in their entirety, to revaluations observed in the first half of 2023 and financial year 2022.

24 Financial assets at fair value through other comprehensive income

This caption, as at 30 June 2023, is presented as follows:

(Euro thousand)

	Jun 2023				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	20 073	-	(2 406)	(38)	17 629
Foreign	40 500	-	(299)	(81)	40 120
Bonds issued by other entities					
Domestic	6 618	245	(543)	(407)	5 913
Foreign	826	-	(28)	-	798
Variable income securities					
Shares					
Domestic	5 060	10 785	-	-	15 845
Foreign	6 238	8	(844)	-	5 402
	79 315	11 038	(4 120)	(526)	85 707

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

This caption, as at 31 December 2022, is presented as follows:

(Euro thousand)

	Dec 2022				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	21 025	6	(2 605)	(40)	18 386
Foreign	40 966	-	(765)	(73)	40 128
Bonds issued by other entities					
Domestic	11 007	162	(565)	(418)	10 186
Foreign	1 118	-	(53)	(2)	1 063
Commercial paper	6 489	19	-	(19)	6 489
Variable income securities					
Shares					
Domestic	5 118	10 785	-	-	15 903
Foreign	6 218	29	(1 180)	-	5 067
	91 941	11 001	(5 168)	(552)	97 222

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

On 30 June 2023, the Bank considered for the valuation of the SIBS, Unicre and ABANCA shares, the assumptions disclosed in the financial statements as at 31 December 2022.

As at 30 June 2023 and 31 December 2022, 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 2023				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	17 629	-	-	-	17 629
Foreign	40 120	-	-	-	40 120
Bonds issued by other entities				-	
Domestic	4 338	-	1 575	-	5 913
Foreign	-	798	-	-	798
	62 087	798	1 575	-	64 460
Variable income securities					
Shares					
Domestic	-	-	15 100	745	15 845
Foreign	-	-	4 976	426	5 402
	-	-	20 076	1 171	21 247
	62 087	798	21 651	1 171	85 707

(Euro thousand)

	Dec 2022				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	17 382	1 004	-	-	18 386
Foreign	40 128	-	-	-	40 128
Bonds issued by other entities				-	
Domestic	4 150	-	6 036	-	10 186
Foreign	-	1 063	-	-	1 063
Commercial paper	-	-	6 489	-	6 489
	61 660	2 067	12 525	-	76 252
Variable income securities					
Shares					
Domestic		-	15 100	803	15 903
Foreign	-	-	4 771	296	5 067
	-	-	19 871	1 099	20 970
	61 660	2 067	32 396	1 099	97 222

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 2,165 thousand as at 30 June 2023 (31 December 2022: Euro 3,240 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the net positive amount of Euro 9,442 thousand (31 December 2022: positive amount of Euro 9,302 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 occurring in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

	(Euro thousand)	
	Jun 2023	**Dec 2022**
Opening balance	32 396	42 511
Acquisitions	-	6 489
Remeasurements	215	(1 483)
Reimbursements	(10 960)	(15 121)
Closing balance	21 651	32 396

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

	(Euro thousand)	
	Jun 2023	**Dec 2022**
Opening balance	552	2 853
Change for the period	31	349
Reversals for the period	(1)	(130)
Utilization	(56)	(2 519)
Transfers	-	(1)
Closing balance	526	552

In the scope of the liquidity providing operations, the nominal value of the assets pledged as collateral to the European Central Bank, presented in this caption, amounts, as at 30 June 2023, to Euro 56,572 thousand after haircut (31 December 2022: Euro 57,405 thousand), 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 the Group under the terms and conditions of the contracts celebrated.

25 Other financial assets at amortized cost

This caption is presented as follows:

	(Euro thousand)	
	Jun 2023	**Dec 2022**
Fixed income securities		
Bonds issued by public entities		
Domestic	1 066 477	1 074 564
Foreign	3 008 452	3 019 510
Bonds issued by other entities		
Domestic	8 016	9 051
Foreign	28 838	22 955
Commercial paper		
Domestic	4 005	-
Foreign	14 897	-
	4 130 685	4 126 080
Impairment for other financial assets at amortized cost	(7 266)	(6 693)
	4 123 419	4 119 387

The fair value of the portfolio of Other financial assets at amortized cost is disclosed in note 46.

Other financial assets at amortized cost are recognized in accordance with the accounting policy described in note 1 c). As at 30 June 2023, the loan obtained from the EIB is collateralized by Italian, Greek and Spanish sovereign bonds with a nominal value of Euro 368,007 thousand (31 December 2022: Euro 376,651 thousand by Portuguese, Italian, Greek, Irish and Spanish sovereign bonds), provided as collateral and recorded in the caption Other financial assets at amortized cost, as disclosed in note 34.

In the scope of the liquidity providing operations, the nominal value of the assets pledged as collateral to the European Central Bank presented in this caption amounts, as at 30 June 2023, to Euro 3,366,727 thousand (31 December 2022: Euro 3,585,822 thousand) after the application of a haircut, as described in note 33.

These financial assets pledged as collateral may be forfeited in the event of non-compliance with the contractual obligations assumed by the Group under the terms and conditions of the contracts signed.

Securities given in guarantee to the Portuguese Securities Market Commission ("CMVM") within the scope of the Investors' Compensation System, recorded under Other financial assets at amortized cost, have a nominal value of Euro 1,000 thousand, as at 30 June 2023 and 31 December 2022.

As at 30 June 2022, the nominal value of the securities given in guarantee to the Deposits Guarantee Fund amounted to Euro 29,000 thousand (31 December 2022: Euro 28,000 thousand) as per note 45.

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

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	6 693	5 405
Charge for the period	1 644	2 111
Reversals for the period	-	(5)
Utilization	(1 071)	(43)
Transfers and others	-	11
Discontinuing operations	-	(786)
Closing balance	7 266	6 693

26 Investments in associates

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
HTA - Hotés, Turismo e Animação dos Açores, S.A.	3 308	3 716
Montepio - Gestão de Activos Imobiliários, A.C.E.	674	674
	3 982	4 390

The Associates included in the Group's consolidation perimeter are listed in note 56. The financial information of the Associates is presented in the following tables:

(Euro thousand)

	Assets	Liabilities	Equity	Income	Net profit / (loss)	Acquisition cost
30 June 2023						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	33 949	17 409	16 540	2 587	(1 045)	3 308
Montepio Gestão de Activos Imobiliários, A.C.E.	5 217	2 767	2 450	-	-	674
CESource, ACE	-	-	-	-	-	-
Montepio Serviços, A.C.E.	-	-	-	-	-	-
31 December 2022						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	37 272	18 688	18 584	11 156	2 474	3 716
Montepio Gestão de Activos Imobiliários, A.C.E.	4 175	1 725	2 450	-	-	674
CESource, A.C.E.	-	-	-	-	-	-

(Euro thousand)

	Percentage held		Book value		Profit / Loss	
	Jun 2023	Dec 2022	Jun 2023	Dec 2022	Jun 2023	Jun 2022
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20,0%	20,0%	3 308	3 716	(209)	(167)
Montepio Gestão de Activos Imobiliários, A.C.E.	27,5%	27,5%	674	674	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20,0%	20,0%	-	-	-	-
Cesource, A.C.E.	18,0%	18,0%	-	-	-	-
Montepio Serviços. A.C.E.	85,0%	-	-	-	-	-

The movement in this caption is analysed as follows:

(Euro thousand)	Jun 2023	Dec 2022
Openning balance	4 390	3 952
Share of profit of associated companies	(209)	495
Other reserves and retained earnings	(199)	(57)
Closing balance	3 982	4 390

The Group analyses, on a regular basis, the impairment related to its investments in associates.

27 Non-current assets held for sale

This caption is presented as follows:

(Euro thousand)	Jun 2023	Dec 2022
Properties and other assets resulting from the resolution of customer loan agreements	114	58
Impairment for non-current assets held for sale	(60)	(47)
	54	11

The assets included in this caption are accounted for in accordance with the accounting policy described in note 1 h).

The movements occurring in non-current assets held for sale in the six-month period ended 30 June 2023 and during financial year 2022 are analysed as follows:

(Euro thousand)	Jun 2023	Dec 2022
Opening balance	58	38 920
Acquisitions	92	149
Disposals	(36)	(39 011)
Closing balance	114	58

The movements in impairment of non-current assets held for sale is analysed as follows:

(Euro thousand)	Jun 2023	Dec 2022
Opening balance	47	58
Charge for the period	13	15
Reversal for the period	-	(26)
Closing balance	60	47

28 Investment properties

The caption Investment properties includes the real estate owned by “Valor Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional”, by “Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular”, by “Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular” and by “Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto”, all of which are consolidated by the full consolidation method, according to the accounting policy described in note 1 b) and also the real estate held by SSAGINCENTIVE – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.

As at 30 June 2023, the amount of rental income received related to investment properties totalled Euro 487 thousand (2022: Euro 1,223 thousand) and maintenance costs of leased and non-leased properties totalled Euro 1,008 thousand (2022: Euro 2,493 thousand), as described in note 9.

The movements in this caption are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Opening Balance	72 726	102 933
Acquisitions	-	488
Revaluations	420	1 905
Disposals	(7 884)	(28 504)
Transfers	-	(4 096)
Closing balance	65 262	72 726

These investments are initially recognized at acquisition cost, including transaction costs, and are subsequently revalued at fair value. The fair value reflects market conditions at the balance sheet date, with the external appraisers that carry out the assessments being duly certified for this purpose and registered with the CMVM.

29 Other tangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Investments		
Real estate		
For own use	185 242	185 978
Leasehold improvements in rented buildings	28 604	28 604
Equipment		
IT equipment	91 208	88 577
Fixtures	31 899	32 045
Furniture	17 569	17 491
Security equipment	4 335	4 339
Machinery and tools	2 821	2 842
Transportation equipment	1 718	1 620
Other equipment	5	5
Works of art	2 870	2 870
Assets in operating leases	58	58
Righ-of-use assets		
Real estate	27 419	26 383
Motor vehicles	13 588	12 845
Other tangible assets	578	793
Work in progress	2 144	1 342
	410 058	405 792
Accumulated depreciation		
Charge for the period	(6 860)	(14 075)
Accumulated charge in previous periods	(210 394)	(199 214)
	(217 254)	(213 289)
Impairment for other tangible assets	(1 193)	(505)
	191 611	191 998

The caption Right-of-use assets corresponds, essentially, to real estate (branches and central buildings) and to the car fleet, being depreciated according to the lease term of each agreement, as indicated in note 1 i).

The movements in impairment of Other tangible assets are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	505	883
Change for the period	1 107	1 992
Reversals for the period	-	(265)
Transfers	(419)	(1 702)
Discontinuing operations	-	(403)
Closing balance	1 193	505

On 30 June 2023, a net allocation of impairment reversals was made in Euro 1,107 thousand (31 December 2022: Euro 1,727 thousand) related to branches closed in the scope of the Distribution network resizing plan, as referred in note 15.

The caption Transfers relates to the impairment associated with branches closed that were transferred to Other assets – Assets received in recovery of credit, as described in note 32.

30 Intangible assets

This caption is presented as follows:

(Euro thousand)	Jun 2023	Dec 2022
Investment		
Software	216 411	202 494
Other Intagible Assets	3 933	3 578
Work in progress	5 107	6 118
	225 451	212 190
Accumulated depreciation		
Charge for the period	(11 155)	(19 931)
Accumulated charge in previous periods	(164 639)	(144 708)
	(175 794)	(164 639)
	49 657	47 551

31 Taxes

Deferred tax assets and liabilities, as at 30 June 2023 and 31 December 2022, can be analysed as follows:

(Euro thousand)	Assets		Liabilities		Net	
	Jun 2023	Dec 2022	Jun 2023	Dec 2022	Jun 2023	Dec 2022
Deferred taxes not dependent on future profitability						
Impairment on loans granted	9 395	36 203	-	-	9 395	36 203
Post-employment and long-term benefits	20 131	22 499	-	-	20 131	22 499
	29 526	58 702	-	-	29 526	58 702
Deferred taxes dependent on future profitability						
Financial instruments	10 331	12 155	(6 836)	(7 911)	3 495	4 244
Other tangible assets	-	-	-	(6)	-	(6)
Provisions / Impairment						
Impairment on loans granted	86 263	89 802	-	-	86 263	89 802
Other risks and charges	7 110	8 436	-	-	7 110	8 436
Impairment in securities and non-financial asse	5 140	4 271	(37)	(38)	5 103	4 233
Impairment in financial assets	2 384	2 276	-	-	2 384	2 276
Post-employment and long-term benefits	42 587	45 577	(14 237)	(20 102)	28 350	25 475
Others	-	2	-	-	-	2
Taxes losses carried forward	223 084	220 440	-	-	223 084	220 440
Net deferred tax assets/ (liabilities)	406 425	441 661	(21 110)	(28 057)	385 315	413 604

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" or "REAID"), 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, the REAID is not applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor to their associated deferred tax assets.

Law no. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. net loss in separate annual accounts or in settlement accounts on the voluntary winding-up, insolvency decided by law or withdrawal of the respective authorization), there will be a conversion into tax credits of deferred tax assets that resulted from the non-deduction of costs and of deductions of asset values resulting from credit impairment losses and post-employment and long-term employment benefits. In such case, a special reserve corresponding to 110% of their amount shall be constituted, requiring the simultaneous constitution of conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State of the same amount. Tax credits may be offset against tax debts of the beneficiaries (or of an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. 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, those 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 Banco Montepio recorded a net accounting loss in 2020 and 2021, and following the approval of the annual accounts by the corporate bodies and, consequently, the application of said Regime, in financial years 2021 and 2022, respectively, there was a conversion into tax credits of deferred tax assets that resulted from the non-deduction of expenses and of deductions in respect of the value of assets resulting from impairment losses on credits and of post-employment and long-term employee benefits; and a special reserve corresponding to 110% of its amount was constituted for this purpose (see note 42).

In this sense, under the terms of article 8 of the annex to Law no. 61/2014, of 26 August, Banco Montepio has a special reserve in the amount of Euro 4,887 thousand, to which corresponds a tax credit of Euro 4,443 thousand (31 December 2022: special reserve of Euro 5,076 thousand, to which corresponds a tax credit of Euro 4,614 thousand) and which, as at 30 June 2023, is an integral part of the total current tax assets. These amounts may be changed in the context of the certification that the Tax and Customs Authority will carry out.

Deferred taxes are calculated based on the tax rates expected to be in force on the date of reversal of the timing differences, which correspond to the rates approved/known at the balance sheet date.

The referred caption also includes, as at 30 June 2023, the amount of Euro 1,963 thousand (31 December 2022: Euro 2,081 thousand) related to deferred taxes associated with the cost generated by the transfer of liabilities with pensioners to the General Social Security System.

The cost generated by the transfer of liabilities with pensioners to the General Social Security System is deductible for tax purposes, in equal parts, starting on 1 January 2012, according to the number of years of life expectancy of the pensioners whose liabilities were transferred (20 years in the case of the Banco Montepio Group).

In the first half of 2023 and financial year 2022, deferred taxes dependant on the future profitability, recorded in the caption Post-employment and long-term employee benefits, include the amount of Euro 20,131 thousand related to post-employment and long-term benefits in excess of the existing limits.

In the first half of 2023 and financial year 2022, and in function of (i) the tax rates in force, (ii) the expectation of the conversion into tax-accepted costs and profits, and (iii) the prospects of tax profits or tax losses in each one of the subsequent periods, the rate (considering the base rate and the surcharges) used by Banco Montepio to calculate deferred taxes, depending on the specific cases associated with timing differences or tax loss carry-forwards, corresponds, respectively, to 30.5% and 21.0%.

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 Group's financial statements have an underlying high expectation of recoverability. The assessment of the recoverability of deferred tax assets is based on the medium-/long-term business plan of Banco Montepio, which constitutes an extension of the Group's three-year strategic plan. The financial projections reflect management's perspective as to the evolution of the activity and sustainability of the business model, and given the macroeconomic context and the financial variables, the evolution of the economic activity and credit risk, among others.

The recovery of the profitability, liquidity and capital levels of the Banco Montepio Group, is hinged on four strategic focuses, having as the first condition the sustainability of the capital position, the growth in core business areas with an emphasis on families, SMEs and the social economy, privileging segments and products with lower capital consumption with lower risk, the improvement of the efficiency and profitability, 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 items that stand out:

- Control of operating costs, despite the inflationary pressures currently felt, through the elimination of redundancies and the taking advantage of synergies, due, among others, to the simplification of the organizational structure and of the processes, together with the reinforcement of the digitization.
- Increase in the commercial network business with growth in credit portfolios with lower risk and capital consumption, based on an appropriate management of the return on capital employed. Potential for growth in the complementary margin in cross-selling and new business areas, leveraging the potential of the customer base that the Banco Montepio Group enjoys, benefiting from the unique positioning of an almost bicentennial and mutualistic institution.
- Banco Montepio Group's balance sheet structure enhances the growth of the net interest income in the context of an increase in interest rates. Potential for growth of the commissions, evidencing the impacts of a management of the price list, through the adjustment of same to the value proposal for each segment, and 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, in which customer resources constitute the main source of financing for the activity.
- 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, with the aim of achieving an NPL ratio below 5% in the short term, or through the reduction of properties carried on the balance sheet.
- 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 2023 and 31 December 2022, the Banco Montepio Group recognized all deferred tax assets; hence, there are no deferred tax assets to be recognized.

In addition, a sensitivity analysis was carried out considering a scenario in which profit or loss before tax evolved at a rate 10% lower than that considered in the aforementioned projections, with no impact at the level of deferred taxes being determined.

The deferred tax assets associated with tax losses carried forward, by expiry year, are presented as follows:

(Euro thousand)

Expiry Date	Jun 2023	Dec 2022
2032	15 629	15 629
2033	18 931	18 931
Undetermined	188 524	185 880
	223 084	220 440

The expiry years indicated above reflect that stipulated in the Supplementary State Budget for 2020 (Law no. 27-A/2020, of 24 July), under which the 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 State Budget Law for 2023 (Law no. 24-D/2022, of 30 December), which came into force on 1 January 2023, establishes that tax losses calculated in tax years beginning on or after 1 January 2023, as well as those calculated previously that have not expired, are carried forward to future years without any time limitation, no longer being subject to a maximum deduction period. Additionally, it also establishes that the deduction limit against taxable income is reduced to 65%, maintaining the increase of 10 percentage points for tax losses calculated in the 2020 and 2021 tax periods (i.e., the deduction can be made up to 75% of taxable income).

However, regarding the time limitation referred to in the previous paragraph, this does not apply to tax losses calculated in tax periods prior to 1 January 2023 in which one of the situations provided for in no. 1 of article 6 of the REAID is verified, with the deduction period in force on 31 December 2022 being applied to tax losses calculated in those tax periods.

Tax recognized in net income/(loss) and in reserves during the first half of 2023 and financial year 2022 originated as follows:

(Euro thousand)

	Jun 2023		Dec 2022	
	Recognized in net income/ (loss)	Recognized to reserves and retained earnings	Recognized in net income/ (loss)	Recognized to reserves and retained earnings
Financial instruments	(419)	(330)	2 997	2 266
Impairment / Provisions	(30 182)	-	(33 469)	-
Post-employment and long-term benefits	(5 988)	5 865	(2 958)	(20 102)
Tax losses carried forward	2 644	-	4 837	-
Others	(55)	-	(266)	-
Deferred taxes/ recognized as profit/ (losses)	(34 000)	5 535	(28 859)	(17 836)
Current taxes	2 751	-	(6 731)	-
	(31 249)	5 535	(35 590)	(17 836)

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

(Euro thousand)

	Jun 2023		Jun 2022	
	%	Value	%	Value
Profit/ (Loss) before income tax		87 099		42 931
Income tax based on the current nominal tax rate	(21,0)	(18 291)	(22,0)	(9 451)
Capital gains and losses for tax purposes	(5,0)	(4 321)	-	-
Banking sector extraordinary contribution	(2,7)	(2 350)	(4,8)	(2 070)
Post-employement benefits and Pension Fund	1,6	1 393	(3,1)	(1 351)
Taxable provisions/impairment	(1,2)	(1 072)	(6,3)	(2 721)
Autonomous taxation	(0,3)	(252)	(0,9)	(377)
Corrections to previous year	1,4	1 240	-	-
Effect of differences in income tax for the period	(12,9)	(11 251)	(15,4)	(6 623)
Deductions / (add-backs) for taxable income purposes (*)	3,3	2 893	4,5	1 920
Others	0,9	762	(2,0)	(848)
Income tax for the period	(35,9)	(31 249)	(50,1)	(21 521)

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

Law no. 98/2019, of 4 September, amended 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.

The Banco Montepio Group has not opted for the application of the new tax regime on impairment, except as regards the entity Montepio Crédito, for which reason, for the current and deferred tax assessment related to financial years 2022 and 2021, 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 relevant period is the period of the exercise of that right.

The Banco Montepio Group was subject to inspections by the Tax Authority under the Special Taxation Regime of Groups of Companies ("RETGS"), up to and including the 2021 tax period, with the inspection of the 2022 tax period being currently underway.

In 2018, Banco Montepio became the dominant company of the Tax Group subject to corporate income tax under the 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 amount 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 1,770 thousand (31 December 2022: Euro 5,966 thousand) relates, essentially, to IRC recoverable, additional payments on account, special payments on account and payments on account.

32 Other assets

This caption is presented as follows:

	(Euro thousand)	
	Jun 2023	**Dec 2022**
Assets received in recovery of credit	384 965	447 959
Post-employment benefits	119 143	138 572
Other debtors	47 728	50 058
Sundry debtors	26 652	16 936
Price deposits	7 189	7 335
Bonifications to be received from the Portuguese State	4 573	5 778
Deferred costs	9 934	3 831
Other amounts receivable	6 385	5 260
	606 569	675 729
Impairment for assets received in recovery for credit	(117 375)	(123 826)
Impairment for other assets	(26 951)	(24 596)
	462 243	527 307

The caption Assets received in recovery of credit is presented as follows:

	(Euro thousand)	
	Jun 2023	**Dec 2022**
Assets received in recovery of credit	384 965	447 959
Impairment for Assets received in recovery of credit	(117 375)	(123 826)
	267 590	324 133

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 2023, the caption Assets received in recovery of credit includes the amount of Euro 1,849 thousand (31 December 2022: Euro 1,781 thousand) related to equipment resulting from the resolution of loans and advances to customers' contracts and which are 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 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 sold in under one year and that there is a strategy to this end. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period. The referred caption includes, as at 30 June 2023, properties for which promissory contracts to buy and sell, in the amount of Euro 24,667 thousand (31 December 2022: Euro 27,234 thousand), have already been celebrated.

The movements in the first half of 2023 and financial year 2022 in Assets received in recovery of credit are analysed as follows:

(Euro thousand)	Jun 2023	Dec 2022
Opening balance	447 959	603 714
Acquisitions	3 692	16 358
Disposals	(64 176)	(169 681)
Other movements	(2 510)	(3 760)
Transfers	-	2 570
Discontinued operations	-	(1 242)
Closing Balance	384 965	447 959

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

(Euro thousand)	Jun 2023	Dec 2022
Opening balance	123 826	140 124
Charge for the period	8 268	23 677
Reversals for the period	(2 360)	(1 129)
Utilization	(12 778)	(40 548)
Transfers	419	1 702
Closing balance	117 375	123 826

The caption Transfers considers impairment associated with branches closed that were transferred to Other tangible assets as described in note 29.

The caption Post-employment and long-term benefits corresponds to the net value of assets and liabilities of the Pension Fund.

As at 30 June 2023 and 31 December 2022, the caption Other debtors is analysed as follows:

(Euro thousand)	Jun 2023	Dec 2022
Supplementary capital contributions	14 910	14 910
Others	32 818	35 148
	47 728	50 058

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 2023 and 31 December 2022.

The caption Other debtors includes the amounts outstanding related to factoring and confirming operations, advances to suppliers and other debtors.

The caption Recoverable grants receivable from the Portuguese State corresponds to recoverable grants in respect of mortgage and SME loans, which amounts were determined in accordance with the legal provisions applicable to subsidized-interest loans that do not bear interest and are claimed regularly.

As at 30 June 2023 and 31 December 2022, the caption Recoverable grants receivable from the Portuguese State is presented as follows:

(Euro thousand)	Jun 2023	Dec 2022
Bonifications overdue and not yet claimed	2 126	2 183
Bonifications claimed from State not yet settled	1 766	3 005
Bonifications processed and not yet claimed	681	590
	4 573	5 778

The movements in the impairment of Other assets are analysed as follows:

(Euro thousand)	Jun 2023	Dec 2022
Opening balance	24 596	26 719
Charge for the period	3 087	2 484
Reversals for the period	(416)	(1 867)
Utilization	(101)	(2 955)
Transfers	(215)	215
Closing balance	26 951	24 596

As at 30 June 2023, the impairment of Other assets includes the impairment constituted for the exposures of Supplementary capital contributions of Euro 14,910 thousand (31 December 2022: Euro 14,910 thousand), for Price deposits of Euro 3,079 thousand (31 December 2022: Euro 3,186 thousand), for Guarantee commissions of Euro 589 thousand (31 December 2022: Euro 590 thousand), for Factoring operations of Euro 498 thousand (31 December 2022: Euro 498 thousand) and for Other debtors of Euro 7,875 thousand (31 December 2022: Euro 5,412 thousand).

The expectations regarding receipts associated with price deposits are regularly evaluated, considering, namely, the status of each process and the information known/made available by the insolvency administrators, with the estimate of impairment associated with these price deposits being adjusted whenever necessary.

33 Deposits from central banks

As at 30 June 2023 and 31 December 2022, 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 25.

For the financing lines under the TLTRO III programme, the effective interest rate used in the first half of 2023 and financial year 2022 considers the interest rates applicable to each operation in the elapsed period and the Bank's estimate as to the achievement of the targets in respect of the change in the volume of eligible credit defined by the ECB. This procedure implies the periodization of the interest rate of each of the TLTRO III operations by tranches.

As at 30 June 2023, these funds consist of three operations with maturities and amounts as follows: in September 2023, in the amount of Euro 189,486 thousand, in March 2024, in the amount of Euro 1,504,800 thousand and in December 2024, in the amount of Euro 55,441 thousand.

The operations are remunerated at the Bank of Portugal rates in force as at the contract date.

34 Deposits from other credit institutions

This caption is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Term deposits	3 045	-	3 045	10 582	-	10 582
Other deposits	-	10 136	10 136	-	1 002	1 002
	3 045	10 136	13 181	10 582	1 002	11 584
Deposits from credit institutions abroad						
EIB loan	-	300 827	300 827	-	300 007	300 007
Deposits repayable on dem:	47 245	-	47 245	25 035	-	25 035
Sales operations with repurchase agreement	-	492 732	492 732	-	-	-
Others deposits	5 933	-	5 933	4 997	-	4 997
	53 178	793 559	846 737	30 032	300 007	330 039
	56 223	803 695	859 918	40 614	301 009	341 623

The amount of the EIB loan presented in the table above has as its main objective the financing of SMEs, and considers the loan obtained in November 2020, in the amount of Euro 300,000 thousand, with a term of twelve years, a grace period of four years, fixed amortizations and a rate of 0.019%.

The amount of the EIB loan is collateralized by Spanish, Italian and Greek sovereign bonds in the nominal amount of Euro 368,007 thousand (31 December 2022: Euro 376,651 thousand by Portuguese, Italian, Greek, Irish and Spanish sovereign bonds), recorded in the caption Other financial assets at amortized cost, as described in note 25.

35 Deposits from customers

This caption is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	6 127 189	13	6 127 202	6 615 971	39	6 616 010
Term deposits	-	6 602 084	6 602 084	-	6 342 677	6 342 677
Saving accounts	-	116 894	116 894	-	135 699	135 699
Others deposits	23 920	-	23 920	23 073	-	23 073
Adjustments from operations at fair value options	(3 564)	-	(3 564)	(2 093)	-	(2 093)
	6 147 545	6 718 991	12 866 536	6 636 951	6 478 415	13 115 366

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 authorized to receive deposits, in accordance with that laid down in said Ordinance. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

In the first half of 2023, deposits from customers were remunerated at the average rate of 0.35% (2022: 0.05%).

36 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

	Jun 2023	Dec 2022
	(Euro thousand)	
Covered bonds	328 023	327 492
Securitizations	234 595	279 159
	562 618	606 651

The fair value of the debt securities issued is presented in note 46.

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 2023 and 31 December 2022.

As at 30 June 2023, 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	301 768	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	Aa2/AA
Covered bonds - 8S	1 250 000	1 252 150	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	Aa2/AA
Covered bonds - 9S	250 000	251 146	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	Aa2/AA
Covered bonds - 11S	500 000	328 023	328 023	November 2019	November 2024	annually	Fixed at 0.125%	Aa2/AA
	2 300 000	2 133 087	328 023					

As at 31 December 2022, 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	301 102	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	Aa2/AA
Covered bonds - 8S	1 250 000	1 251 553	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	Aa2/AA
Covered bonds - 9S	250 000	250 723	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	Aa2/AA
Covered bonds - 11S	500 000	327 492	327 492	November 2019	November 2024	annually	Fixed at 0.125%	Aa2/AA
	2 300 000	2 130 870	327 492					

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 2023, the value of the loans collateralizing these issues amounted to Euro 2,751,612 thousand (31 December 2022: Euro 2,753,360 thousand), according to note 21.

The movements in Debt securities issued during the first half of 2023, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Reimbursements	Other movements (a)	Balance on 30 June
Covered bonds	327 492	-	531	328 023
Securitisations	279 159	(44 564)	-	234 595
	606 651	(44 564)	531	562 618

(a) Included is the movement of accrued interest on the balance sheet date.

The movements in Debt securities issued during financial year 2022, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Reimbursements	Other movements (a)	Balance on 31 December
Covered bonds	1 215 119	(750 000)	(137 627)	327 492
Securitisations	402 006	(122 847)	-	279 159
	1 617 125	(872 847)	(137 627)	606 651

(a) Included is the movement of accrued interest on the balance sheet date.

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 2023, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description	Issue date	Maturity	Interest rate	Book value
PELICAN MORTGAGES n.º 3	30/03/2007	15/09/2054	Euribor 3M + 0.13%	24 070
PELICAN FINANCE No 2 A	06/12/2021	25/01/2035	Euribor 1M + 0,7%	166 761
PELICAN FINANCE No 2 B	06/12/2021	25/01/2035	Euribor 1M +1,35%	12 095
PELICAN FINANCE No 2 C	06/12/2021	25/01/2035	Euribor 1M + 2,25%	10 225
PELICAN FINANCE No 2 D	06/12/2021	25/01/2035	Euribor 1M + 4,25%	11 277
PELICAN FINANCE No 2 E	06/12/2021	25/01/2035	Fixed rate 6,4%	10 167
COVERED BONDS - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
				734 595
			Covered Bonds - 11S repurchases	(171 400)
			Accrual based accounting, deferred income and costs	(577)
				562 618

As at 31 December 2022, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description	Issue date	Maturity	Interest rate	Book value
PELICAN MORTGAGES n.º 3	30-03-2007	15-09-2054	Euribor 3M + 0.13%	26 165
PELICAN FINANCE No 2 A	06-12-2021	25-01-2035	Euribor 1M + 0.7%	200 401
PELICAN FINANCE No 2 B	06-12-2021	25-01-2035	Euribor 1M +1.35%	14 535
PELICAN FINANCE No 2 C	06-12-2021	25-01-2035	Euribor 1M + 2.25%	12 288
PELICAN FINANCE No 2 D	06-12-2021	25-01-2035	Euribor 1M + 4.25%	13 552
PELICAN FINANCE No 2 E	06-12-2021	25-01-2035	Fixed rate 6.4%	12 218
COVERED BONDS - 11S	14-11-2019	14-11-2024	Annual fixed rate of 0.125%	500 000
				779.159
			Covered Bonds - 11S repurchases	(171.400)
			Accrual based accounting, deferred income and costs	(1.108)
				606.651

37 Provisions

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Provisions for guarantees and commitments	16 052	19 517
Provisions for other risks and charges	10 079	11 235
	26 131	30 752

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 to reflect the best estimate of the amount of the loss. This caption includes provisions for tax contingencies, legal cases and fraud.

The movements in provisions for guarantees and commitments assumed, are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	19 517	21 262
Charge for the period	9 858	25 284
Reversal for the period	(13 268)	(22 102)
Utilization	(55)	(24)
Discontinued operations	-	(4 903)
Closing balance	16 052	19 517

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

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	11 235	12 871
Charge for the period	333	3 526
Reversal for the period	(1 169)	(2 788)
Utilization	(320)	(2 015)
Others	-	13
Discontinued operations	-	(372)
Closing balance	10 079	11 235

38 Other subordinated debt

As at 30 June 2023 and 31 December 2022, the main characteristics of subordinated debt, are analysed as follows:

(Euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Jun 2023	Dec 2022
MONTEPIO EMTN SUB 2018/2028	Dec 2018	Dec 2028	50 000	8.0% the first 5 years and at EurSwap for 5y + 7.77% for the remaining years	52 027	50 044
MONTEPIO EMTN SUB 2019/2029	April 2019	Apr 2029	100 000	10.5% the first 5 years and at EurSwap for 5y + Fixing ICE (FFT 11:00 AM) + 10.514%	102 525	107 825
MONTEPIO EMTN SUB 2020/2030	Jun 2020	Jun 2030	50 000	9.5% 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	Feb 2010	-	15 000	7% for the first 4 coupon dates and Max[Euribor 6M + 2.75%; 5%] for the remaining years	6 472	6 455
					211 301	217 029

The movements in Other subordinated debt during the first half of 2023 and financial year 2022, were as follows:

(Euro thousand)

	Jun 2023				Dec 2022		
	Balance at 1 January	Other movements	Balance at 30 June	Saldo em 30 de junho	Balance at 1 January	Other movements	Balance at 31 December
MONTEPIO EMTN SUB 2018/2028	50 044	1 983	52 027	104 054	50 044	-	50 044
MONTEPIO EMTN SUB 2019/2029	107 825	(5 300)	102 525	205 050	107 825	-	107 825
MONTEPIO EMTN SUB 2020/2030	52 705	(2 428)	50 277	100 554	52 705	-	52 705
FINIBANCO VALOR INVEST 2010	6 455	17	6 472	12 944	6 691	(236)	6 455
	217 029	(5 728)	211 301	422 602	217 265	(236)	217 029

(a) Includs accrued interest

Regarding the Finibanco Valor Invest 2010 issue, the refund is made at nominal value and, 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 2023	Dec 2022
Domestic and foreign operations pending settlement	134 780	133 409
Sundry creditors	42 121	43 980
Staff costs payable	35 733	31 323
Other expenses	21 482	24 014
Lease liabilities	4 770	5 519
Administrative public sector	11 974	12 110
Suppliers	10 702	10 689
Deferred income	568	436
	262 130	261 480

As at 30 June 2023, the caption Staff charges payable includes the amount of Euro 16,395 thousand (31 December 2022: Euro 15,490 thousand), related to holiday pay and subsidy. Additionally, as at 30 June 2023, this caption also includes the amount of Euro 2,115 thousand (31 December 2022: Euro 2,124 thousand) related to end-of-career awards and the amount of Euro 8,657 thousand (31 December 2022: Euro 8,423 thousand) for the employee adjustment programme.

As at 30 June 2023 and 31 December 2022, 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 2023	Dec 2022
Up to 1 year	2 003	4 299
1 to 5 years	2 767	1 220
	4 770	5 519

40 Share capital

As at 30 June 2023, Banco Montepio's share capital, which is fully realized, amounts to Euro 1,210,000 thousand (31 December 2022: Euro 2,420,000 thousand).

The Banco Montepio's General Meeting held on 10 February 2023 unanimously decided on the reformulation of the equity captions with the special purpose of reinforcing funds susceptible to regulatory qualification as distributable, aiming to cover negative retained earnings, by reducing share capital by Euro 1,210,000,000.00, without changing the number of existing shares and without changing the total value of the net equity, through the reduction of the nominal unit value of each share from Euro 1.00 to Euro 0.50 and the consequent change in no. 1 of article 4 of Banco Montepio's By-laws.

The shareholder structure of Banco Montepio's share capital as at 30 June 2023 and 31 December 2022 is as follows:

	Jun 2023		Dec 2022	
	Number of shares	Percentage	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 830 580	99,9930%	2 419 830 580	99,9930%
Other Shareholders	169 420	0,0070%	169 420	0,0070%
	2 420 000 000	100,0%	2 420 000 000	100,0%

41 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.

As at 30 June 2023, the legal reserve amounts to Euro 196,833 thousand (31 December 2022: Euro 193,266 thousand).

42 Fair value reserves, Other reserves and Retained earnings

This caption is presented as follows:

(Euro thousand)	Jun 2023	Dec 2022
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income		
Debt instruments	(3.031)	(3.801)
Equity instruments	9.949	9.634
	6.918	5.833
Taxes		
Financial assets at fair value through other comprehensive income	(2.098)	(1.768)
	(2.098)	(1.768)
	4.820	4.065
Other reserves and retained earnings		
Special reserve	4.887	5.076
Post-employment benefits (note 47)	(152.955)	(135.267)
Consolidation exchange reserves	-	(93.975)
Other reserves and retained earnings	325.532	(918.915)
	177.464	(1.143.081)

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 movements in the fair value reserve related to financial assets at fair value through other comprehensive income are analysed as follows:

(Euro thousand)

	Jun 2023				
	Balance on 1 January	**Revaluation**	**Disposals**	**Impairment recognised in the period**	**Balance on 30 June**
Fixed income securities					
Bonds issued by Portuguese public entities	(2 599)	200	(9)	2	(2 406)
Bonds issued by foreign public entities	(765)	474	-	(8)	(299)
Bonds issued by other entities:					
Domestic	(403)	190	(96)	11	(298)
Foreign	(53)	15	8	2	(28)
Commercial Paper	19	-	(38)	19	-
	(3 801)	879	(135)	26	(3 031)
Variable income securities					
Shares					
Domestic	10 785	-	-	-	10 785
Foreign	(1 151)	336	(21)	-	(836)
	9 634	336	(21)	-	9 949
	5 833	1 215	(156)	26	6 918

	(Euro thousand)					
	Dez 2022					
	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the year	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	426	(2 803)	-	(244)	22	(2 599)
Bonds issued by foreign public entities	314	(1 084)	-	-	5	(765)
Bonds issued by other entities:						
Domestic	534	(1 683)	-	(289)	1 035	(403)
Foreign	(13)	(35)	-	(6)	1	(53)
Commercial Paper	1 257	-	38	(2 514)	1 238	19
	2 518	(5 605)	38	(3 053)	2 301	(3 801)
Variable income securities						
Shares						
Domestic	9 985	160	640	-	-	10 785
Foreign	798	-	21	(1 970)	-	(1 151)
	10 783	160	661	(1 970)	-	9 634
	13 301	(5 445)	699	(5 023)	2 301	5 833

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

	(Euro thousand)	
	Jun 2023	Dec 2022
Amortised cost of financial assets at fair value through other comprehensive income	79 315	91 941
Recognised accumulated impairment	(526)	(552)
Amortised cost of financial assets at fair value through other comprehensive income net of impairment	78 789	91 389
Market value of financial assets at fair value through other comprehensive income	85 707	97 222
Potential realised gains/ (Losses) recognised in the fair value reserve	6 918	5 833

The movement in the first half of 2023 and financial year 2022 in retained earnings is presented in the Consolidated statement of changes in equity.

As described in note 31, following the adhesion of Banco Montepio to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, a Special reserve was constituted that reflects the conversion of eligible deferred tax assets into tax credits.

Considering that Banco Montepio recorded net losses in 2020 and 2021, and considering the eligible deferred tax assets at the reference date of the aforementioned periods, as a result of the application of the special regime applicable to deferred tax assets, Banco Montepio recorded a Special reserve corresponding to 110% of the amount of the tax credits calculated, which has the following breakdown:

	(Euro thousand)	
	Jun 2023	Dec 2022
Special reserve		
2021 (Negative net income of 2020)	4 509	4 750
2022 (Negative net income of 2021)	378	326
	4 887	5 076

As at 30 June 2023, Banco Montepio has a Special reserve in the amount of Euro 4,887 thousand (31 December 2022: Euro 5,076 thousand), to which corresponds a tax credit of Euro 4,443 thousand (31 December 2022: Euro 4,614 thousand), as described in note 31.

The caption Consolidation foreign exchange reserves records the exchange differences associated with the conversion of the Finibanco Angola, S.A. financial statements into Euros which amount, upon the sale of the associated investment, will be recognized in accordance with that referred in note 1b) - Investments in subsidiaries and associates resident abroad.

As described in policy 1 b), the consolidation of the financial statements of subsidiaries in foreign currency is preceded by their conversion into Euros based on the exchange rate of the currency which, in the case of Finibanco Angola, S.A., is disclosed by Banco Nacional de Angola, with the conversion to Euros of assets and liabilities stated in foreign currency being based on the exchange rate at the balance sheet date, while the income and expenses determined are translated at the average exchange rate for the month in which they are recognized.

The evolution of the currency reserve as at 30 June 2023 and 31 December 2022 is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	(93 975)	(103 351)
Increases/(decreases) by valuations	(22 123)	9 376
Recycling of foreign exchange reserves	116 098	-
Final balance	-	(93 975)

43 Distribution of dividends

In the first half of 2023 and financial year 2022, Banco Montepio did not distribute dividends.

44 Non-controlling interests

This caption is presented as follows:

(Euro thousand)

	Balance sheet		Income Statement	
	Jun 2023	Dec 2022	Jun 2023	Jun 2022
Finibanco Angola, S.A.	-	11 442	1 742	192

The movements in this caption are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	11 442	12 903
Foreign exchange differences	(5 455)	2 170
Dividends	(663)	(965)
Consolidation perimeter changes	(7 066)	-
	(1 742)	14 108
Net income attributable to non-controlling interests	1 742	(2 666)
	-	11 442

Name	Home office	Segment	Percentage held by non-controlling interests	
			Jun 2023	Dec 2022
Finibanco Angola, S.A.	Luanda	Banking	-	19.78%

45 Guarantees and other commitments

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Guarantees granted	513 833	462 194
Commitments to third parties	1 551 272	1 658 049
Deposit and custody of securities	7 046 383	8 170 780
	9 111 488	10 291 023

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

(Euro thousand)

	Jun 2023	Dec 2022
Guarantees granted		
Commitments to third parties	447 868	426 783
Deposit and custody of securities	65 965	35 411
	513 833	462 194
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	651 495	720 589
Securities subscription	590	708
Term liability to the Guarantee Deposits Fund	22 768	22 768
Potential liability with the Investor's Indemnity System	5 571	5 774
Revocable commitments		
Revocable credit facilities	870 848	908 210
	1 551 272	1 658 049

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. All credit concession commitments require, substantially, that Customers maintain 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 2023 and 31 December 2022, 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 2023, in the scope of the Deposits Guarantee Fund, the Group pledged treasury bonds (OT October 2030 and OT February 2030), recorded as Other financial assets at amortized cost, with a nominal value of Euro 29,000 thousand (31 December 2022: Euro 28,000 thousand), as described in note 25.

As at 30 June 2023 and 31 December 2022, 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.

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 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 the 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 for 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 0.87 % for live operations as at 30 June 2023 (31 December 2022: negative in 0.08%).

For the remaining funds from 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 2023, the average discount rate was 3.51% (31 December 2022: a negative 3.53%).

For Other loans and advances to credit institutions a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term operations was applied. Considering the short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

- *Other financial assets at 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 2023, the average discount rate was 4.16% for mortgage loans (31 December 2022: 4.24%), 6.70% for individuals' loans (31 December 2022: 8.04%) and 5.74% for the remaining loans (31 December 2022: 4.49%), 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 2023 was a negative 2.03% (31 December 2022: a negative 1.18%).

- *Debt securities issued and Other subordinated debt*

For these financial instruments, the fair value was calculated for the components which fair value is not yet reflected in the balance sheet. For the fixed interest rate instruments in respect of which the Group applies hedge accounting, the fair value related to the interest rate risk is already accounted for.

In the fair value calculation, the other risk components were also considered, besides the interest rate risk already accounted for. Fair value is based on market quotations, whenever these are available. If these are not available, fair value is estimated using internal models, based on cash-flow discounting techniques, using the market interest rate curve adjusted by the associated factors, predominantly the credit risk and the trading margin, the latter only in the case of issues sold to non-institutional Customers of the Group.

As original reference, the interest rate swaps market curves for each specific currency are used. The credit risk (credit spread) is represented by an excess over the interest rate swaps' curve, calculated specifically for each term and class of instruments based on the market prices of equivalent instruments.

In case of covered bond issues, the fair value is determined based on quotations disseminated by the financial content provider Bloomberg.

As regards subordinated issues, the 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 premiums Comparable assets [3] Market Observable Prices
Financial assets at fair value through profit or loss	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3] Market Observable Prices
Financial assets at fair value through other comprehensive income	Own equity representative financial instruments Debt representative financial instruments		Discounted Cash Flow Method [2]	Interest rate curves Risk premiums Comparable assets [3]
Financial assets at amortized cost	Debt securities Loans and advances		Discounted Cash Flow Method [2]	Interest rate curves Comparable assets [3] *Spreads*
Derivatives - Hedge accounting	*Swaps* [1]		Discounted Cash Flow Method [2]	Interest rate curves Implied Volatilities Probability of default for CVA and DVA calculation
Financial liabilities at amortized cost	Term deposits Debt securities issued		Discounted Cash Flow Method [2]	Interest rate curves *Spreads*

(1) In derivative valuations, an adjustment to the valuation is made to take into account counterparty credit risk when the exposure is the Bank's or the credit risk of the Bank's when the exposure is the counterparty's (generally referred to by the abbreviations CVA - Credit Valuation Adjustment and DVA - Debit Valuation Adjustment).

(2) Cash-flow discounting method (net present value): this model uses the cash flows of each instrument, established in the different contracts, and discounts them to calculate their present value.

(3) Comparable assets (prices of similar assets): comparable financial instrument prices or market benchmarks are used to calculate yield from the purchase price to its current valuation, making subsequent adjustments to take into account possible differences between the revalued instrument and the reference instrument. It can also be assumed that the price of one instrument equals that of another.

Valuation adjustments for Credit Risk

Counterparty Credit Risk Valuation Adjustments ("CVA") and the Bank's Credit Risk Valuation Adjustments ("DVA") are incorporated in the valuation of OTC derivatives as a result of the risk associated with the credit exposure of the counterparty and its own, respectively.

The CVA value is calculated considering the expected exposure for each counterparty in each future term, with the CVA by counterparty being calculated by summing the various CVA values of the various future terms. The adjustments are then determined by estimating the counterparty's exposure at default (EAD), the respective probability of default (PD) and the loss given default (LGD) for all derivative financial instruments traded under the same contract negotiated with the Group with a netting clause (of the same netting set). Similarly, the DVA corresponds to the product of the negative expected exposure at default by the probability of default and by Banco Montepio Group's LGD.

The PD and LGD values are calibrated using market data, for the effect using the counterparty's rating and sector or historical information on the probability of default.

Changes in CVA/FVA and DVA/FVA adjustments are accounted for as gains or losses on assets and liabilities held for trading in the profit or loss. The detail of the movements of the CVA and DVA adjustments is presented as follows:

(Euro thousand)

	Jun 2023		Dec 2022	
	CVA	**DVA**	**CVA**	**DVA**
Adjustment	52	424	51	573
Of which : Derivatives expiry	-	3	(15)	(260)

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 2023, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, namely Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen, used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Pound Sterling	Swiss Franc	Japonese Yen
1 day	3.450000	5.145000	5.090000	1.730000	-0.125000
7 days	3.393250	5.134688	5.045000	1.700000	-0.260000
1 month	3.411600	5.285000	5.095000	1.790000	-0.260000
2 months	3.523450	5.395000	5.315000	1.740000	-0.260000
3 months	3.588000	5.515000	5.495000	1.800000	-0.250000
6 months	3.735700	5.815000	5.995000	1.870000	-0.230000
9 months	3.811750	5.875000	6.350000	1.870000	-0.030000
1 year	3.836800	6.015000	6.445000	2.090000	-0.120000
2 years	3.615450	5.810989	6.344372	2.063500	-0.120002
3 years	3.350000	5.608646	6.344372	2.012500	-0.120002
5 years	3.007000	5.202848	6.344372	1.915500	-0.120002
7 years	2.863500	4.797051	6.344372	1.882500	-0.120002
10 years	2.799500	4.187798	6.344372	1.872500	-0.120002
15 years	2.794500	3.748629	6.344372	1.885000	-0.120002
20 years	2.699500	3.693000	6.344372	1.885000	-0.120002
30 years	2.464000	3.456000	6.344372	1.885000	-0.120002

As at 31 December 2022, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, namely Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen, used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Pound Sterling	Swiss Franc	Japonese Yen
1 day	1.970000	4.285000	3.470000	0.950000	-0.075000
7 days	1.904000	4.444375	3.615000	0.910000	-0.200000
1 month	1.905000	4.420000	3.640000	0.920000	-0.200000
2 months	2.092000	4.630000	3.830000	1.000000	-0.200000
3 months	2.253000	4.770000	3.900000	0.970000	-0.200000
6 months	2.669000	5.150000	4.345000	1.160000	-0.150000
9 months	2.952000	5.235000	4.650000	1.430000	-0.100000
1 year	3.102000	5.345000	4.965000	1.660000	-0.100000
2 years	3.142000	5.204321	4.904856	1.711500	-0.100013
3 years	3.024000	5.065171	4.904856	1.797000	-0.100013
5 years	2.961000	4.786489	4.904856	1.941000	-0.100013
7 years	2.920000	4.507043	4.904856	2.068000	-0.100013
10 years	2.938000	4.088064	4.904856	2.191000	-0.100013
15 years	2.934000	3.777879	4.904856	2.276000	-0.100013
20 years	2.787000	3.726000	4.904856	2.276000	-0.100013
30 years	2.470000	3.472000	4.904856	2.276000	-0.100013

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 2023**	**Dec 2022**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.08660	1.06600	6.675	6.690	6.750	6.793	6.900
EUR/GBP	0.85828	0.88693	5.977	6.225	6.525	6.700	6.840
EUR/CHF	0.9788	0.9847	4.515	4.845	5.130	5.260	5.400
EUR/JPY	157.16	140.66	10.283	10.145	10.195	10.160	10.040
EUR/AOA	868.4690	516.0885	-	-	-	-	-

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 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

	Jun 2023				
	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	-	-	630 052	630 052	630 052
Loans and deposits to credit institutions payable on demand	-	-	127 116	127 116	127 116
Other loans and advances to credit institutions	-	-	168 923	168 923	168 923
Loans and advances to customers	812	-	11 555 572	11 556 384	11 797 273
Financial assets held for trading	85 705	-	-	85 705	85 705
Financial assets at fair value through profit or loss	146 446	-	-	146 446	146 446
Financial assets at fair value through other comprehensive income	-	85 707	-	85 707	85 707
Other financial assets at amortized cost	-	-	4 123 419	4 123 419	3 687 046
Non-current assets held for sale	-	-	54	54	54
	232 963	85 707	16 605 136	16 923 806	16 728 322
Financial liabilities					
Deposits from central bank	-	-	1 749 727	1 749 727	1 749 727
Deposits from other credit institutions	-	-	859 918	859 918	805 929
Deposits from customers	69 103	-	12 797 433	12 866 536	12 800 984
Debt securities issued	-	-	562 618	562 618	542 611
Financial liabilities held for trading	13 553	-	-	13 553	13 553
Other subordinated debt	-	-	211 301	211 301	202 549
	82 656	-	16 180 997	16 263 653	16 115 353

(Euro thousand)

	Dec 2022				
	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	-	-	1 383 802	1 383 802	1 383 802
Loans and deposits to credit institutions payable on demand	-	-	52 287	52 287	52 287
Other loans and advances to credit institutions	-	-	106 376	106 376	106 376
Loans and advances to customers	863	-	11 712 234	11 713 097	11 793 411
Financial assets held for trading	23 070	-	-	23 070	23 070
Financial assets at fair value through profit or loss	147 770	-	-	147 770	147 770
Financial assets at fair value through other comprehensive income	-	97 222	-	97 222	97 222
Other financial assets at amortized cost	-	-	4 119 387	4 119 387	3 610 321
Non-current assets held for sale	-	-	11	11	11
	171 703	97 222	17 374 097	17 643 022	17 214 270
Financial liabilities					
Deposits from central bank	-	-	2 889 991	2 889 991	2 889 991
Deposits from other credit institutions	-	-	341 623	341 623	282 116
Deposits from customers	61 565	-	13 053 801	13 115 366	13 071 543
Debt securities issued	-	-	606 651	606 651	583 885
Financial liabilities held for trading	17 697	-	-	17 697	17 697
Other subordinated debt	-	-	217 029	217 029	205 772
	79 262	-	17 109 095	17 188 357	17 051 004

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 30 June 2023:

(Euro thousand)

	Jun 2023				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial Assets					
Cash and deposits at central banks	630 052	-	-	-	630 052
Loans and deposits to credit institutions payable on demand	127 116	-	-	-	127 116
Other loans and advances to credit institutions	-	-	168 923	-	168 923
Loans and advances to customers	-	812	11 796 461	-	11 797 273
Financial assets held for trading	65 806	7 211	12 688	-	85 705
Financial assets at fair value through profit or loss	-	-	146 446	-	146 446
Financial assets at fair value through other comprehensive income	62 087	798	21 651	1 171	85 707
Other financial assets at amortized cost	3 668 039	-	19 007	-	3 687 046
Non-current assets held for sale	-	-	54	-	54
	4 553 100	8 821	12 165 230	1 171	16 728 322
Financial liabilities					
Deposits from central bank	1 749 727	-	-	-	1 749 727
Deposits from other credit institutions	-	-	805 929	-	805 929
Deposits from customers	-	69 103	12 731 881	-	12 800 984
Debt securities issued	-	-	542 611	-	542 611
Financial liabilities held for trading	-	8 974	4 579	-	13 553
Other subordinated debt	-	-	202 549	-	202 549
	1 749 727	78 077	14 287 549	-	16 115 353

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2022:

(Euro thousand)

	Dec 2022				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial Assets					
Cash and deposits at central banks	1 383 802	-	-	-	1 383 802
Loans and deposits to credit institutions payable on demand	52 287	-	-	-	52 287
Other loans and advances to credit institutions	-	-	106 376	-	106 376
Loans and advances to customers	-	863	11 792 548	-	11 793 411
Financial assets held for trading	3 242	6 817	13 011	-	23 070
Financial assets at fair value through profit or loss	-	-	147 770	-	147 770
Financial assets at fair value through other comprehensive income	61 660	2 067	32 396	1 099	97 222
Other financial assets at amortized cost	3 610 321	-	-	-	3 610 321
Non-current assets held for sale	-	-	11	-	11
	5 111 312	9 747	12 092 112	1 099	17 214 270
Financial liabilities					
Deposits from central bank	2 889 991	-	-	-	2 889 991
Deposits from other credit institutions	-	-	282 116	-	282 116
Deposits from customers	-	61 565	13 009 978	-	13 071 543
Debt securities issued	-	-	583 885	-	583 885
Financial liabilities held for trading	-	7 694	10 003	-	17 697
Other subordinated debt	-	-	205 772	-	205 772
	2 889 991	69 259	14 091 754	-	17 051 004

47 Post-employment and long-term benefits

Banco Montepio and Montepio Crédito 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 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 a pension calculated as per the preceding paragraph, proportional to the time of service rendered to the Group, to be paid by the Pension Fund.

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 that 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 came to be made based on a fixed amount per employee and were, thus, no longer indexed to the remuneration.

The main actuarial assumptions used in calculating the present value of the liabilities are as follows:

	Assumptions	
	Jun 2023	**Dec 2022**
Financial assumptions		
Salary growth rate	2.5% in the first three years and 0.75% in the nexts	2.5% in the first three years and 0.75% in the nexts
Pension growth rate	2.0% in the first three years and 0.50% in the nexts	2.0% in the first three years and 0.50% in the nexts
Rate of return of the Fund	4.00%	4.20%
Discount rate	4.00%	4.20%
Revaluation rate		
Salary growth rate - Social Security	1.50%	1.50%
Pension growth rate	1.25%	1.25%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90 -1 year	TV 88/90 -1 year
Women	TV 99/01 -2 years	TV 99/01 -2 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 2023, the average duration of the pension liabilities of the Group's employees is 15.5 years (31 December 2022: 15.9 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

(Euro thousand)

	Jun 2023	Dec 2022
Active	2 748	2 842
Retirees and survivors	1 644	1 598
	4 392	4 440

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

(Euro thousand)

	Jun 2023	Dec 2022
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(363 811)	(340 082)
Active	(263 892)	(258 950)
	(627 703)	(599 032)
Liabilities with healthcare benefits		
Pensioners	(25 006)	(23 445)
Active	(24 463)	(23 367)
	(49 469)	(46 812)
Liabilities with death benefits		
Pensioners	(1 734)	(1 637)
Active	(1 036)	(984)
	(2 770)	(2 621)
Total liabilities	(679 942)	(648 465)
Coverages		
Pension Fund value	799 085	787 037
Net assets/(liabilities) in the balance sheet	119 143	138 572
Accumulated actuarial remeasurements recognized in other comprehensive income	152 955	135 267

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

(Euro thousand)

	Jun 2023				Dec 2022			
	Pension benefits	Healthcare benefits	Death benefits	Total	Pension benefits	Healthcare benefits	Death benefits	Total
Liabilities at the beginning of the period	599 032	46 812	2 621	648 465	786 384	66 088	3 955	856 427
Recognized in net income/(loss) (note 10)								
Current service cost	1 327	423	19	1 769	3 089	1 482	71	4 642
Interest cost	12 584	983	55	13 622	11 021	927	55	12 003
Early retirement, terminations by mutual agreement and othe	4 055	-	-	4 055	6 955	-	-	6 955
Recognized in Equity (note 42)								
Actuarial gains /(losses)								
Changes in assumptions	18 294	1 540	108	19 942	(202 192)	(20 236)	(1 474)	(223 902)
Not related to Changes in assumptions	5 705	(289)	(33)	5 383	18 772	(1 449)	14	17 337
Other								
Pensions paid by the Fund	(13 273)	-	-	(13 273)	(25 615)	-	-	(25 615)
Pensions paid by Banco Montepio	(786)	-	-	(786)	(1 736)	-	-	(1 736)
Participant contributions	1 157	-	-	1 157	2 354	-	-	2 354
Other	(392)	-	-	(392)	-	-	-	-
Liabilities at the end of the period	627 703	49 469	2 770	679 942	599 032	46 812	2 621	648 465

The evolution of the Pension Fund's net asset value in the half year ended 30 June 2023 and financial year ended 31 December 2022 can be analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Value of the Fund at beginning of the period	787 037	866 203
Recognized in net income/(loss)		
Share of net interest	16 527	12 141
Recognized in equity		
Financial deviations	7 637	(68 046)
Other		
Participant contributions	1 157	2 354
Pensions paid by the Fund	(13 273)	(25 615)
Fund's value at the end of the period	799 085	787 037

The amount of the payments made by the Pension Fund considers the effect of the application of Ordinance no. 141 of 2023.

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 2023 and 31 December 2022, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	Jun 2023				Dec 2022			
	Assets of the fund	%	Quoted	Unquoted	Assets of the fund	%	Quoted	Unquoted
Variable-income securities								
Shares	118 822	15%	118 822	-	98 405	13%	98 405	-
Shares investment funds	73 003	9%	19 647	53 356	57 993	7%	11 868	46 125
Bonds	513 858	64%	444 544	69 314	538 834	68%	466 608	72 226
Real estate	4 876	1%	-	4 876	4 782	1%	-	4 782
Real estate investment Funds	45 345	6%	3 977	41 368	45 255	6%	3 902	41 353
Venture capital Funds	3 313	0%	-	3 313	1 723	0%	-	1 723
Loans and advances to banks and other	39 868	5%	-	39 868	40 045	5%	9 912	30 133
	799 085	100%	586 990	212 095	787 037	100%	590 695	196 342

The assets of the Pension Fund related to securities, real estate and loans and advances to credit institutions that are entities of the Group, are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Loans and advances in banks and other	18 505	28 942
Real estate	4 876	4 782
Bonds	378	374
	23 759	34 098

The evolution of the remeasurements in the balance sheet are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Actuarial gains/(losses) at the beginning of the period	135 267	273 786
Actuarial gains/(losses) in the financial period		
Changes in discount rate	18 217	(300 839)
Payroll update	-	21 798
Pension growth rate update	-	33 945
Changes in mortality tables	-	12 315
Deviation on the Pension Fund return	(7 637)	68 046
Resulting from changes in plan conditions	1 725	8 879
Other	5 383	17 337
Actuarial gains/(losses) recognized in other comprehensive income	152 955	135 267

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

(Euro thousand)

	Jun 2023	Jun 2022
Current service cost	1 769	2 366
Net interest income/(expense) on the liabilities coverage balance	(2 905)	(68)
Costs with early retirement, mutually agreed termination and other	4 055	5 956
Costs for the period	2 919	8 254

The evolution of net assets/(liabilities) in the balance sheet, in the period ended 30 June 2023 and financial year 2022, is analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
At the beginning of the period	138 572	9 776
Current service cost	(1 769)	(4 642)
Net interest income/(expense) on the liabilities coverage balance	2 905	138
Actuarial gains/(losses)	(25 325)	206 565
Financial gains/(losses)	7 637	(68 046)
Pensions paid by Banco Montepio	786	1 736
Early retirement, mutually agreed terminations and others	(4 055)	(6 955)
Other	392	-
At the end of the period	119 143	138 572

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 2023		Dec 2022	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(21 291)	22 467	(20 855)	22 014
Salary growth rate (0.25% change)	12 766	(11 791)	12 844	(11 926)
Pension growth rate (0.25% change)	20 255	(19 396)	19 309	(18 511)
SAMS contribution (0.25% change)	2 339	(2 339)	2 561	(2 561)
Future mortality (1 year change)	(15 462)	15 207	(14 552)	14 274

As at 30 June 2023, the cost associated with the end-of-career awards amounted to Euro 2,115 thousand (31 December 2022: Euro 2,124 thousand), in accordance with the accounting policy described in note 1 s) 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 2023 and 31 December 2022, the amount of the funds for which the Group acts as depository bank is analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Securities Investment Funds	197 898	180 913
Real estate Investment Funds	744 336	721 149
Pension Funds	285 472	284 930
Bank and insurance	26 638	28 807
	1 254 344	1 215 799

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 56, 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.

In operations carried out between Banco Montepio Group entities that are in a situation of special relationships, terms and conditions are contracted, accepted and practiced substantially identical to those that would normally be contracted, accepted and practiced between independent entities in comparable operations, that is, at market prices.

On this basis, with reference to 30 June 2023, the list of related parties considered by Banco Montepio is presented as follows:

Majority shareholder
Montepio Geral Associação Mutualista

Board of Directors
Chaim of the Board of Directors
Manuel Ferreira Teixeira
Non-executive members
Clementina Barroso
Eugénio Luís Baptista
Florbela Lima
Maria Cândida Peixoto
Maria Lúcia Bica
Executive Committee
Chaim of the Executive Committee
Pedro Leitão
Executive members
Ângela Barros
Helena Soares de Moura
Isabel Silva
Jorge Baião
José Carlos Mateus
Audit Committee
Chaim of the Audit Committee
Clementina Barroso
Members
Florbela Lima
Maria Cândida Peixoto
Maria Lúcia Bica

Other Key Management Personnel
Alice Pinto
Alípio Dias
Amândio Coelho
Ana Sá Couto
António Gouveia
Carlos Beato
Dalila Teixeira
Edite Cheira
Fernando Amaro
Fernando Santo
Fernão Thomaz
Francisco Simões
Idália Serrão
Isabel Cidrais Guimarães
João Almeida Gouveia
João Carvalho das Neves
João Costa Pinto
Jorge Oliveira
José António Gonçalves
José Luís Leitão
José Mendes Alfaia
Laura Duarte
Luís Antunes
Luís Filipe Costa
Luís Franco
Luís Manuel Paixão
Manuel Baptista
Manuel Carlos Silva
Margarida Andrade
Margarida Duarte
Maria Clemente
Nuno Coelho
Nuno Marques da Silva
Nuno Mendes
Nuno Mota Pinto
Nuno Van Zeller
Paulo Jorge Rodrigues
Paulo Jorge Silva
Paulo Magalhães
Pedro Alves
Pedro Crespo
Pedro Ribeiro
Ricardo Carvalho
Rui Heitor
Virgílio Lima
Vitor Filipe

Other Related parties

Alexandra Ponciano
Alexandra Quirino Silva
Alexandra Rolo
António Carlos Machado
António Coelho
António Figueiredo Lopes
António Longo
Armando Cardoso
Bruno Magalhães
Carla Sousa
Carlos Figueiral Azevedo
Conceição Barbosa
Daniel Caçador
Fabienne Lehuédé
Fernanda Correia
Fernando Alexandre
Fernando Teixeira
Filipa Costa
Filipe Guimarães Cizeron
Frederico Tomáz
Helder Reis
Inês Dargan
Jaquelina Rodrigues
Joana Correia
Jorge Barros Luís
Jorge Dourado
Luis Melo
Luís Sena
Manuel Castanho
Maria Eduarda Osório
Miguel Gomes da Silva
Miguel Oliveira
Mónica Araújo
Nuno Cavilhas
Nuno Soares
Patrícia Medeiros
Paula Pinheiro
Paula Viegas
Paulo Amorim
Paulo Trindade
Pedro Araújo
Pedro Pires
Ricardo Domingos Chorão
Ricardo Silva Ribeiro
Rita Santos
Rui Gama
Rui Jorge Santos
Rui Magalhães Moura
Sandra Brito Pereira
Sandra Martins Colaço
Sanguini Shirish
Sara Candeias
Susana Pinheiro
Tânia Madeira
Tiago Teixeira
Vania Fernandes
Vítor Ventura

Other Related parties

Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
CESource, A.C.E.
Clínica CUF Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior, S.A.
Finibanco Angola, S.A. (*)
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
GreenVolt - Energias Renováveis, S.A.
HTA – Hotéis, Turismo e Animação dos Açores, S.A.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique, Companhia de Seguros, S.A.
Montepio Gestão de Activos - Sociedade Gestora de Organismos de Investimento Coletivo, S.A.
Montepio Gestão de Activos Imobiliários, A.C.E.
Montepio Residências para Estudantes, S.A.
Montepio Serviços, A.C.E.
NovaCâmbios - Instituição de Pagamento, S.A.
Residências Montepio, Serviços de Saúde, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.

(*) Following the sale in June 2023, Banco Montepio ceased to have influence significant, therefore, the stake held of 29.22% is not subject to consolidation.

As at 30 June 2023, 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 2023							
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	Garantees and commitments provided	Provisions for guarantees and commitments assumed	Total
Board of Directors	122	-	-	-	-	-	-	122
Board of Directors of Other Related Parties	1 998	2	-	-	-	-	-	1 996
Other Related Parties	2 772	2	-	-	-	-	-	2 770
Bolsimo - Gestão de Activos, S.A.	-	-	-	-	45			45
CESource, A.C.E.	-	-	-	-	35	-	-	35
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	-	-	-	591	-	-	592
GreenVolt - Energias Renováveis, S.A.	25 574	24	-	-	-	-	-	25 550
Lusitania, Companhia de Seguros, S.A.	1	-	1 957	382	-	46	-	1 576
Moçambique Companhia de Seguros, S.A.R.L.	-	-	380	-	-	-	-	380
Montepio Geral Associação Mutualista	1	1	-	-	3 613	120	-	3 613
Montepio Gestão de Activos - S.G.O.I.C, S.A.	-	-	1	-	57	-	-	58
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	-	2 257	-	-	2 257
NovaCâmbios - Instituição de Pagamento, S.A.	409	22	-	-	-	1 185	1	388
Residências Montepio, Serviços de Saúde, S.A.	1 309	5	-	-	21	750	1	1 326
	32 187	56	2 338	382	6 619	2 101	2	40 708

As at 31 December 2022, 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)

Companies	Dec 2022						
	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	Garantees and commitments provided	Total
Board of Directors (after 25 of July 2022)	163	-	-	-	-	-	163
Board of Directors (until 25 of July 2022)	476	-	-	-	-	-	476
Board of Directors of Other Related Parties	2,084	3	-	-	-	-	2,081
Other Related Parties	2,521	1	-	-	-	-	2,520
Bolsimo - Gestão de Activos, S.A.	2,643	22	-	-	22	4,400	7,043
CESource, A.C.E.	-	-	-	-	76	-	76
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	-	-	-	13	-	14
GreenVolt - Energias Renováveis, S.A.	15,125	14	-	-	-	-	15,111
Lusitania, Companhia de Seguros, S.A.	1	-	1,935	369	-	46	1,613
Moçambique Companhia de Seguros, S.A.R.L.	-	-	250	-	-	-	250
Montepio Geral Associação Mutualista	3	1	-	-	4,329	120	4,451
Montepio Gestão de Activos - S.G.O.I.C, S.A.	-	-	1	-	50	-	51
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	-	1,160	-	1,160
NovaCâmbios - Instituição de Pagamento, S.A.	530	15	-	-	-	1,388	1,903
Residências Montepio, Serviços de Saúde, S.A.	1,828	6	-	-	42	300	2,164
	25,375	62	2,186	369	5,692	6,254	39,076

As at 30 June 2023, 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)

Companies	Jun 2023		
	Deposits from customers	Debt securities issued and Other subordinated liabilities	Total
Board of Directors	699	-	699
Board of Directors of Other Related Parties	2 703	-	2 703
Other Related Parties	2 422	-	2 422
Bolsimo - Gestão de Activos, S.A.	1 257	-	1 257
Clínica CUF Belém, S.A.	23	-	23
Empresa Gestora de Imóveis da Rua do Prior S.A	224	-	224
Fundação Montepio Geral	2 676	-	2 676
Fundo de Pensões - Montepio Geral	14 472	400	14 872
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 608	-	2 608
GreenVolt - Energias Renováveis, S.A.	6 296	-	6 296
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	144	-	144
Lusitania Vida, Companhia de Seguros, S.A.	9 284	-	9 284
Lusitania, Companhia de Seguros, S.A.	2 686	-	2 686
Montepio Geral Associação Mutualista	100 681	197 342	298 023
Montepio Gestão de Activos - S.G.O.I.C., S.A.	6 715	-	6 715
Montepio Gestão de Activos Imobiliários, A.C.E.	3 145	-	3 145
Montepio Residências para Estudantes, S.A:	648	-	648
NovaCâmbios - Instituição de Pagamento, S.A.	518	-	518
Residências Montepio, Serviços de Saúde, S.A.	677	-	677
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	3 152	-	3 152
Sociedade Portuguesa de Administrações, S.A.	568	-	568
	161 598	197 742	359 340

As at 31 December 2022, 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)

Companies	Dec 2022 Deposits from customers	Debt securities issued and Other subordinated liabilities	Total
Board of Directors (after 25 of July 2022)	639	-	639
Board of Directors (until 25 of July 2022)	1 258	-	1 258
Board of Directors of Other Related Parties	2 952	-	2 952
Other Related Parties	2 985	-	2 985
Bolsimo - Gestão de Activos, S.A.	122	-	122
Clínica CUF Belém, S.A.	28	-	28
Empresa Gestora de Imóveis da Rua do Prior S.A	255	-	255
Fundação Montepio Geral	2 079	-	2 079
Fundo de Pensões - Montepio Geral	29 328	401	29 729
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1 500	-	1 500
GreenVolt - Energias Renováveis, S.A.	10 058	-	10 058
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	61	-	61
Lusitania Vida, Companhia de Seguros, S.A.	27 406	-	27 406
Lusitania, Companhia de Seguros, S.A.	2 633	-	2 633
Montepio Geral Associação Mutualista	102 130	201 077	303 207
Montepio Gestão de Activos - S.G.O.I.C., S.A.	2 510	-	2 510
Montepio Gestão de Activos Imobiliários, A.C.E.	2 221	-	2 221
Montepio Residências para Estudantes, S.A:	466	-	466
NovaCâmbios - Instituição de Pagamento, S.A.	558	-	558
Residências Montepio, Serviços de Saúde, S.A.	240	-	240
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	3 371	-	3 371
Sociedade Portuguesa de Administrações, S.A.	346	-	346
	193 146	201 478	394 624

As at 30 June 2023, 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 2023 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	-	-	-	-	-
Board of Directors of Other Related Parties	25	4	3	-	-	-
Other Related Parties	33	5	2	-	-	-
Bolsimo -Gestão de Activos, S.A.	40	-	-	(134)	-	150
CESource, A.C.E.	-	-	-	(216)	-	-
Fundação Montepio Geral	-	-	1	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 416	-	-	-
GreenVolt - Energias Renovàveis, S.A.	574	17	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	-	2 841	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	2 739	-	3	-
Montepio Geral Associação Mutualista	-	9 278	1 556	(4 757)	281	981
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	31	609	(376)	8	-
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	(1 097)	(1 517)	-
Montepio Residências para Estudantes, S.A.	-	1	-	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	18	-	27	-	4	-
Residências Montepio, Serviços de Saúde, S.A.	57	-	26	(61)	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	21	-	-	-	-
	748	9 357	9 221	(6 641)	(1 221)	1 131

As at 30 June 2022, 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 2022					
	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 of Other Related Parties	5	1	2	-	-	-
Other Related Parties	4	1	2	-	-	-
Bolsimo -Gestão de Activos, S.A.	35	-	-	(132)	-	-
CESource, A.C.E.	-	-	-	(234)	-	-
Fundo de Pensões - Montepio Geral	-	8	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 435	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	1	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1 807	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	2 212	-	4	-
Montepio Geral Associação Mutualista	1	9 089	1 555	(5 052)	-	961
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	1	558	-	8	-
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	(1 091)	(1 469)	-
Montepio Seguros, S.G.P.S., S.A.	-	-	15	-	-	-
Montepio Valor, S.G.O.I.C., S.A.	-	-	-	(274)	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	29	-	28	-	4	-
Residências Montepio, Serviços de Saúde, S.A.	34	-	24	(56)	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	1	-	-	-	-
	108	9 101	7 639	(6 839)	(1 453)	961

In the first half of 2023 and financial year 2022, there were no transactions with the Group's Pension Fund.

50 Securitization of assets

As at 30 June 2023 and 31 December 2022, there are four securitization operations, three of which originated in Banco Montepio and one realized jointly by Banco Montepio and Montepio Crédito.

We present next some additional details of the live securitization operations as at 30 June 2023.

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.

On 6 December 2021, Banco Montepio and Montepio Crédito signed contracts with Ares Lusitani – STC, S.A. leading to the securitization of a consumer loan portfolio. The securitization operation, with the name Pelican Finance no. 2, has a legal maturity of 13 years (25 January 2035), with the associated obligations having a Weighted Average Life of 2.76 years (assuming a CPR of 7.5%). The outstanding capital of the securitized loans (Aggregate Principal Amount Outstanding) was, on the reference date of 31 October 2021 (Portfolio Determinative Date), Euro 356,774 thousand, this being a static portfolio, without revolving mechanisms. The sale was carried out using a syndicated public placement model, with class A being placed above par (100.606%) and the rest at par.

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, Aqua Mortgages no. 1 and Pelican Finance no. 2).

The Group does not hold any direct or indirect shareholding in the Companies Tagus, Sagres and Ares Lusitani.

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 2023, 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	90 648	762 375	95 137	24 070
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	341 943	1 028 600	372 897	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	54 290	236 500	56 807	-
Pelican Finance No.2	December 2021	euro	Mortgage loans	360 301	214 021	360 301	210 525	210 525
				2 387 776	700 902	2 387 776	735 366	234 595

* Includes nominal value, accrued interest and other adjustments.

As at 31 December 2022, 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	98 236	762 375	103 061	26 165
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	362 466	1 028 600	394 155	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	59 222	236 500	61 644	-
Pelican Finance No.2	December 2021	euro	Mortgage loans	360 301	255 962	360 301	252 994	252 994
				2 387 776	775 886	2 387 776	811 854	279 159

* Includes nominal value, accrued interest and other adjustments.

Additionally, the detail of the securitized loans not derecognized, by securitization operation and contract nature, as at 30 June 2023, 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 Finance n.º 2*	**Total**
Domestic loans and advances					
Retail					
Mortgage	90 552	341 698	54 058	-	486 308
Consumer loans and other	-	-	-	213 474	213 474
	90 552	341 698	54 058	213 474	699 782
Credit and overdue interest					
Less than 90 days	5	135	13	45	198
More than 90 days	91	110	219	502	922
	96	245	232	547	1 120
	90 648	341 943	54 290	214 021	700 902

Additionally, the detail of the securitized loans not derecognized, by securitization operation and contract nature, as at 31 December 2022, 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 Finance n.º 2*	**Total**
Domestic loans and advances					
Retail					
Mortgage	98 100	361 634	58 890	-	518 624
Consumer loans and other	-	-	-	255 468	255 468
	98 100	361 634	58 890	255 468	774 092
Credit and overdue interest					
Less than 90 days	57	566	181	39	843
More than 90 days	79	266	151	455	951
	136	832	332	494	1 794
	98 236	362 466	59 222	255 962	775 886

As a form of financing, the securitization vehicles created (Pelican Mortgages no. 3, Pelican Mortgages no. 4 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, and partially, in the case of Pelican Mortgages no. 3 and Pelican Finance no.2.

In financial year 2022, the loan securitization operation Aqua Finance no. 4 was liquidated.

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 2023, 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	109 311 458	78 693 431	2054	AAA	Aaa	AAA	n.a.	BBB	A1	AA	n.a.
	Class B	14 250 000	2 822 267	2 822 267	2054	AA-	Aa2	AA-	n.a.	BBB	Baa3	BBB	n.a.
	Class C	12 000 000	2 376 646	2 376 646	2054	A	A3	A	n.a.	BB+	Ba3	BB	n.a.
	Class D	6 375 000	1 262 593	1 262 593	2054	BBB	Baa3	BBB	n.a.	BB	B3	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	323 657 030	323 657 030	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	AAA
	Class B	55 500 000	28 651 332	28 651 332	2056	AA	n.a.	n.a.	A+	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	30 974 413	30 974 413	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	12 906 006	12 906 006	2056	BBB	n.a.	n.a.	B+	B-	n.a.	n.a.	n.a.
	Class E	27 500 000	14 196 606	14 196 606	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 Finance No 2	Class A	285 400 000	285 400 000	-	2035	AA-	n.a.	n.a.	AA	AA-	n.a.	n.a.	AA
	Class B	20 700 000	20 700 000		2035	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class C	17 500 000	17 500 000		2035	BBB+	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	BBB
	Class D	19 300 000	19 300 000		2035	BB+	n.a.	n.a.	BH	BB+	n.a.	n.a.	BH
	Class E	17 400 000	17 400 000		2035	n.a.	n.a.	n.a.	n.a.	B-	n.a.	n.a.	n.a.
	Class X	1 000	1 000	1 000	2035	n.a.	n.a.	n.a.	n.a.	B-	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	49 446 848	49 446 848	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	17 594 980	17 594 980	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.

As at 31 December 2022, 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	93 413 900	67 248 762	2054	AAA	Aaa	AAA	n.a.	AA-	A1	AA+	n.a.
	Class B	14 250 000	2 411 815	2 411 815	2054	AA-	Aa2	AA-	n.a.	A-	Baa3	BBB	n.a.
	Class C	12 000 000	2 031 002	2 031 002	2054	A	A3	A	n.a.	BBB	Ba2	BB	n.a.
	Class D	6 375 000	1 078 970	1 078 970	2054	BBB	Baa3	BBB	n.a.	BBB-	B1	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	288 300 859	288 300 859	2056	AAA	n.a.	n.a.	AAA	AA+	n.a.	n.a.	AAA
	Class B	55 500 000	25 521 472	25 521 472	2056	AA	n.a.	n.a.	A+	AA-	n.a.	n.a.	n.a.
	Class C	60 000 000	27 590 780	27 590 780	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	11 496 158	11 496 158	2056	BBB	n.a.	n.a.	B+	B-	n.a.	n.a.	n.a.
	Class E	27 500 000	12 645 774	12 645 774	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 Finance No 2	Class A	285 400 000	200 401 356	-	2035	AA-	n.a.	n.a.	AA	AA-	n.a.	n.a.	AA
	Class B	20 700 000	14 535 067	-	2035	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class C	17 500 000	12 288 100	-	2035	BBB+	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	BBB
	Class D	19 300 000	13 552 019	-	2035	BB+	n.a.	n.a.	BH	BB+	n.a.	n.a.	BH
	Class E	17 400 000	12 217 882	-	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class X	1 000	1	1	2035	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	41 700 752	41 700 752	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	16 442 910	16 442 910	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.

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.

On 31 May 2023, Banco Montepio carried out a new synthetic securitization, which has an underlying portfolio of loans to individuals with mortgage guarantee. The legal maturity date of the operation is 4 February 2066 and it amounted to Euro 807,797 thousand as at 30 June 2023.

On 21 December 2022, Banco Montepio carried out an operation that configures a synthetic securitization structure, which is based on a portfolio of loans to individuals with mortgage guarantee. The legal maturity date of the operation is 29 December 2052 and it amounted to Euro 739,852 thousand as at 30 June 2023 (31 December 2022: Euro 878,848 thousand).

On 18 December 2020, Banco Montepio carried out an operation that configures a synthetic securitization structure, which is based on a loan portfolio of Small and Medium-sized Enterprises (SMEs). The legal maturity of the operation is 25 March 2036 and the respective amount totals Euro 343,092 thousand as at 30 June 2023 (31 December 2022: Euro 402,444 thousand). This operation has an estimated average maturity of 2.85 years.

51 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 2023, the Banco Montepio Group had a domestic network of 243 branches (including 7 Empresa do BEM Spaces) (31 December 2022 it had 246 branches and 7 BEM spaces).

The information by operating segments as at 30 June 2023 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 Directorate to develop, produce and report management information related to the performance of the various operating segments and the respective control in relation to the objectives defined, reporting hierarchically to the Chief Financial Officer (CFO). The Executive Committee monitors the performance of the operating segments of the internal organizational model in a timely manner, as well as that of the respective budgetary control. The management information is reported to the Executive Committee and to the Board of Directors according to the model established, as well as to the competent organic units.

In evaluating the performance by business area, the Group considers the following operating segments:

1) Retail Banking, which includes the sub segments of Individuals, Self-employed Individuals, Small and Medium Enterprises allocated to this segment and Micro businesses;

2) Social Economy, which incorporates the Customers allocated to the Social Economy and Public Sector business areas;

3) Specialized credit, which includes the consumer credit business primarily developed by the subsidiary Montepio Crédito;

4) 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);

5) International Activity, which incorporates the contribution of Finibanco Angola, presented in the financial statements as a Discontinued Operation;

6) Markets, which includes the operations related to the Own Securities' Portfolio, the Other loans and Advances to Credit Institutions and Wholesale Funding;

7) Non-core, which includes the operations related to the management of real estate held for trading and of non-performing loans; and

8) Other segments, which group the operations not included in the other segments. 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 imputed.

Geographically, even though the Group concentrates its activity in Portugal, the international activity of the Group is assured by Finibanco Angola, S.A. (operation fully disposed of on 28 August 2023).

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 and consumer credit, credit to Companies of the Retail segment, 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.

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 Finibanco Angola (operation fully disposed of on 28 August 2023).

Markets

This segment includes the operations related to the Own Securities' Portfolio, the Other Loans and Advances to Credit Institutions and Wholesale Funding.

Non-core

This segment includes operations related to the management of properties held for trading and non-performing loans.

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. The interest rate, foreign exchange, liquidity and other risks, excluding credit risk, are imputed to this segment.

Allocation criteria of the results to the segments

The consolidated financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information on which decisions are made in the Group, as required by IFRS 8 – Operating Segments.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of the financial statements, which are described in note 1, with the following principles having been adopted:

Measurement of segmental profit or loss

The Group uses the net profit/(loss) as a measure of the profits or losses to evaluate the performance of each operating segment.

Autonomous operating units

As mentioned above, each autonomous operating unit is evaluated separately, as these units are considered investment centres. Additionally, considering the characteristics of the primary business developed by same, their assets, liabilities, income and expenses are included in the corresponding Operating Segments.

Group structures dedicated to the segment

The Group's activity covers practically all the operating segments and is, therefore, broken down accordingly.

In preparing the financial information, the following criteria are used:

(i) The operations are allocated to each business segment in function of their origination by the commercial structures, even if, at a later date, and as an example, it is decided to securitize some of the assets originated in same;

(ii) The calculation of the net interest income is performed considering the business negotiated with Customers and other counterparties recognized in each one of the segments, taking into account the respective associated interest rates;

(iii) The determination of the net interest income also considers the impact of the transfer of the assets and liabilities of each product/segment to a pool, which balances these and adjusts the respective interest, considering the market interest rates at each moment, namely, Euribor for the different periods;

(iv) The allocation of the direct costs of the respective structures dedicated to each segment;

(v) The allocation of the indirect costs (central support and IT services), in function of previously defined criteria;

(vi) The allocation of credit risk is performed in accordance with the impairment model used by the Group.

(vii) The allocation of the tax burden to the operating segments results, with the exception of the international activity, from the application of the marginal tax rate of 30.5% to the profit before tax, with the remainder of the tax amount recognized in the income statement being allocated to the other segments.

Operations between the legally autonomous units of the Group are realized at market prices. The price of intersegment services, namely the prices established for internal funding, is determined by the adjustment system through the above-mentioned pool (with prices varying in accordance with the strategic relevance of the product and the equilibrium of the structures funding and lending functions). The remaining services are allocated to the segments in accordance with predefined criteria.

The interest rate, exchange rate, liquidity and other risks, except for credit risk, are included in the segment Other Segments.

Interest and similar income/expense

Since the Group's consolidated activity is, essentially, related to the banking business, the greater part of the income generated results from the difference between the interest earned on its assets and the interest borne with the funding it secures. This situation, and the fact that the activity of the segments represents the direct business developed by the business units for each product, means that the revenue of the intermediation activity is presented, as permitted by IFRS 8 (23), at the net interest value under the designation of Net Interest Income.

Investments presented according to the equity method

Investments in associates presented 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 unit that integrates the International Area is Finibanco Angola, S.A. (operation fully disposed of on 28 August 2023).

The financial and economic elements related to the international area are those presented in the financial statements.

As at 30 June 2023, the reporting by operating segment, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated									
	Commercial Banking									
	Retail	Social Economy	Specialized credit	Subtotal	Investment Banking	International Activity	Markets	Non-Core segments	Other segments	Total
Interest and similar income	169 620	7 690	12 407	**189 717**	69 338	-	19 238	7 724	(23 243)	**262 774**
Interest and similar expense	53 204	3 888	11 664	**68 756**	24 816	-	42 513	3 252	(70 912)	**68 425**
NET INTEREST INCOME	**116 416**	**3 802**	**743**	**120 961**	**44 522**	**-**	**(23 275)**	**4 472**	**47 669**	**194 349**
Dividends from equity instruments	-	-	-	**-**	-	-	-	-	807	**807**
Net fee and commission income	52 835	959	1 862	**55 656**	10 218	-	389	(100)	(827)	**65 336**
Net gains/(losses) arising from financing operations	-	-	4 739	**4 739**	(957)	-	(14 622)	-	(4 673)	**(15 513)**
Other operating income/(expense)	313	(76)	75	**312**	(421)	-	(1 127)	2 570	(16 682)	**(15 348)**
OPERATING INCOME	**169 564**	**4 685**	**7 419**	**181 668**	**53 362**	**-**	**(38 635)**	**6 942**	**26 294**	**229 631**
Staff costs	29 207	1 342	3 476	**34 025**	4 729	-	1 729	2 322	34 538	**77 343**
General and administrative expenses	7 265	185	2 383	**9 833**	1 074	-	1 487	587	18 425	**31 406**
Depreciation and amortization	477	2	315	**794**	238	-	1	1	16 981	**18 015**
OPERACIONAL COSTS	**36 949**	**1 529**	**6 174**	**44 652**	**6 041**	**-**	**3 217**	**2 910**	**69 944**	**126 764**
Total provisions and impairment	(1 057)	(334)	876	**(515)**	(4 551)	-	1 672	19 823	(870)	**15 559**
Share of profit/(loss) of associated companies under the equity method	-	-	-	**-**	-	-	-	-	(209)	**(209)**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**133 672**	**3 490**	**369**	**137 531**	**51 872**	**-**	**(43 524)**	**(15 791)**	**(42 989)**	**87 099**
Taxes	33 418	872	195	**34 485**	13 098	-	(5 613)	(3 687)	(7 034)	**31 249**
Non-controlling interests	-	-	-	**-**	-	1 742	-	-	-	**1 742**
Net income/(loss) from discontinued operations	-	-	-	**-**	-	(102 358)	-	-	-	**(102 358)**
NET INCOME/LOSS	**100 254**	**2 618**	**174**	**103 046**	**38 774**	**(104 100)**	**(37 911)**	**(12 104)**	**(35 955)**	**(48 250)**
Assets	7 602 412	262 706	578 589	**8 443 707**	3 000 534	-	5 367 369	864 249	417 879	**18 093 738**
Liabilities	10 820 394	720 387	507 349	**12 048 130**	1 109 333	-	3 383 564	-	11 844	**16 552 871**
Investments in associated companies	-	-	-	**-**	-	-	3 982	-	-	**3 982**

The caption Income/(loss) from discontinued operations includes the contribution of Finibanco Angola, S.A., which impact on the various captions of the Income Statement is disclosed in note 57.

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 49.

As at 30 June 2022, the reporting by operating segment, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated									
	Commercial Banking									
	Retail	Social Economy	Specialized credit	Subtotal	Investment Banking	International Activity	Markets	Non-Core segments	Other segments	Total
Interest and similar income	77 985	2 158	10 109	**90 252**	23 443	-	19 059	5 628	(2 860)	**135 522**
Interest and similar expense	7 418	578	8 087	**16 083**	2 219	-	18 653	1 774	(13 567)	**25 162**
NET INTEREST INCOME	**70 567**	**1 580**	**2 022**	**74 169**	**21 224**	**-**	**406**	**3 854**	**10 707**	**110 360**
Dividends from equity instruments	-	-	-	**-**	-	-	-	-	951	**951**
Net fee and commission income	50 374	872	2 087	**53 333**	5 449	-	487	(246)	(1 025)	**57 998**
Net gains/(losses) arising from financing operations	-	-	5 767	**5 767**	(112)	-	18 968	-	(5 769)	**18 854**
Other operating income/(expense)	149	(105)	(790)	**(746)**	(685)	-	(11 921)	12 169	(21 147)	**(22 330)**
OPERATING INCOME	**121 090**	**2 347**	**9 086**	**132 523**	**25 876**	**-**	**7 940**	**15 777**	**(16 283)**	**165 833**
Staff costs	31 445	1 384	3 390	**36 219**	3 254	-	782	2 754	26 084	**69 093**
General and administrative expenses	6 926	220	2 407	**9 553**	858	-	1 130	968	16 849	**29 358**
Depreciation and amortization	486	2	454	**942**	343	-	-	1	15 394	**16 680**
OPERACIONAL COSTS	**38 857**	**1 606**	**6 251**	**46 714**	**4 455**	**-**	**1 912**	**3 723**	**58 327**	**115 131**
Total provisions and impairment	(10 327)	(1 602)	513	**(11 416)**	(4 185)	-	1 570	23 353	(6 624)	**2 698**
Share of profit/(loss) of associated companies under the equity method	-	-	-	**-**	-	-	-	-	(167)	**(167)**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**92 560**	**2 343**	**2 322**	**97 225**	**25 606**	**-**	**4 458**	**(11 299)**	**(68 153)**	**47 837**
Taxes	23 603	597	786	**24 986**	6 582	-	(3 314)	(2 392)	(4 341)	**21 521**
Non-controlling interests	-	-	-	**-**	-	192	-	-	-	**192**
Net income/(loss) from discontinued operations	-	-	-	**-**	-	(2 796)	-	-	-	**(2 796)**
NET INCOME/LOSS	**68 957**	**1 746**	**1 536**	**72 239**	**19 024**	**(2 988)**	**7 772**	**(8 907)**	**(63 812)**	**23 328**
Assets	8 781 553	311 771	566 527	**9 659 851**	1 924 390	306 399	6 448 960	1 457 392	45 218	**19 842 210**
Liabilities	11 440 681	704 433	500 393	**12 645 507**	672 743	208 089	4 937 144	-	(162 234)	**18 301 249**
Investments in associated companies	-	-	-	**-**	-	-	3 661	-	-	**3 661**

The caption Income/(loss) from discontinued operations includes the contribution of Banco Montepio Geral Cabo Verde, S.A. – Em Liquidação, Finibanco Angola, 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 57.

As at 30 June 2023, the net contribution of the main geographical areas to the income statement is presented as follows:

(Euro thousand)

Income Statement	Activity Domestic	Activity International	Total
Interest and similar income	262 774		262 774
Interest and similar expense	68 764	(339)	68 425
Inter-Segment	339	(339)	-
Net interest income	194 349	-	194 349
Dividends from equity instruments	807	-	807
Net fee and commission income	65 336	-	65 336
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	4 567	-	4 567
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	55	-	55
Net gains/(losses) arising from foreign exchange differences	(20 135)	-	(20 135)
Net gains/(losses) arising from sale of other financial assets	5 594	-	5 594
Other operating income/(expense)	(20 942)	-	(20 942)
Operating income	229 631	-	229 631
Staff costs	77 343	-	77 343
General and administrative expenses	31 406	-	31 406
Depreciation and amortization	18 015	-	18 015
	126 764	-	126 764
Impairment of loans and advances to customers to credit	8 432	-	8 432
Impairment of other financial assets	1 674	-	1 674
Impairment of other assets	9 699	-	9 699
Other provisions	(4 246)	-	(4 246)
Operating profit/(loss)	87 308	-	87 308
Share of profit/(loss) of associated companies under the equity	(209)	-	(209)
Profit/(loss) before taxes and non-controlling interests	87 099	-	87 099
Current taxes	(2 751)	-	(2 751)
Deferred taxes	34 000	-	34 000
Profits/(losses) from discontinued operations	-	(102 358)	(102 358)
Non-controlling interests	-	1 742	1 742
Consolidated net income/(loss) for the financial period attributable to the Shareholders	55 850	(104 100)	(48 250)

As at 30 June 2023, the net contribution of the main geographical areas to the balance sheet is presented as follows:

(Euro thousand)

Balance Sheet	Activity		
	Domestic	International	Total
Cash, deposits and advances and loans to credit institutions	926 091	-	926 091
Customer loans	11 556 384	-	11 556 384
Investments in financial assets and associated companies	4 445 259	-	4 445 259
Non-current assets held for sale	54	-	54
Investment properties	65 262	-	65 262
Non-current assets held for sale - discontinued operations	10 092		10 092
Other assets	1 090 596	-	1 090 596
Total Assets	18 093 738	-	18 093 738
Deposits from central banks and other credit institutions	2 609 645	-	2 609 645
Deposits from customers	12 866 536	-	12 866 536
Debt securities issued and Other subordinated debt	773 919	-	773 919
Other liabilities	302 771	-	302 771
Total Liabilities	16 552 871	-	16 552 871
Total Equity attributable to the Shareholders	1 540 867		1 540 867
Total Shareholders' Equity	1 540 867	-	1 540 867
Total Liabilities and Sahreholders' Equity	18 093 738	-	18 093 738

As at 30 June 2022, the net contribution of the main geographical areas to the income statement is presented as follows:

(Euro thousand)

Income Statement	Activity Domestic	Activity International	Total
Interest and similar income	135 522	-	135 522
Interest and similar expense	26 311	(1 149)	25 162
Inter-Segment	1 149	(1 149)	-
Net interest income	110 360	-	110 360
Dividends from equity instruments	951	-	951
Net fee and commission income	57 998	-	57 998
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(3 614)	-	(3 614)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	1 233	-	1 233
Net gains/(losses) arising from foreign exchange differences	21 235	-	21 235
Net gains/(losses) arising from sale of other financial assets	13 550	-	13 550
Other operating income/(expense)	(35 880)	-	(35 880)
Operating income	165 833	-	165 833
Staff costs	69 093	-	69 093
General and administrative expenses	29 358	-	29 358
Depreciation and amortization	16 680	-	16 680
	115 131	-	115 131
Impairment of loans and advances to customers to credit	(2 037)	-	(2 037)
Impairment of other financial assets	1 566	-	1 566
Impairment of other assets	10 329	-	10 329
Other provisions	(2 254)	-	(2 254)
Operating profit/(loss)	43 098	-	43 098
Share of profit/(loss) of associated companies under the equity	(167)	-	(167)
Profit/(loss) before taxes and non-controlling interests	42 931	-	42 931
Current taxes	8 692		8 692
Deferred taxes	12 829	-	12 829
Profits/(losses) from discontinued operations	-	2 110	2 110
Non-controlling interests	-	192	192
Consolidated net income/(loss) for the financial period attributable to the Shareholders	21 410	1 918	23 328

As at 31 December 2022, the net contribution of the main geographical areas to the balance sheet is presented as follows:

(Euro thousand)

Balance Sheet	Activity		
	Domestic	International	Total
Cash, deposits and advances and loans to credit institutions	1 542 465	-	1 542 465
Customer loans	11 713 097	-	11 713 097
Investments in financial assets and associated companies	4 391 839	-	4 391 839
Non-current assets held for sale	11	-	11
Investment properties	72 726	-	72 726
Non-current assets held for sale - discontinued operations	-	199 687	199 687
Other assets	1 186 426	-	1 186 426
Total Assets	18 906 564	199 687	19 106 251
Deposits from central banks and other credit institutions	3 231 614	-	3 231 614
Deposits from customers	13 115 366	-	13 115 366
Debt securities issued and Other subordinated debt	823 680	-	823 680
Non-current liabilities held for sale - discontinued operations	-	101 738	101 738
Other liabilities	314 367	-	314 367
Total Liabilities	17 485 027	101 738	17 586 765
Non-controlling interests	-	11 442	11 442
Total Equity attributable to the Shareholders	1 421 537	86 507	1 508 044
Total Shareholders' Equity	1 421 537	97 949	1 519 486
Total Liabilities and Sahreholders' Equity	18 906 564	199 687	19 106 251

52 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, information and communication technologies, strategy and business risks as well as other emerging risks, namely Environmental, Social and Governance (ESG) risks of which the climatic risks stand out. Depending on the nature and relevance of the risk, plans, programmes, 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 exposure to potential losses and increase the robustness and resilience of 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 Directorate, the unit responsible for the risk management function of the Group, which regularly informs the Management (elsewhere also “Board of Directors”) and Supervisory bodies 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 a 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 Committee in these areas.

The Board of Directors, with the support of the Audit Committee (a supervisory body of Banco Montepio) must ensure that the Institution has sufficient capital to meet regulatory requirements and to cover potential losses resulting from the activity, with an optimized balance sheet structure that maintains a stable and safe funding capacity and liquidity profile, allowing it to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

The Group has clear and well-defined objectives in its strategic plan, namely as regards capital ratios, transformation of deposits into credit, liquidity, and financing ratios, in addition to a feasible and sustainable business model aligned with its risk appetite.

To this end, the definition of risk appetite is based on certain principles - namely solidity, sustainability and profitability – being prepared in function of the strategic plan and the intended market positioning, as well as the risks faced in its activity that are materially relevant. For these, objectives are set according to the desired level of return and the business strategy, tolerance levels, that is, risk variation intervals that can lead to discussions and decisions about corrective measures and limits that, if exceeded, lead to immediate corrective measures.

In defining risk appetite, the Board of Directors ensures its alignment with the other organizational components (business strategy and the global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and that can affect risk exposure and it’s monitoring.

The Group's risk management policy is designed to ensure an adequate relationship, at all times, between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, assuming particular importance in this scope the monitoring and control of the main types of financial and non-financial risks – credit, market, liquidity, real estate and operating – to which the Group's business is subject.

In order to ensure an effective management of the risks associated with the Group's activities, the Risk Directorate 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 Directorate 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 Directorate is more effective and efficient.

Credit risk

Credit Risk is the probability of negative impacts on results or capital, due to the inability of a counterparty to meet its financial commitments to the institution, including possible restrictions on the transfer of payments from abroad. Credit risk exists mainly in loan exposures (including secured), credit lines, guarantees and derivatives.

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 (loss given default) and in the estimation of the regulatory and economic capital requirements (non-expected 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.

Sole traders (“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 18 classes, of which the first 15 correspond to performing risk classes, classes 16 and 17 to those recording arrears, and class 18 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 intervention of at least two persons is compulsory, one belonging to the commercial network and the other to the Credit Analysis Directorate, a body independent of the commercial structure. The Risk Directorate 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 profile deterioration of a certain counterpart (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.

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 1 percentage point: impact of 1.93% of total impairment of the loan portfolio;

2. Macroeconomic projection improvement scenario of 1 percentage point: impact of -1.95% 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 6.98% of total impairment of the loan portfolio;

2. Parameter improvement scenario of 5%: impact of -6.68% of total impairment of the loan portfolio.

Regarding the process of incorporating macroeconomic projections into the parameters for estimating impairment, 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:

	2022	2023	2024	2025
Unemployment Rate [2]				
Base Scenario	6.30%	6.40%	5.83%	5.40%
Worst-case Scenario	6.30%	7.59%	8.04%	6.90%
Best-case Scenario	6.30%	6.14%	5.44%	5.09%
GDP Growth Rate [2]				
Base Scenario	3.16%	2.52%	2.04%	1.96%
Worst-case Scenario	3.16%	-0.64%	-1.28%	3.62%
Best-case Scenario	3.16%	3.90%	2.59%	1.71%
3-Month Euribor Interest Rate [1]				
Base Scenario	1.77%	3.78%	2.86%	1.82%
Worst-case Scenario	1.77%	4.15%	0.77%	0.74%
Best-case Scenario	1.77%	4.03%	3.11%	1.82%
Housing Price Index Growth Rate [2]				
Base Scenario	4.66%	-1.48%	-2.74%	1.19%
Worst-case Scenario	4.66%	-3.37%	-12.06%	1.12%
Best-case Scenario	4.66%	-0.88%	-0.66%	1.44%
Growth Rate of Disposable Income Per Capita [1]				
Base Scenario	2.36%	0.67%	1.90%	2.14%
Worst-case Scenario	2.36%	-1.56%	-0.14%	1.51%
Best-case Scenario	2.36%	3.54%	2.22%	1.87%
Growth Rate of Exports of Goods and Services [2]				
Base Scenario	7.69%	5.76%	1.26%	2.05%
Worst-case Scenario	7.69%	2.85%	-1.70%	2.91%
Best-case Scenario	7.69%	7.73%	3.36%	2.39%
Growth Rate of Family Comsumption [2]				
Base Scenario	2.81%	1.16%	1.32%	1.21%
Worst-case Scenario	2.81%	-2.06%	-2.17%	3.99%
Best-case Scenario	2.81%	1.95%	2.23%	0.71%

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

(2) Source: National Institute of Statistics; Projections: Moody's Analytics

Regarding the potential direct impact of the conflict, the credit exposure to Ukraine and Russia is not significant, namely in Individuals (the exposure linked to citizens residing in one of the two countries is Euro 42 thousand with reference to 30 June 2023 (31 December 2022: Euro 589 thousand)).

Although the credit exposure directly impacted by the conflict is not significant, there are sectors of activity that are more exposed to the indirect impact of the war, namely through the significant increases that have been observed in energy and commodity prices, as well as disruptions in various supply chains. In this way, the Group carried out an analysis that made it possible to identify the sectors of activity in which the indirect impact of the war is expected to be more significant (the exposure of Customers in the identified sectors of activity is Euro 3,741,850 thousand (31 December 2022: Euro 3,797,752 thousand)). Based on this analysis and given the fact that the annual review of Customer ratings is more concentrated at the end of each year, the Group recognized an overlay, based on a top-down approach, which consisted of deteriorating the credit ratings of Customers in the identified sectors of activity. The deteriorating of credit ratings has an impact on the analysis of the significant increase in credit risk and on the attribution of the PD to each Customer (see b.10.3 and b.10.5 of the accounting policy, respectively).

The Group's credit risk exposure can be analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Loans and deposits at credit institutions payable on demand	127 116	52 287
Other loans and advances to credit institutions	168 923	106 376
Loans and advances to customers	11 556 384	11 713 097
Financial assets held for trading	58 986	21 697
Financial assets at fair value through profit or loss	8 756	8 970
Financial assets at fair value through other comprehensive income	64 460	76 252
Other financial assets at amortized cost	4 123 419	4 119 387
Other assets	63 752	81 939
Guarantees granted	513 833	462 194
Irrevocable credit lines	651 495	720 589
Revocable credit lines	870 848	908 210
	18 207 972	18 270 998

The analysis of the main credit risk exposures by sector of activity, as at 30 June 2023, can be analysed as follows:

(Euro thousand)

	Jun 2023														
Activity	Loans and deposits at 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		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	Gross value	Impairment	Book value	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	139 348	3 765	-	-	-	-	-	-	-	1 088	4 726	52
Extractive Industries	-	-	-	15 765	479	-	-	-	-			-	1 396	2 469	14
Manufacturing industries	-	-	-	1 152 659	65 386	-	132	-	-	4 738	16	-	38 531	112 270	1 293
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	104 232	4 452	-	-	-	-	399	-	-	261	19 664	29
Water supply	-	-	-	70 115	892	-	-	-	-	-	-	-	1 962	4 620	37
Construction	-	-	-	410 621	32 418	-	57	-	-	-	-	-	136 104	106 485	6 320
Wholesale and retail trade	-	-	-	855 333	34 463	-	5 485	-	-	-	-	-	54 213	129 544	1 757
Transport and storage	-	-	-	364 853	9 866	-	-	-	-			-	5 333	19 775	283
Accommodation and catering activities	-	-	-	561 431	14 192	-	-	-	-	-	-	3 308	13 015	22 482	173
Information and Communication	-	-	-	59 576	1 611	-	-		-	-	-	-	2 101	22 227	186
Financial and insurance activities	127 116	168 952	29	380 702	40 241	19 899	-	1 957	382			-	195 655	22 495	601
Real estate activities	-	-	-	549 612	32 152	-	68	-	-	-	-	-	17 735	97 080	2 397
Consulting, scientific, technical and similar	-	-	-	295 464	6 350	-	2 950	-	-	-	-	-	25 435	33 111	239
Administrative and supporting service activities	-	-	-	124 281	2 560	-	-	-	-	-		674	5 841	13 914	131
Public administration and defence, compulsory social security	-	-	-	26 182	585	58 986	-	57 867	119	4 122 670	7 241	-	48	589	8
Education	-	-	-	63 449	1 333	-	-	-	-	-	-	-	193	5 562	34
Healthcare services and social support	-	-	-	317 727	6 416	-	-	4 364	25	-	-	-	1 938	16 461	408
Artistic activities, shows and recreational	-	-	-	54 607	2 575	-	-	-	-	-	-	-	7 648	5 997	58
Other services	-	-	-	96 586	2 368	-	17	-	-	-	-	-	3 084	12 024	107
Retail															
Mortgage Loans	-	-	-	5 505 227	32 555	-	-	798	-	-	-	-	-	-	-
Others	-	-	-	727 207	23 934	-	47	-	-	2 878	9	-	2 252	-	1 925
	127 116	**168 952**	**29**	**11 874 977**	**318 593**	**78 885**	**8 756**	**64 986**	**526**	**4 130 685**	**7 266**	**3 982**	**513 833**	**651 495**	**16 052**

The analysis of the mains credit risk exposures by sector of activity, as at 31 December 2022, can be analysed as follows:

(Euro thousand)

Dec 2022														
Activity	Loans and deposits at 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		Other financial assets at amortised 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	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate														
Agriculture, forestry and fishing	-	-	-	115 002	4 964	-	-	-	-	-	-	1 137	5 994	146
Extractive Industries	-	-	-	18 209	407	-	-	-	-	5 004	1	1 255	2 458	20
Manufacturing industries	-	-	-	1 185 270	72 291	-	211	-	-	-	-	31 768	116 402	1 855
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	97 907	8 084	-	-	-	-	10 837	643	548	24 751	310
Water supply	-	-	-	72 478	812	-	-	-	-	-	-	1 944	4 308	44
Construction	-	-	-	413 205	44 089	-	65	-	-	-	-	114 329	114 505	8 355
Wholesale and retail trade	-	-	-	885 837	35 903	-	5 734	-	-	-	-	42 924	146 015	1 712
Transport and storage	-	-	-	385 374	12 437	-	-	-	-	3 152	1	5 246	21 832	321
Accommodation and catering activities	-	-	-	568 872	17 676	-	-	-	-	-	-	10 941	26 958	634
Information and Communication	-	-	-	61 764	1 804	-	-	-	-	-	-	2 956	24 186	137
Financial and insurance activities	52 287	16 383	7	371 816	48 060	19 828	-	8 443	388	3 210	2	196 529	23 832	642
Real estate activities	-	-	-	576 916	22 650	-	71	-	-	-	-	14 814	110 820	2 539
Consulting, scientific, technical and similar	-	-	-	282 427	5 327	-	2 817	-	-	-	-	14 813	32 666	326
Administrative and supporting service activities	-	-	-	123 098	2 709	-	-	-	-	-		5 581	23 985	175
Public administration and defence, compulsory social security	-	-	-	28 054	175	1 869	-	58 628	113	4 094 073	6 044	104	444	10
Education	-	-	-	66 512	1 103	-	-	-	-	-	-	191	4 033	48
Healthcare services and social support	-	-	-	320 532	5 913	-	-	4 173	24	-	-	2 072	21 399	586
Artistic activities, shows and recreational	-	-	-	58 579	2 968	-	-	-	-	-	-	8 657	4 980	110
Other services	-	-	-	109 151	4 982	-	23	-	-	-	-	3 749	11 021	139
Retail						-								
Mortgage Loans	-	-	-	5 581 026	32 896	-	-	1 065	2	-	-	-	-	-
Others	-	-	-	745 585	29 267	-	49	4 495	25	9 804	2	2 636	-	1 408
	52 287	**16 383**	**7**	**12 067 614**	**354 517**	**21 697**	**8 970**	**76 804**	**552**	**4 126 080**	**6 693**	**462 194**	**720 589**	**19 517**

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), the guarantees and standby letters provided in the aggregate amount of Euro 513,833 thousand (31 December 2022: Euro 462,194 thousand), the irrevocable credit facilities amounting to Euro 651,496 thousand (31 December 2022: Euro 720,589 thousand) and the revocable credit facilities in the amount of Euro 870,848 thousand (31 December 2022: Euro 908,210 thousand), broken down between collective and individual analysis, is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
Impacts by stage	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Collective analysis	**10 542 596**	**141 329**	**10 401 267**	**10 748 763**	**163 234**	**10 585 529**
Stage 1	8 697 816	22 309	8 675 507	8 672 283	18 501	8 653 782
Stage 2	1 666 495	47 844	1 618 651	1 870 499	56 266	1 814 233
Stage 3	178 285	71 176	107 109	205 981	88 467	117 514
Individual analysis	**3 368 558**	**193 316**	**3 175 242**	**3 409 809**	**210 800**	**3 199 009**
Stage 1	2 458 517	11 737	2 446 780	2 340 362	10 269	2 330 093
Stage 2	488 686	16 476	472 210	566 005	15 759	550 246
Stage 3	421 355	165 103	256 252	503 442	184 772	318 670
	13 911 154	**334 645**	**13 576 509**	**14 158 572**	**374 034**	**13 784 538**

As at 30 June 2023 and 31 December 2022, the detail of the application of Stages to other financial assets is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
Impacts by stage	Grosse value	Impairment	Net value	Grosse value	Impairment	Net value
Amortized cost (AC)	**4 130 685**	**7 266**	**4 123 419**	**4 126 080**	**6 693**	**4 119 387**
Stage 1	4 127 664	7 248	4 120 416	4 120 289	6 051	4 114 238
Stage 2	3 021	18	3 003	5 791	642	5 149
Fair value (FVOIC)	**64 986**	**526**	**64 460**	**76 804**	**552**	**76 252**
Stage 1	63 029	144	62 885	74 520	181	74 339
Stage 2	1 957	382	1 575	2 284	371	1 913
Loans to credit institutior	**168 952**	**29**	**168 923**	**106 383**	**7**	**106 376**
Stage 1	168 500	16	168 484	106 366	7	106 359
Stage 2	452	13	439	17	-	17
	4 364 623	**7 821**	**4 356 802**	**4 309 267**	**7 252**	**4 302 015**

As at 30 June 2023 and 31 December 2022, the transfer between Stages, related to other financial assets at amortized cost is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Gross value at beginning of the period	4 120 289	5 791	4 126 080	3 009 601	-	3 009 601
Exposure of new net derecognition credits, refunds and other variations	7 375	(2 770)	4 605	1 110 688	5 791	1 116 479
Gross value at the end of financial period	4 127 664	3 021	4 130 685	4 120 289	5 791	4 126 080

(Euro thousand)

	Jun 2023			Dec 2022		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Impairment loss at the beginning of the period	6 051	642	6 693	4 619	-	4 619
Exposure of new net derecognition credits, refunds and other variations	1 197	(624)	573	1 432	642	2 074
Impairment loss at the end of the period	7 248	18	7 266	6 051	642	6 693

As at 30 June 2023 and 31 December 2022, the transfer between Stages, related to other loans and advances to credit institutions is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Gross value at beginning of the period	106 366	17	106 383	229 529	-	229 529
Transfer to stage 2	17	(17)	-	(17)	17	-
Exposure of new net derecognition credits, refunds and other variations	62 117	452	62 569	(123 146)	-	(123 146)
Gross value at the end of financial period	168 500	452	168 952	106 366	17	106 383

(Euro thousand)

	Jun 2023			Dec 2022	
	Stage 1	Stage 2	Total	Stage 1	Total
Impairment loss at the beginning of the period	7	-	7	464	464
Exposure of new net derecognition credits, refunds and other variations	9	13	22	(457)	(457)
Impairment loss at the end of the period	16	13	29	7	7

As at 30 June 2023 and 31 December 2022, the detail of the loans and advances subject to collective analysis, structured by segment and by Stage, is as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
Segment	Grosse value	Impairment	Net value	Grosse value	Impairment	Net value
Retail	**6 631 345**	**57 825**	**6 573 520**	**6 732 326**	**61 884**	**6 670 442**
Mortgage loans	5 596 670	32 107	5 564 563	5 681 021	32 383	5 648 638
Stage 1	4 591 638	1 243	4 590 395	4 765 062	1 192	4 763 870
Stage 2	962 884	17 370	945 514	874 398	15 420	858 978
Stage 3	42 148	13 494	28 654	41 561	15 771	25 790
Consumer credit	766 961	23 366	743 595	785 001	27 274	757 727
Stage 1	676 332	2 964	673 368	692 483	3 010	689 473
Stage 2	61 975	4 970	57 005	57 578	4 603	52 975
Stage 3	28 654	15 432	13 222	34 940	19 661	15 279
Credit cards	267 714	2 352	265 362	266 304	2 227	264 077
Stage 1	246 938	1 217	245 721	248 776	924	247 852
Stage 2	18 684	538	18 146	14 369	285	14 084
Stage 3	2 092	597	1 495	3 159	1 018	2 141
Corporate	**3 911 251**	**83 504**	**3 827 747**	**4 016 437**	**101 350**	**3 915 087**
Non-Construction	3 525 125	74 335	3 450 790	3 626 332	90 308	3 536 024
Stage 1	2 888 124	15 412	2 872 712	2 704 284	12 343	2 691 941
Stage 2	558 377	22 540	535 837	826 223	32 825	793 398
Stage 3	78 624	36 383	42 241	95 825	45 140	50 685
Construction	386 126	9 169	376 957	390 105	11 042	379 063
Stage 1	294 784	1 473	293 311	261 678	1 032	260 646
Stage 2	64 574	2 426	62 148	97 931	3 133	94 798
Stage 3	26 768	5 270	21 498	30 496	6 877	23 619
	10 542 596	**141 329**	**10 401 267**	**10 748 763**	**163 234**	**10 585 529**

As at 30 June 2023 and 31 December 2022, impairment is detailed as follows:

(Euro thousand)

	Jun 2023						
	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	3 364 160	192 727	3 911 250	83 504	7 275 410	276 231	6 999 179
Retail - mortgage loans	3 926	486	5 596 671	32 107	5 600 597	32 593	5 568 004
Retail - other loans	472	103	1 034 675	25 718	1 035 147	25 821	1 009 326
	3 368 558	193 316	10 542 596	141 329	13 911 154	334 645	13 576 509

(Euro thousand)

	Dec 2022						
	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	3 403 408	209 113	4 016 438	101 350	7 419 846	310 463	7 109 383
Retail - mortgage loans	4 105	551	5 681 021	32 383	5 685 126	32 934	5 652 192
Retail - other loans	2 296	1 136	1 051 304	29 501	1 053 600	30 637	1 022 963
	3 409 809	210 800	10 748 763	163 234	14 158 572	374 034	13 784 538

As at 30 June 2023 and 31 December 2022, the transfer between Stages, related to loans and advances to customers (gross loans and advances and impairment) is presented as follows:

(Euro thousand)

	Jun 2023			
	Stage 1	Stage 2	Stage 3	Total
Gross value at beginning of the period	10 938 081	2 451 355	769 136	14 158 572
Transfer to stage 1	731 407	(727 527)	(3 880)	-
Transfer to stage 2	(570 046)	585 088	(15 042)	-
Transfer to stage 3	(22 049)	(58 541)	80 590	-
Write-Offs	(2)	(585)	(38 185)	(38 772)
Exposure of new net derecognition credits, refunds and other variations	4 378	(79 758)	(133 266)	(208 646)
Gross value at the end of financial period	11 081 769	2 170 032	659 353	13 911 154

(Euro thousand)

	Jun 2023			
	Stage 1	Stage 2	Stage 3	Total
Impairment loss at the beginning of the period	13 423	72 371	288 240	374 034
Transfer to stage 1	5 270	(5 252)	(18)	-
Transfer to stage 2	(19 203)	19 951	(748)	-
Transfer to stage 3	(6 674)	(18 785)	25 459	-
Write-Offs	(2)	(585)	(38 185)	(38 772)
Exposure of new net derecognition credits, refunds and other variations	25 885	(3 034)	(23 468)	(617)
Impairment loss at the end of the period	18 699	64 666	251 280	334 645

(Euro thousand)

	Dec 2022			
	Stage 1	Stage 2	Stage 3	Total
Gross value at beginning of the period	10 762 827	2 355 679	1 090 444	14 208 950
Transfer to stage 1	618 716	(609 794)	(8 922)	-
Transfer to stage 2	(874 736)	927 567	(52 831)	-
Transfer to stage 3	(40 405)	(63 475)	103 880	-
Write-Offs	(3 955)	(1 666)	(198 911)	(204 532)
Exposure of new net derecognition credits, refunds and other variations	475 634	(156 956)	(164 524)	154 154
Gross value at the end of financial period	10 938 081	2 451 355	769 136	14 158 572

(Euro thousand)

	Dec 2022			
	Stage 1	Stage 2	Stage 3	Total
Impairment loss at the beginning of the period	33 456	68 978	440 605	543 039
Transfer to stage 1	2 370	(2 289)	(81)	-
Transfer to stage 2	(24 560)	26 737	(2 177)	-
Transfer to stage 3	(15 206)	(20 320)	35 526	-
Write-Offs	(3 955)	(1 666)	(198 911)	(204 532)
Exposure of new net derecognition credits, refunds and other variations	21 311	938	13 278	35 527
Impairment loss at the end of the period	13 416	72 378	288 240	374 034

As at 30 June 2023 and 31 December 2022, the fair value analysis of collaterals associated with the Group's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collateral	Jun 2023	Dec 2022
Individual analysis		
Securities and other financial assets	246 053	236 896
Real Estate - Mortgage loans	6 610	10 330
Real Estate - Construction and CRE	1 734 180	1 823 710
Other real estate	1 486 709	1 662 924
Other guarantees	439 042	398 541
Collective analysis - Stage 1		
Securities and other financial assets	845 443	796 925
Real Estate - Mortgage loans	10 460 434	10 714 551
Real Estate - Construction and CRE	420 845	490 830
Other real estate	911 771	823 497
Other guarantees	136 231	525 806
Collective analysis - Stage 2		
Securities and other financial assets	105 539	209 106
Real Estate - Mortgage loans	2 012 695	1 899 396
Real Estate - Construction and CRE	121 152	177 524
Other real estate	293 368	437 373
Other guarantees	18 935	40 268
Collective analysis - Stage 3		
Securities and other financial assets	13 802	7 961
Real Estate - Mortgage loans	84 190	96 427
Real Estate - Construction and CRE	30 784	27 078
Other real estate	45 492	49 109
Other guarantees	2 975	13 400
	19 416 250	**20 441 653**

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, constituted as at 30 June 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

	Jun 2023		Dec 2022	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate	5 841 464	202 406	5 961 843	232 306
Construction and CRE	1 433 946	73 825	1 458 003	78 157
Retail - Mortgage loans	5 600 597	32 593	5 685 126	32 934
Retail - Other loans	1 035 147	25 821	1 053 600	30 637
	13 911 154	334 645	14 158 572	374 034

The live loans and advances portfolio, by segment and by production year, as at 30 June 2023, 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	507	24 314	2 263	575	34 734	8 827	33 131	868 767	6 394	18 330	14 818	334
2005	130	9 829	356	135	6 348	1 079	8 713	384 424	3 158	4 878	4 623	94
2006	173	17 361	1 494	128	11 150	3 567	10 577	480 329	4 018	12 771	10 336	200
2007	291	10 518	968	161	15 382	3 610	10 796	488 134	4 099	33 756	36 063	548
2008	976	28 056	528	306	13 714	2 077	5 649	257 579	2 740	53 312	68 802	784
2009	1 493	42 722	1 775	349	19 626	3 722	3 084	154 087	1 088	41 777	44 703	941
2010	1 376	54 661	1 433	246	18 659	4 747	3 116	180 279	1 421	30 225	20 291	547
2011	1 976	69 253	1 408	320	12 656	2 721	1 148	62 943	368	24 277	21 511	524
2012	2 106	58 284	4 421	407	16 517	4 212	689	38 700	331	17 121	10 389	211
2013	2 952	121 094	6 077	249	13 348	679	886	48 455	307	16 302	12 907	527
2014	3 977	261 358	20 931	1 218	49 597	725	1 061	61 014	303	18 449	19 754	1 028
2015	4 117	165 478	28 483	455	18 802	922	1 240	71 718	408	15 911	20 733	1 610
2016	5 279	361 453	9 075	826	42 898	5 147	1 786	122 497	921	26 446	30 577	918
2017	6 997	263 967	8 345	639	148 720	10 576	2 457	178 208	952	20 112	33 971	860
2018	8 358	232 079	18 243	1 066	66 565	3 695	2 580	198 314	1 161	31 055	63 917	1 594
2019	9 173	398 306	33 500	1 281	87 472	3 420	3 179	253 893	986	26 426	77 604	2 286
2020	12 296	677 812	16 107	1 623	165 568	6 244	3 480	313 889	935	25 094	104 114	4 003
2021	13 993	660 380	16 996	2 361	175 713	2 864	6 213	615 235	1 667	35 409	165 509	5 030
2022	17 312	1 530 516	21 204	2 479	334 680	3 511	5 201	547 883	1 179	33 441	172 467	2 906
2023	9 786	854 023	8 799	991	181 797	1 480	2 675	274 249	157	20 409	102 058	876
	103 268	5 841 464	202 406	15 815	1 433 946	73 825	107 661	5 600 597	32 593	505 501	1 035 147	25 821

The live loans and advances portfolio, by segment and by production year, as at 31 December 2022, 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	535	26 911	2 234	583	41 420	14 720	35 148	947 813	7 199	19 090	15 528	294
2005	142	10 030	261	140	6 624	1 204	9 095	407 913	3 615	5 077	4 872	150
2006	199	19 055	1 536	130	13 693	5 440	11 043	508 695	3 861	13 233	17 367	1 919
2007	325	11 337	919	165	25 548	5 764	11 248	517 111	4 478	35 155	38 108	803
2008	1 051	30 903	1 521	329	14 743	2 777	5 972	273 278	2 665	55 596	71 980	758
2009	1 656	53 287	1 704	369	21 602	4 181	3 234	165 130	1 271	43 608	46 824	1 236
2010	1 511	60 323	1 652	260	21 143	5 035	3 261	190 730	1 293	31 745	21 251	623
2011	2 190	71 905	1 633	346	13 235	2 061	1 208	67 426	350	25 663	22 614	644
2012	2 030	61 357	3 908	232	19 268	6 711	725	41 458	235	18 166	11 203	338
2013	3 434	128 675	7 381	276	15 269	1 179	937	52 329	292	17 557	14 232	492
2014	4 475	264 013	22 712	1 242	52 363	960	1 123	65 968	338	19 999	22 191	1 149
2015	4 617	190 087	37 172	515	20 259	1 150	1 299	77 361	384	17 817	24 090	1 761
2016	5 895	386 853	13 021	803	54 939	3 774	1 868	131 819	848	28 882	36 598	1 417
2017	8 307	309 290	13 500	727	166 180	4 330	2 571	191 214	827	22 542	41 099	1 490
2018	9 249	303 087	35 150	1 424	69 676	2 592	2 725	213 734	908	34 211	74 531	2 266
2019	10 456	486 646	27 253	1 551	103 605	3 643	3 331	273 014	1 118	29 271	91 353	3 365
2020	13 168	775 163	20 555	1 714	204 866	4 857	3 639	335 221	949	27 378	122 074	4 870
2021	14 609	761 083	18 578	2 264	204 471	3 576	6 446	653 665	1 444	38 868	189 927	5 376
2022	20 327	2 011 838	21 616	2 596	389 099	4 203	5 313	571 247	859	35 191	187 758	1 686
	104 176	5 961 843	232 306	15 666	1 458 003	78 157	110 186	5 685 126	32 934	519 049	1 053 600	30 637

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 30 June 2023 and 31 December 2022, is analysed as follows:

(Euro thousand)

	Jun 2023									
	Corporate		Construction and CRE		Retail - Mortage loans		Retail - Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 555 397	134 947	808 763	57 780	3 926	486	472	103	3 368 558	193 316
Collective	3 286 067	67 459	625 183	16 045	5 596 671	32 107	1 034 675	25 718	10 542 596	141 329
	5 841 464	202 406	1 433 946	73 825	5 600 597	32 593	1 035 147	25 821	13 911 154	334 645

(Euro thousand)

	Dec 2022									
	Corporate		Construction and CRE		Retail - Mortage loans		Retail - Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 578 957	149 425	824 451	59 688	4 105	551	2 296	1 136	3 409 809	210 800
Collective	3 382 886	82 881	633 552	18 469	5 681 021	32 383	1 051 304	29 501	10 748 763	163 234
	5 961 843	232 306	1 458 003	78 157	5 685 126	32 934	1 053 600	30 637	14 158 572	374 034

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for the Companies, as at 30 June 2023 and 31 December 2022, is analysed as follows:

(Euro thousand)

	Jun 2023											
	Construction		Industry		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	364 942	30 077	528 908	48 245	191 622	15 335	443 821	27 703	1 834 867	71 367	3 364 160	192 727
Collective	386 125	9 169	891 517	18 928	920 012	20 894	239 058	6 876	1 474 538	27 637	3 911 250	83 504
	751 067	39 246	1 420 425	67 173	1 111 634	36 229	682 879	34 579	3 309 405	99 004	7 275 410	276 231

(Euro thousand)

	Dec 2022											
	Construction		Industry		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	350 181	41 899	545 037	51 731	199 121	11 373	474 269	17 789	1 834 800	86 321	3 403 408	209 113
Collective	390 105	11 042	909 897	22 861	957 374	26 254	243 447	7 427	1 515 615	33 766	4 016 438	101 350
	740 286	52 941	1 454 934	74 592	1 156 495	37 627	717 716	25 216	3 350 415	120 087	7 419 846	310 463

The amount of restructured loans and advances by stage and by segment, as at 30 June 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

	Jun 2023									
	Corporate		Construction and CRE		Retail - Mortage loans		Retail - Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Stage 1	91	-	-	-	-	-	-	-	91	-
Stage 2	51 372	2 097	10 226	748	32 176	466	6 526	686	100 300	3 997
Stage 3	224 901	106 047	81 395	30 666	18 325	6 059	5 679	3 817	330 300	146 589
	276 364	108 144	91 621	31 414	50 501	6 525	12 205	4 503	430 691	150 586

(Euro thousand)

	Dec 2022									
	Corporate		Construction and CRE		Retail - Mortage loans		Retail - Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Stage 1	468	-	-	-	-	-	-	-	468	-
Stage 2	72 876	3 059	11 080	827	34 827	427	7 842	666	126 625	4 979
Stage 3	256 207	112 334	107 451	33 009	16 976	7 608	13 135	6 252	393 769	159 203
	329 551	115 393	118 531	33 836	51 803	8 035	20 977	6 918	520 862	164 182

The gross exposure of performing and non-performing loans and advances, as at 30 June 2023 and 31 December 2022, is analysed as follows:

(Euro thousand)

	Jun 2023												
	Gross perfoming and non-performing exposures							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which perfoming with arrears of >30 days and <= 90	of which restructured and perfoming	of which non-performing				on performing exposure		on non-performing exposure		on performing exposures	of which restructured
					of witch non-performing	of which impaired	of which restructured		of which restructured		of which restructured		
Loans represented by securities (a)	4 778 054	-	-	-	-	-	-	10 974	-	-	-	-	-
Other balance sheet credit exposures (b)	12 080 027	35 859	100 290	531 343	531 343	531 164	330 160	86 885	3 996	228 555	146 589	248 318	235 784
Off-balance sheet exposures (c)	2 036 177	793	111	67 887	67 887	67 887	226	8 916	1	7 136	-	-	-

(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 2022												
	Gross perfoming and non-performing exposures							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which perfoming with arrears of >30 days and <= 90	of which restructured and perfoming	of which non-performing				on performing exposure		on non-performing exposure		on performing exposures	of which restructured
					of witch non-performing	of which impaired	of which restructured		of which restructured		of which restructured		
Loans represented by securities (a)	4 765 709	-	-	33 000	33 000	33 000	-	9 373	-	14 272	-	-	-
Other balance sheet credit exposures (b)	12 906 341	31 625	127 128	598 434	598 434	598 192	393 534	88 593	4 971	249 530	159 203	281 741	301 714
Off-balance sheet exposures (c)	2 090 993	1 878	47	78 113	78 113	78 113	360	10 623	1	8 894	-	-	-

(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 2023, 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€	4 808	628 938	11 117	465 112	91 220	12 233 331	251	6 801
>= 0.5 M€ and <1M€	503	351 564	167	107 629	528	327 626	1	500
>= 1 M€ and <5M€	540	1 178 782	125	237 921	60	88 696	-	-
>= 5 M€ and <10M€	72	506 711	12	88 911	2	12 816	-	-
>= 10 M€ and <20M€	50	683 882	2	28 578	-	-	-	-
>= 20 M€ and <50M€	16	493 070	3	116 000	-	-	-	-
>= 50M€	15	1 821 281	3	201 080	-	-	-	-
	6 004	5 664 228	11 429	1 245 231	91 810	12 662 469	252	7 301

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 2022, 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€	4 808	628 938	11 117	465 112	91 220	12 233 331	251	6 801
>= 0.5 M€ and <1M€	503	351 564	167	107 629	528	327 626	1	500
>= 1 M€ and <5M€	540	1 178 782	125	237 921	60	88 696	-	-
>= 5 M€ and <10M€	72	506 711	12	88 911	2	12 816	-	-
>= 10 M€ and <20M€	50	683 882	2	28 578	-	-	-	-
>= 20 M€ and <50M€	16	493 070	3	116 000	-	-	-	-
>= 50M€	15	1 821 281	3	201 080	-	-	-	-
	6 004	5 664 228	11 429	1 245 231	91 810	12 662 469	252	7 301

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE and Mortgage segments, as at 30 June 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
Segment/ Ratio	Number of properties	Total exposure	Impairment	Number of properties	Total exposure	Impairment
Corporate						
Without associated property	-	4 592 458	102 166	-	4 680 780	133 866
< 60%	1 964	536 288	35 175	2 167	621 502	51 977
>= 60% and < 80%	503	236 465	14 689	602	267 568	15 493
>= 80% and < 100%	597	413 844	26 839	770	356 804	28 604
>= 100%	10	62 409	23 537	10	35 190	2 365
Construction and CRE						
Without associated property	-	690 470	18 120	-	667 609	22 978
< 60%	778	330 228	15 029	926	422 910	19 019
>= 60% and < 80%	212	196 094	10 307	330	238 649	12 503
>= 80% and < 100%	445	192 337	25 128	420	97 445	12 523
>= 100%	92	24 817	5 240	62	31 390	11 135
Mortgage						
Without associated property	-	28 351	910	-	32 579	1 506
< 60%	60 335	2 702 445	12 244	61 330	2 706 933	12 660
>= 60% and < 80%	20 085	1 805 690	8 778	21 136	1 879 839	8 695
>= 80% and < 100%	5 514	1 044 293	9 675	6 002	1 041 109	8 951
>= 100%	168	19 819	985	211	24 666	1 123

(*) 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 32), as at 30 June 2023 and 31 December 2022, are presented as follows:

(Euro thousand)

Assets	Jun 2023		
	Number of properties	Fair value of assets	Book value
Land	**1 075**	**152 813**	**136 103**
Urban	859	116 671	103 124
Rural	216	36 142	32 979
Buildings under construction	**271**	**39 501**	**35 801**
Commerce	51	5 685	5 417
Residential	178	33 384	29 966
Other	42	432	418
Constructed buildings	**963**	**111 462**	**95 686**
Commerce	455	61 613	54 614
Residential	260	44 726	36 422
Other	248	5 123	4 650
	2 309	303 776	267 590

(Euro thousand)

Assets	Dec 2022		
	Number of properties	Fair value of assets	Book value
Land	**1 210**	**188 989**	**168 967**
Urban	935	145 203	128 278
Rural	275	43 786	40 689
Buildings under construction	**349**	**48 219**	**43 590**
Commerce	53	6 287	6 013
Residential	198	41 316	36 974
Other	98	616	603
Constructed buildings	**1 102**	**127 523**	**111 576**
Commerce	513	70 170	62 200
Residential	289	51 668	44 171
Other	300	5 685	5 205
	2 661	364 731	324 133

The time elapsed since the receipt in recovery/execution of real estate, recorded in the caption Other assets (note 32), as at 30 June 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

Elapsed time since recovery/execution	Jun 2023				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**789**	**2 140**	**11 060**	**122 114**	**136 103**
Urban	18	497	9 939	92 670	103 124
Rural	771	1 643	1 121	29 444	32 979
Buildings under construction	**60**	**494**	**8 456**	**26 791**	**35 801**
Commerce	60	169	462	4 726	5 417
Residential	-	325	7 799	21 842	29 966
Other	-	-	195	223	418
Constructed buildings	**3 705**	**14 051**	**11 811**	**66 119**	**95 686**
Commerce	2 664	8 544	6 137	37 269	54 614
Residential	1 034	5 065	3 867	26 456	36 422
Other	7	442	1 807	2 394	4 650
	4 554	16 685	31 327	215 024	267 590

(Euro thousand)

Elapsed time since recovery/execution	Dec 2022				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**899**	**4 280**	**13 578**	**150 210**	**168 967**
Urban	39	2 873	11 194	114 172	128 278
Rural	860	1 407	2 384	36 038	40 689
Buildings under construction	**65**	**261**	**13 614**	**29 650**	**43 590**
Commerce	-	166	1 824	4 023	6 013
Residential	65	95	11 623	25 191	36 974
Other	-	-	167	436	603
Constructed buildings	**7 686**	**19 704**	**13 612**	**70 574**	**111 576**
Commerce	5 186	9 927	7 262	39 825	62 200
Residential	2 437	9 272	4 494	27 968	44 171
Other	63	505	1 856	2 781	5 205
	8 650	24 245	40 804	250 434	324 133

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. 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.

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 Directorate of Banco Montepio. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the level of individual concentration and the degree of diversification of the quality of the Corporate portfolio are regularly monitored by the Risk Directorate. 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 in debt instruments, and as at 30 June 2023 and 31 December 2022 these represented 96.2% 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 2023 and 31 December 2022.

In terms of credit quality of bonds, 99.1% of the debt portfolio is investment grade (31 December 2022: 98.2%). Of note are the Spanish, Portuguese and Italian sovereign bonds with ratings BBB+, BBB and BBB, respectively, and that represent 91.9% (with the same percentage as at 31 December 2022) of the portfolio. Regarding the composition of the portfolio, no significant changes were observed.

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 2023		Dec 2022		Change	
	Amount	%	Amount	%	Amount	%
AAA	112 461	2.6	110 523	2.6	1 938	1.8
AA+	9 128	0.2	5 177	0.1	3 951	76.3
AA	5 170	0.1	34 187	0.8	(29 017)	(84.9)
AA-	151 514	3.6	15 395	0.4	136 119	884.2
A+	7 011	0.2	107 113	2.6	(100 102)	(93.5)
A	501	-	-	-	501	-
A-	3 640	0.1		-	3 640	-
BBB+	1 209 674	28.5	1 202 557	28.7	7 117	0.6
BBB	1 081 090	25.5	1 092 271	26.1	(11 181)	(1.0)
BBB-	1 613 880	38.0	1 593 861	38.0	20 019	1.3
BB-	14 101	0.3	14 550	0.3	(449)	(3.1)
NR	38 695	0.9	15 385	0.4	23 310	151.5
Total	4 246 865	100.0	4 191 019	100.0	55 846	1.3

The position in bonds recognized in the portfolio of Financial assets at fair value through other comprehensive income stood at Euro 64,460 thousand (31 December 2022: Euro 69,763 thousand) and the position in Other financial assets at amortized cost stood at Euro 4,123,419 thousand (31 December 2022: Euro 4,119,387 thousand) and the position in Financial assets held for trading stood at Euro 58,986 thousand (31 December 2022: Euro 1,869 thousand).

Regarding the trading portfolio, as at 30 June 2023 and 31 December 2022, the main VaR indicators are as follows:

(Euro thousand)

	Jun 2023	Average	Minimum	Maximum	Dec 2022
Market VaR	900	659	192	1 303	272
Interest rate risk	678	364	114	465	266
Exchange risk	320	244	71	60	66
Price risk	497	254	307	664	83
Spread Risk	88	108	66	133	70
Diversification effect	(683)	(311)	*(366)*	(19)	(213)

The value of the VaR of the trading portfolio increased from 31 December 2022 to 30 June 2023. It should be noted that the VaR of the trading portfolio remained at moderate levels during the half year, in a period marked by the progressive easing of the high levels of risk associated with the exogenous shocks of the war in Ukraine and the generalized increase in prices.

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 2023 and 31 December 2022:

(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 2023					
Assets					
Debt securities	195 276	106 934	811 814	1 472 251	1 627 843
Loans and advances	6 051 315	3 113 502	1 247 189	1 226 012	616 753
Others	411 213	-	-	-	-
Off-balance sheet	3 886	-	18 322	51 688	-
Total	6 661 690	3 220 436	2 077 325	2 749 951	2 244 596
Liabilities					
Debt securities issued	206 681	634	150 012	550 635	10 167
Term deposits	1 908 040	1 110 154	1 588 734	2 040 326	-
Others	694 514	-	1 541 973	170 738	187 992
Off-balance sheet	32 670	-	13	100	925
Total	2 841 905	1 110 788	3 280 732	2 761 799	199 084
GAP (Assets - Liabilities)	3 819 785	2 109 648	(1 203 407)	(11 848)	2 045 512
31 December 2022					
Assets					
Debt securities	33 740	27 826	282 386	2 144 391	1 757 383
Loans and advances	6 351 630	3 209 863	1 406 712	1 061 814	421 711
Others	1 153 782	-	-	-	43 577
Off-balance sheet	6 903	16 036	3 010	38 888	-
Total	7 546 055	3 253 725	1 692 108	3 245 093	2 222 671
Liabilities					
Debt securities issued	247 100	-	50 659	650 635	12 218
Term deposits	1 862 789	1 139 178	1 434 196	1 900 929	-
Others	288 074	890 900	189 571	1 688 673	230 997
Off-balance sheet	29 251	16 036	13	106	997
Total	2 427 214	2 046 114	1 674 439	4 240 343	244 212
GAP (Assets - Liabilities)	5 118 841	1 207 611	17 669	(995 250)	1 978 459

(Euro thousand)

	Jun 2023				Dec 2022			
	June	Annual Average	Maximum	Minimum	December	Annual Average	Maximum	Minimum
Interest Rate Gap	6 759 693	7 043 511	7 327 328	6 759 693	7 327 328	5 276 384	7 327 328	3 836 113

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 2023, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause an increase in the economic value expected from the banking portfolio of circa Euro 32,820 thousand (31 December 2022: increase of Euro 44,163 thousand).

The following table presents the average interest rates, in relation to the Group's major asset and liability categories for the first half of 2023 and financial year 2022, as well as the respective average balances and the income and expenses for the financial year:

(Euro thousand)

	Jun 2023			Dec 2022		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest- generating assets						
Deposits at central banks and other credit ins	656 796	2.36	7 780	1 631 251	1.12	18 503
Other loans and advances to other credit inst	136 073	0.97	662	387 295	1.04	4 069
Loans and advances to customers	11 981 736	4.04	243 293	12 215 110	2.09	258 588
Securities portfolio	4 262 856	0.51	10 857	3 877 280	0.36	14 345
Other assets at fair value	8 853	3.89	173	9 222	1.44	135
Other (derivatives includes)	-	-	9	-	-	5 212
	17 046 314	**3.07**	**262 774**	**18 120 158**	**1.64**	**300 852**
Interest-generating liabilities						
Deposits from ECB	2 408 541	2.54	30 707	2 899 053	0.27	8 029
Deposits from other credit institutions	464 270	0.71	1 660	373 289	0.15	550
Deposits from customers	12 783 499	0.35	22 207	12 879 231	0.05	7 045
Senior debt	585 292	0.18	531	1 304 930	0.52	6 841
Subordinated debt	216 589	8.89	9 684	216 474	8.81	19 334
Other (derivatives includes)	-	-	3 636	-	-	7 563
	16 458 191	**0.83**	**68 425**	**17 672 977**	**0.28**	**49 362**
Net interest income		**2.27**	**194,349**		**1.37**	**251,490**

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 2023 and 31 December 2022, is analysed as follows:

(Euro thousand)

	Jun 2023						
	Euro	U. S. Dollar	Angolan Kwanza	Swiss Franc	Pound Sterling	Other foreign currencies	Total amount
Assets by currency							
Cash and deposits at central banks	611 629	14 023	-	1 461	1 577	1 362	630 052
Loans and deposits to credit institutions payable on de	19 448	87 533	14 956	1 841	1 315	2 023	127 116
Other loans and advances to credit institutions	123 063	28 690	17 146	17	7	-	168 923
Loans and advances to customers	11 536 883	19 501	-	-	-	-	11 556 384
Financial assets held for trading	73 580	1 451	-	-	10 674	-	85 705
Financial assets at fair value through profit or loss	146 446	-	-	-	-	-	146 446
Financial assets at fair value through other comprehensive income	85 707	-	-	-	-	-	85 707
Other financial assets at amortized cost	4 045 453	76 803	-	-	1 163	-	4 123 419
Investments in associated companies	3 982	-	-	-	-	-	3 982
Non current assets held for sale	54	-	-	-	-	-	54
Non-current assets held for sale - - Discontinued Operations	10 092	-	-	-	-	-	10 092
Investment properties	65 262	-	-	-	-	-	65 262
Other tangible assets	191 611	-	-	-	-	-	191 611
Intangible assets	49 657	-	-	-	-	-	49 657
Current tax assets	1 770	-	-	-	-	-	1 770
Deferred Tax Assets	385 315	-	-	-	-	-	385 315
Other assets	461 737	503	-	-	2	1	462 243
Total Assets	**17 811 689**	**228 504**	**32 102**	**3 319**	**14 738**	**3 386**	**18 093 738**
Liabilities by currency							
Deposits from central banks	1 749 727	-	-	-	-	-	1 749 727
Deposits from other credit institutions	820 478	39 294	-	-	102	44	859 918
Deposits from customers	12 682 299	133 092	-	2 845	18 625	29 675	12 866 536
Debt securities issued	562 618	-	-	-	-	-	562 618
Financial liabilities held for trading	13 553	-	-	-	-	-	13 553
Provisions	26 131	-	-	-	-	-	26 131
Current tax liabilities	957	-	-	-	-	-	957
Other subordinated debt	211 301	-	-	-	-	-	211 301
Other liabilities	240 051	15 106	38	383	201	6 351	262 130
Total Liabilities	**16 307 115**	**187 492**	**38**	**3 228**	**18 928**	**36 070**	**16 552 871**
Exchange forward transactions	-	(40 361)	-	-	3 029	37 275	-
Exchange gap	-	651	32 064	91	(1 161)	4 591	-
Stress Test	-	(130)	(8 403)	(18)	232	(919)	-

(Euro thousand)

	Dec 2022						
	Euro	U. S. Dollar	Angolan Kwanza	Swiss Franc	Pound Sterling	Other foreign currencies	Total amount
Assets by currency							
Cash and deposits at central banks	1 354 507	7 508	18 108	1 771	1 062	846	1 383 802
Loans and deposits to credit institutions payable on de	10 307	30 484	-	6 237	3 865	1 394	52 287
Other loans and advances to credit institutions	26 734	5 579	74 046	17	-	-	106 376
Loans and advances to customers	11 649 353	20 865	42 812	-	-	67	11 713 097
Financial assets held for trading	22 849	221	-	-	-	-	23 070
Financial assets at fair value through profit or loss	147 770	-	-	-	-	-	147 770
Financial assets at fair value through other comprehensive income	97 222	-	-	-	-	-	97 222
Other financial assets at amortized cost	3 992 377	81 862	38 431	-	6 717	-	4 119 387
Investments in associated companies	4 390	-	-	-	-	-	4 390
Non-current assets held for sale	11	-	-	-	-	-	11
Non-current assets held for sale - - Discontinued Operations	199 687	-	-	-	-	-	199 687
Investment properties	72 726	-	-	-	-	-	72 726
Other tangible assets	139 767	-	52 231	-	-	-	191 998
Intangible assets	47 551	-	-	-	-	-	47 551
Current tax assets	5 966	-	-	-	-	-	5 966
Deferred Tax Assets	413 604	-	-	-	-	-	413 604
Other assets	517 909	4 761	4 619	-	2	16	527 307
Total Assets	**18 702 730**	**151 280**	**230 247**	**8 025**	**11 646**	**2 323**	**19 106 251**
Liabilities by currency							
Deposits from central banks	2 889 991	-	-	-	-	-	2 889 991
Deposits from other credit institutions	340 284	1 133	-	104	75	27	341 623
Deposits from customers	12 837 672	139 654	91 005	2 305	16 770	27 960	13 115 366
Debt securities issued	606 651	-	-	-	-	-	606 651
Financial liabilities held for trading	17 697	-	-	-	-	-	17 697
Non current liabilities held for sale - Discontinued operations	101 738	-	-	-	-	-	101 738
Provisions	30 213	1	538	-	-	-	30 752
Current tax liabilities	4 438	-	-	-	-	-	4 438
Other subordinated debt	217 029	-	-	-	-	-	217 029
Other liabilities	243 830	734	13 543	665	77	2 631	261 480
Total Liabilities	**17 289 543**	**141 522**	**105 086**	**3 074**	**16 922**	**30 618**	**17 586 765**
Exchange forward transactions	-	(6 290)	-	(4 909)	4 928	28 516	-
Exchange gap	-	3 468	125 161	42	(348)	221	-
Stress Test	-	(694)	(25 032)	(8)	70	(44)	-

The result of the stress test performed corresponds to the estimated impact (before tax) on equity, including non-controlling 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 and NSFR prudential ratios is performed monthly.

As at 30 June 2023, the LCR value was 245.2% (31 December 2022: 249.6%).

As regards the net stable funding ratio, designated NSFR, same stood at 123.9% (31 December 2022: 125.0%).

As at 30 June 2023, the Group's financing structure was as follows:

(Euro thousand)

Liabilities	Total	In cash	Up 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 749 727	-	189 486	-	-	1 560 241
Deposits from other credit institutions	859 918	-	349 239	204 746	5 926	300 007
Deposits from customers	12 866 536	-	7 855 731	1 097 940	1 541 122	2 371 743
Debt securities issued	562 618	-	-	257	-	562 361
Financial liabilities held for trading	13 553	-	74	324	548	12 607
Other subordinated debt	211 301	-	2 802	149	2 027	206 323
Other liabilities	262 130	262 130	-	-	-	-
Total liabilities	**16 525 783**	**262 130**	**8 397 332**	**1 303 416**	**1 549 623**	**5 013 282**

As at 31 December 2022, the Group's financing structure was as follows:

(Euro thousand)

Liabilities	Total	In cash	Up 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 889 991	-	1 162 557	-	-	1 727 434
Deposits from other credit institutions	341 623	-	40 523	1 001	-	300 099
Deposits from customers	13 115 366	-	8 292 466	1 129 470	1 390 581	2 302 849
Debt securities issued	606 651	-	-	-	53	606 598
Financial liabilities held for trading	17 697	-	72	215	507	16 903
Financial liabilities held for sale - - Discontinued operations	101 738	101 738	-	-	-	-
Other subordinated debt	217 029	-	-	-	10 706	206 323
Other liabilities	261 480	261 480	-	-	-	-
Total liabilities	**17 551 575**	**363 218**	**9 495 618**	**1 130 686**	**1 401 847**	**5 160 206**

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 2023 and 31 December 2022, on the assets and related collaterals:

(Euro thousand)

Assets	Jun 2023			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institutions	4 007 364	-	14 086 375	-
Equity instruments	-	-	165 758	165 053
Debt securities	721 610	335 686	4 104 455	3 474 362
Other assets	-	-	1 337 329	-

(Euro thousand)

Assets	Dec 2022			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institutions	5 101 814	-	14 004 437	-
Equity instruments	-	-	161 143	163 784
Debt securities	1 105 221	930 314	3 638 713	2 780 952
Other assets	-	-	1 632 957	-

(Euro thousand)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2023	Dec 2022
	Carrying amount of selected financial liabilities	
Associated liabilities, contingent liabilities and securities borrowed	2 556 018	3 207 695
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	3 992 987	5 024 389

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 programmes 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 2023 and 31 December 2022 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 2023 to Euro 3,056,163 thousand (31 December 2022: Euro 2,555,225 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB), as at 30 June 2023, amounts to Euro 4,853,057 thousand (31 December 2022: Euro 5,537,699 thousand) with a usage of Euro 1,837,807 thousand (31 December 2022: Euro 2,999,306 thousand):

(Euro thousand)

	Jun 2023	Dec 2022
Total eligible collateral	**5 673 500**	**5 930 869**
Total collateral in the pool	4 853 057	5 537 699
Collateral outside the pool	820 443	393 170
Used collateral	**2 617 337**	**3 375 644**
Collateral used for ECB	1 837 807	2 999 306
Collateral committed to other financing operations	779 530	376 338
Collateral available for ECB	**3 015 250**	**2 538 393**
Total available collateral	**3 056 163**	**2 555 225**

Note: collateral amount considers the applied haircut

As at 30 June 2023 and 31 December 2022, the undiscounted contractual cash outflows of financial liabilities, including interest flows, present the following structure:

(Euro thousand)

	Jun 2023							
Liabilities	**Total**	**In cash**	**Up 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**> 5 years**
Deposits from central banks	1 791 205	-	190 994	-	1 541 973	58 238	-	-
Deposits from other credit institutions	865 240	56 192	294 017	208 645	6 101	57	112 639	187 589
Deposits from customers	12 932 991	6 151 416	1 828 117	1 173 167	1 555 249	1 225 939	999 103	-
Debt securities issued	707 262	223	18 756	18 961	35 781	393 674	133 493	106 374
Financial liabilities held for trading	13 553	13 553	-	-	-	-	-	-
Other subordinated debt	362 274	-	182	4 000	15 466	24 190	76 677	241 759
Other liabilities	289 218	-	289 218	-	-	-	-	-
Total liabilities	**16 961 743**	**6 221 384**	**2 621 284**	**1 404 773**	**3 154 570**	**1 702 098**	**1 321 912**	**535 722**

(1) It encompasses trading liabilities, including derivatives, considered at fair value.

(Euro thousand)

	Dec 2022							
Liabilities	**Total**	**In cash**	**Up 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**> 5 years**
Deposits from central banks	2 937 041	-	280 396	890 900	189 571	1 576 174	-	-
Deposits from other credit institutions	341 961	40 583	-	1 036	28	57	112 650	187 607
Deposits from customers	13 122 233	6 629 909	1 655 463	1 126 279	1 413 582	1 252 560	1 022 520	21 920
Debt securities issued	768 921	170	20 604	20 610	40 448	402 354	157 957	126 778
Financial liabilities held for trading	17 698	17 698	-	-	-	-	-	-
Financial liabilities held for sale - - Discontinued operations	101 738	-	-	101 738	-	-	-	-
Other subordinated debt	375 130	-	162	15 250	4 182	20 957	73 967	260 612
Other liabilities	296 669	-	296 669	-	-	-	-	-
Total liabilities	**17 961 391**	**6 688 360**	**2 253 294**	**2 155 813**	**1 647 811**	**3 252 102**	**1 367 094**	**596 917**

(1) It encompasses trading liabilities, including derivatives, considered at fair value.

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 2023 and 31 December 2022, excluding the real estate included in the Gerês operation, the exposure to real estate and investment units in real estate funds presented the following values:

(Euro thousand)

	Jun 2023	Dec 2022
Non-current assets held for sale	54	11
Real estate received in recovery of credit	267 590	324 133
Investment properties	65 262	72 726
Investment units in Real Estate Funds	62 245	62 723
	395 151	459 593
Stress test	(39 515)	(45 959)

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 Directorate 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 as at 30 June 2023, 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 Directorate.

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.

Banco Montepio maintained a permanent monitoring of the rules issued by the Portuguese General Health Directorate, considering the necessary adaptation to same whenever deemed necessary.

The Crisis Management Office, which is responsible for the management of the crisis, for the management and execution of the Operational Continuity Plans and for the coordination of the business recovery teams, remained in operation, overseeing the operational continuity and monitoring of the recovery of the business.

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 Directorate ensures the production of monthly reports with the evolution of the market value of the Pension Fund’s portfolio and the associated risk indicators.

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 capital monitoring and management process at the Banco Montepio Group has as its objective to ensure the accuracy of the determination and assessment of the level of regulatory and economic capital, taking into account the risk profile determined by the Board of Directors and the Bank of Portugal add-on in the scope of the SREP, as well as assess the potential effects, on the Group's financial conditions, resulting from changes in risk factors due to exceptional but plausible events (stress tests).

The process of monitoring the evolution of regulatory capital adequacy is carried out monthly, while economic capital adequacy is monitored on a quarterly basis. The global monitoring of the risk profile and the respective capital adequacy are an integral part of the regular reports to the Risk Committee, Executive Committee, Audit Committee and Board of Directors, as well as of the Group's Risk Appetite framework. This process has a governance structure and procedures to monitor the evolution of capital (within the objective and risk tolerance limits defined by the Board of Directors), including the definition of roles and responsibilities for escalating and resolving breaches of the defined limits. The responsibility for identifying breaches of the risk limits defined at the Group level, as well as of the entities that assume the risk management function, lies with the Risk Directorate. Whenever a situation of non-compliance with the aforementioned limits is identified, the Risk Directorate carries out an analysis of this situation including the following elements:

- Identification of the limit breached;
- Identification of the risk factors that justify said breach;
- Information on the likely future evolution of these risk factors;
- Proposal of risk reduction, assumption, mitigation or transfer measures, as applicable;
- Proposal of reallocation of risk limits, if applicable.

The responsibility for defining action plans to remedy the breaches of the limits verified lies with the Risk Directorate, together with the first-line organic units.

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. 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 focused on the following general 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, if these exist, by 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, if same exists, other intangible assets (not associated with software), as well as the gap, if positive, between the assets and liabilities of the Pension Fund, is deducted. The deduction of the amount of the prudent valuation calculated in accordance with articles no. 34 and 105 of the CRR is also considered, as are the deferred tax assets related to tax losses. The amount of the equity tranches is also deducted in accordance with article 36 paragraph k) of the CRR, resulting from the synthetic and traditional securitizations made between 2021 and 2022. 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, only the transitory plan applicable to deferred tax assets that do not depend on future profitability, in the balance sheet as at 1 January 2014, being maintained. This plan permits a gradual recognition of the amount subject to deduction determined, with same amounting to 90% in June 2023. 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. Additionally, BM defined in its own internal regulations a plan to reduce the prudential value of properties received as payment. This prudential reduction is carried out through a prudential deduction that results from the application of a gradual haircut plan to be applied to properties according to their age on the balance sheet. Regarding property portfolios received as payment and investment properties, the Group considered, in June 2023, a specific prudential deduction of - Euro 29,860 thousand (with an impact of 35 basis points on CET1). This impact resulted from the update of the internal haircut policy, applied to the balance sheet value of the portfolios mentioned above, considering the age of the respective properties in the Group's assets. Bearing in mind the plan defined in its own internal regulations, an additional - Euro 51,700 thousand of impact is estimated in the first month of 2024 (ceteris paribus in the Banco Montepio portfolio in June 2023).

- *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.

As at 30 June 2023, Banco Montepio already prudentially recognizes the total initial impact related to the adoption of IFRS 9.

With the entry into force of Regulation 2020/873 of the European Parliament and Council, an additional transitional plan was introduced regarding the impacts of IFRS9 impairment increases occurring after 1 January 2020 in Stages 1 and 2. These increases are subject to a transitional recognition plan of 50% in 2023, 75% in 2024 and 100% in 2025.

As referred, the effects 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 increase in IFRS 9 impairment occurring after 1 January 2020 in Stages 1 and 2, 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, and an add-on of capital in the scope of the annual exercise of the Supervisory Review and Evaluation Process ("SREP"), which amount is defined by the Bank of Portugal. According to that defined by the Bank of Portugal, the minimum ratios required may be presented as follows:

Ratios	Jun 2023				Dec 2022			
	Ratio	Tier 2	Pilar 2	Reserves (1)	Rácio	Tier 1	Tier 2	Reserves (1)
CET1	9.09%	4.50%	1.83%	2.77%	9.08%	4.50%	1.83%	2.76%
T1	11.20%	6.00%	2.44%	2.77%	11.19%	6.00%	2.44%	2.76%
Total	14.02%	8.00%	3.25%	2.77%	14.01%	8.00%	3.25%	2.76%

(1) Considers:
Conservation reserve 2.5%;
Reserve The SII of 0.25% (0.1875% in 2021);
Countercyclical Reserve currently set at 0% in Portugal, however presents the value of 0.0168% given the geographical distribution of Banco Montepio Group's exhibitions in June 2023.

Pursuant to these provisions, as at 30 June 2023, the regulatory ratios, considering the reserves, for Common Equity Tier 1, Tier 1 and Total were 9.09%, 11.20% and 14.02%, respectively, including the own funds reserves.

The summary of the calculation of the Group's capital requirements as at 30 June 2023 and 31 December 2022, under phase-in, is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Common Equity Tier 1 Capital		
Realized share capital	1 210 000	2 420 000
Net income/(loss), reserves and retained earnings	330 867	(911,956)
Non-controlling interests eligible for CET1	-	3 496
Other regulatory adjustments	(407,777)	(376,156)
	1 133 090	1 135 384
Tier 1 Capital		
Non-controlling interests eligible for Tier 1	-	763
	1 133 090	1 136 147
Tier 2 Capital		
Subordinated debt	206 323	206 323
Non-controlling interests eligible for Tier 2	-	420
	206 323	206 743
Total own funds	1 339 413	1 342 890
Own funds requirements		
Credit risk	534 925	563 133
Market risk	10 844	14 375
Operating risk	49 752	49 752
Other requirements	27 885	34 851
	623 406	662 111
Prudential Ratios		
Common Equity Tier 1 Ratio	14.5%	13.7%
Tier 1 Ratio	14.5%	13.7%
Total Capital Ratio	17.2%	16.2%

It should be noted that the ratios, as at 30 June 2023 and 31 December 2022, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 31.

If the transitional plan was not applied to the initial impacts of the adoption of IFRS 9, 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 2023 and 31 December 2022, would be:

(Euro thousand)

	Jun 2023	Dec 2022
Capital Common Equity Tier 1	1 124 513	1 119 267
Capital Tier 1	1 124 513	1 120 029
Total own funds	1 330 836	1 326 773
Own funds requirements	622 720	661 046
Prudential Ratios		
Common Equity Tier 1 Ratio	14.4%	13.5%
Tier 1 Ratio	14.4%	13.6%
Total Capital Ratio	17.1%	16.1%

53 Recently issued accounting policies

IFRS Disclosures – New standards as at 30 June 2023, for annual periods beginning on or after 1 January 2023:

1. The impact of the adoption of the new standards and amendments to standards that became effective as of 1 January 2023 is as follows:

a) **IAS 1** (amendment), 'Disclosure of accounting policies'. 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.

b) **IAS 8** (amendment), 'Disclosure of accounting estimates". This amendment introduces the definition 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).

c) **IFRS 17** (new and amendment), 'Insurance contracts'. This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts or investment contracts with discretionary participation in profit or loss if the entity issues insurance contracts. Under IFRS 17, insurers need to assess if a policy holder can benefit from a particular service as part of a claim or if the service is independent of the claim/risk event and do the unbundling of the non-insurance component. Under IFRS 17, the entities will need to identify portfolios of insurance contracts at initial recognition and divide them into a minimum of the following groups: i) contracts that are onerous at inception; ii) contracts that have no significant possibility of becoming onerous subsequently; and iii) remaining contracts in the portfolio. IFRS 17 requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. IFRS 17 requires a company to recognize profits as it delivers insurance services (rather than when it receives premiums), and to provide information about insurance contract profits the company expects to recognise in the future. IFRS 17 provides three measurement approaches for the accounting of different types of insurance contracts: i) General Measurement Model (GMM); ii) the Premium Allocation Approach (PAA), and iii) the Variable Fee Approach (VFA). IFRS 17 is applied retrospectively with some exemptions as at the transition date.

d) **IFRS 17** (amendment), 'Initial Application of IFRS 17 and IFRS 9 – Comparative Information'. This amendment relates only to insurers' transitioning to IFRS 17 and allows the adoption of a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. This amendment seeks to avoid temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented, when applying IFRS 17 for the first time, providing for (i) the application on a financial asset-by-financial asset basis; (ii) the presentation of comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but without requiring an entity to apply the impairment requirements of IFRS 9; and (iii) the obligation to use reasonable and supported information available at the transition date, to determine how the entity expects that financial asset to be classified in accordance with IFRS 9.

e) **IAS 12** (amendment), 'Deferred tax related to assets and liabilities arising from a single transaction'. 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. This 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 not in the scope of the initial recognition exemption for deferred taxes. This amendment is applied retrospectively.

Banco Montepio Group does not expect any significant impact of the application of these changes on its financial statements.

2. Standards (new and amendments) that have been published and are mandatory for the annual periods beginning on or after 1 January 2024, but are not yet endorsed by the EU:

a) **IAS 1** (amendment), 'Classification of liabilities as Non-current and Current' and 'Non-current liabilities with covenants' (effective for annual periods beginning on or after 1 January 2024). This amendment is still subject to endorsement by the European Union. These amendments clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its settlement for at least 12 months after the reporting date. They clarify also that the covenants that an entity is required to comply with, on or before the reporting date, affect the classification of a liability as current or non-current, even if the covenants are only assessed after the entity's reporting date. When an entity classifies liabilities arising from loan arrangements as non-current and those liabilities are subject to covenants, it is required to disclose information that enables investors to assess the risk that the liabilities could become repayable within 12 months, such as: a) the carrying amount of the liabilities; b) the nature of the covenants and the compliance dates; and c) the facts and circumstances that indicate that the entity may have difficulty complying with covenants when it is required to do so. These amendments are applied retrospectively.

b) **IAS 7** (amendment) and **IFRS 7** (amendment), 'Supplier finance arrangements' (effective for annual periods beginning on or after 1 January 2024). These amendments are still subject to endorsement by the European Union. These amendments require an entity to provide additional disclosures about its supplier finance arrangements to enable: i) the assessment of how supplier finance arrangements affect an entity's liabilities and cash flows; and ii) the understanding of the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available. The additional requirements complement presentation and disclosure requirements already in IFRS as set out in the IFRS IC's Agenda decision of December 2020.

c) **IAS 12** (amendment), 'International tax reform – Pillar two model rules' (effective immediately or for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. Following the implementation of the OECD's Global Anti-Base Erosion ("GloBE") rules, there may be significant impacts on the calculation of deferred taxes of the entities impacted which, at this date, are difficult to estimate. This amendment to IAS 12 introduces: i) a temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and ii) targeted disclosure requirements for affected entities (entities belonging to multinational groups that have consolidated revenues of 750 m€ in at least two out of the last four years), such as: the fact that the exception was applied, the current tax expense related to Pillar Two rules, and the reasonable estimate of the impact of Pilar Two rules between the date the legislation becomes enacted and the date it becomes effective.

d) **IFRS 16** (amendment), 'Lease liability in a sale and leaseback' (effective for annual periods beginning on or after 1 January 2024). This amendment is still subject to endorsement by the European Union. The amendment introduces guidance for the subsequent measurement of lease liabilities, in the scope of sale and leaseback transactions that qualify as "sales" under IFRS 15, with higher impact when some or all the lease payments are variable lease payments that do not depend on an index or rate. Whilst subsequently measuring lease liabilities, seller-lessees determine "lease payments" and "revised lease payments" in a way that does not result in the seller-lessees recognizing any gains/(losses) relating with the right of use that they retain. This amendment is applied retrospectively.

Banco Montepio Group does not expect any significant impact of the application of these changes on its financial statements.

New standards summary:

Description	Changes	Effective date
1. Standards (new and amendments) effective as at 1 January 2023		
IAS 1 – Disclosure of accounting policies	Disclosure requirement for "material" accounting policies, rather than "significant" accounting policies	1 January 2023
IAS 8 – Disclosure of accounting estimates	Definition of accounting estimate. Clarification as to the distinction between changes to accounting policies and changes to accounting estimates	
IFRS 17 – Insurance contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participating features in profit or loss, in terms of aggregation, recognition, measurement, presentation and disclosure	
IFRS 17 – Initial Application of IFRS 17 and IFRS 9 – Comparative Information	This amendment allows to avoid temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented, when first applying IFRS 17. This amendment allows the application of a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information	
IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction	Requirement to recognize deferred tax on the recognition of assets under right of use / lease liability and provisions for decommissioning / related asset, when their initial recognition gives rise to equal amounts of taxable temporary differences and deductible temporary differences, due to not being relevant for tax purposes	
2. Standards (new and amendments) that will become effective, on or after 1 January 2024, not yet endorsed by the EU		
IAS 1 – Classification of liabilities as non-current and current and Non-current liabilities with covenants	Classification of a liability as current or non-current, depending on an entity's right to defer its settlement for at least 12 months after the reporting date, when subject to covenants	1 January 2024
IAS 7 e IFRS 7 – Supplier finance arrangements	Requirement to provide additional disclosures about supplier finance arrangements, the impact in liabilities and cash flows, as well as the impact in liquidity risk analysis, and how the entity would be impacted if these arrangements were no longer available	
IAS 12 –International Tax Reform – Pillar two model rules	Introduction of a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. Requirement of targeted disclosure for affected entities (entities belonging to multinational groups that have consolidated revenues of €750m in at least two out of the last four years)	Immediately and 1 January 2023
IFRS 16 –Lease liability in a sale and leaseback	Criteria to account for sale and leaseback transactions after the date of the transaction, when some or all the lease payments are variable	1 January 2024

54 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 credit. 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 2023			Dec 2022		
	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 2023 and 31 December 2022, the assets received under these operations are as follows (see note 23):

(Euro thousand)

	Jun 2023	Dec 2022
	Senior securities	
Fundo Vega, FCR	22 559	22 196
Discovery Portugal Real Estate Fund	13 801	13 111
Fundo Aquarius, FCR	10 862	10 934
Fundo de Reestruturação Empresarial, FCR	14 376	16 200
	61 598	62 441

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).

55 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 2023, the periodic contribution made by the Group amounted to Euro 2,291 thousand (30 June 2022: Euro 5,106 thousand), based on a contribution rate of 0.029%.

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 made a payment to Novo Banco of Euro 317 million, referring 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 purpose of the payment to Novo Banco was Euro 429 million.

On 23 December 2021, the Resolution Fund made the payment of Euro 112 million, after having obtained all analyses from a financial, economic and legal point of view, which was pending verification in June 2021 and was already provided against.

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 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.

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 was subject to appeal to the Court of Competition, Regulation and Supervision by all parties concerned, including Banco Montepio. The lodging of an appeal would determine the suspension of the obligation to pay the fine until the decision had become final provided the request was lodged for the suspension of the obligation to provide a guarantee, in an amount to be set by the court, which decision is awaited.

In like manner to various other institutions charged and that have publicly announced this intention, Banco Montepio challenged this Decision judicially on 21 October 2019.

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 the suspension of the obligation to pay the fine immediately, with Banco Montepio having placed such deposit with that court, that decided to accept same, and the consequent suspension of the obligation referred to above.

The discussion and judgment hearing began in October 2021. At the conclusion of the hearing, and as requested by Banco Montepio and other defendants, the Court of Competition, Regulation and Supervision (TCRS) decided to suspend the proceedings and refer two preliminary questions to the Court of Justice of the European Union (CJEU), under article 267 of the Treaty on the Functioning of the European Union (TFEU). A decision is awaited from the CJEU, after which the TCRS will issue a sentence in accordance with such decision.

Considering all the relevant circumstances, arising from the appeal lodged by Banco Montepio as well as by the other defendant banks, it is considered that there is a serious and significant probability that the fine applied to Banco Montepio will likely be annulled.

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 that might be brought against Banco Montepio based on the Decision would be reduced.

Bank of Portugal

As at 30 June 2023 and 31 December 2022, the Bank has been the subject of several administrative offense processes instituted by the Bank of Portugal, for alleged practices and infractions in supervisory matters that are applicable to the Bank, in an amount of possible fines of approximately Euro 1.7 million.

The evolution of these processes is regularly monitored by the Banco Montepio's Board of Directors, with technical-legal intervention under the responsibility of its Legal Directorate and, in certain cases, by law firms, which services are contracted on a case-by-case basis.

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, regarding 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 2023.

56 Subsidiaries and associates

As at 30 June 2023, 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**
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	Management of shareholding	100,00%	100,00%
Montepio Investimento, S.A.	Lisbon	180 000 000	Euro	Banking	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 31 December 2022, the Companies consolidated under the full consolidation method in the Group are as follows:

Subsidiary	Head office	Share capital	Currency	Activity	Group	
					% of control	% of effective part
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	Management of shareholding	100,00%	100,00%
Montepio Investimento, S.A.	Lisbon	180 000 000	Euro	Banking	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 2023, the Group´s associates 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	27.50%
CESource, ACE	Lisbon	-	Management of IT systems	18.00%
Montepio Serviços, A.C.E.	Lisbon	-	Support services provided to companies	85.00%

As at 31 December 2022, the Group´s associates 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	27.50%
CESource, ACE	Lisbon	-	Management of IT systems	18.00%

Finibanco Angola

In 2015, a contract was signed for the sale of 1,727,782 shares of Finibanco Angola, 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 81.37% of the subsidiary Finibanco Angola.

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.

Upon full settlement of the two transactions, the Group continued to control Finibanco Angola.

As at 31 December 2022 and until 30 June 2023, the Group held 80.22% of Finibanco Angola, starting to hold at the end of June 2023 29,22%, following the sale of 51% to Access Bank Plc, a commercial bank with registered office in Lagos, Nigeria. As of 31 December 2022, the consolidated financial statements consider the financial statements of this entity, applying IFRS 5, as a discontinued unit, with its assets and liabilities presented under the captions of Non-current assets and liabilities held for sale – Discontinued operations, respectively, and the results in Income/(loss) from discontinued operations, as described in note 57.

As at 30 June 2023 and 31 December 2022, 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
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 Finance No 2	2021	2021	Lisbon	100%	Full

57 Non-current assets and liabilities held for sale – Discontinued operations

On 30 September 2022, to the extent that the sale of the financial interest held in Finibanco Angola was highly probable, being available for immediate sale in its present condition subject only to the usual terms for this type of transactions, Finibanco Angola's operations were classified as discontinued operations, in accordance with IFRS 5, and therefore the total assets and liabilities of Finibanco Angola came to be presented under the captions Non-current assets held for sale and discontinued operations and Non-current liabilities held for sale and discontinued operations in the Balance Sheet, respectively, and the results generated by Finibanco Angola came to be presented in the Income Statement line designated Income/(loss) from discontinued operations.

Montepio Holding, on 4 October 2022, entered into an agreement with Access Bank for the sale of the financial shareholding held in Finibanco Angola, subject to obtaining approval from the supervisory and regulatory authorities.

On 30 June 2023, in execution of the previously mentioned share purchase and sale agreement, the sale, by Montepio Holding to Access Bank, of the stake representing 51% of Finibanco Angola's share capital took place, and on this date Montepio Holding received the sale price of the shares.

With the sale of the 52% stake held in Finibanco Angola's share capital and the loss of control of this subsidiary, the financial statements for the first six months of 2023 show:

- The derecognition of the balance sheet values of assets, liabilities and non-controlling interests of Finibanco Angola;
- The recognition of the amount received from the sale of the 51% stake in Finibanco Angola;
- The recognition of the 29.22% stake held in Finibanco Angola at fair value, classified under the caption Non-current assets held for sale and discontinued operations, given the lack of control or significant influence over management, as well as the ongoing initiatives to complete the sale;
- The recycling of accumulated foreign exchange reserves, as a result of the exchange rate devaluation of the AOA, existing at the date of sale and recorded in Banco Montepio Group's reserves, through transfer to the results for the period.

On 10 August 2023, Banco Nacional de Angola authorized the transfer of shares representing 29.22% of Finibanco Angola's share capital held by Montepio Holding in favour of the shareholder Access Bank, having on 28 August 2023 received the price attributed to the shares representing 29.22% of Finibanco Angola's share capital, with the Banco Montepio Group no longer holding any financial shareholding in the share capital of Finibanco Angola.

With reference to 30 June 2023 and 31 December 2022, the Non-current assets and liabilities held for sale – Discontinued operations are presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
	Finibanco Angola	
Cash and deposits at central banks and credit institutions	-	41 739
Loans and advances to credit institutions	-	45 451
Loans and advances to customers	-	37 307
Other financial assets at fair value through other comprehensive income	-	68
Other financial assets at amortized cost	-	45 757
Other tangible assets	-	29 212
Intangible assets	-	2 491
Investments in associated companies	10 092	-
Current tax assets	-	126
Deferred tax assets	-	(4 761)
Other assets	-	2 297
Total Assets	**10 092**	**199 687**
Deposits from other credit institutions	-	559
Deposits from customers	-	95 475
Provisions	-	538
Current tax liabilities	-	2 188
Deferred tax liabilities	-	(3 506)
Other liabilities	-	6 484
Total Liabilities	**-**	**101 738**

The main income statement captions related to this Income/(loss) from discontinued operations are analysed as follows:

(Euro thousand)

	Jun 2023	Jun 2022		
	Finibanco Angola	Finibanco Angola	Banco Montepio Geral - Cabo Verde - In Liquidation	Total
Net interest income	5,811	10,263	2	10,265
Net Fee and commission income	908	1,629	-	1,629
Net gains/ (losses) arising from financing activities	1,811	1,849	(8)	1,841
Other operating income/(expense)	(904)	(1,116)	13	(1,103)
Total operating income	**7,626**	**12,625**	**7**	**12,632**
Staff costs	3,033	3,676	-	3,676
General and administrative expenses	2,135	1,740	-	1,740
Depreciation and amortisation	641	833	-	833
Total operating expense	**5,809**	**6,249**	**-**	**6,249**
Loans, other assets and other provisions impairment	(402)	9,205	-	9,205
Operating profit	**2,219**	**(2,829)**	**7**	**(2,822)**
Profit before income tax	**2,219**	**(2,829)**	**7**	**(2,822)**
Taxes	(18)	41	(15)	26
Recycling of foreign exchange and other reserves	(104,559)	-	-	-
Net profit/ (loss) for the period	**(102,358)**	**(2,788)**	**(8)**	**(2,796)**

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 – Em Liquidação as a result of the change in the legal framework for banking entities operating in Cape Verde, the financial shareholding held in this entity was reclassified, in 2021, to Non-current assets held for sale.

In view of this legal imposition, the competent Bodies of the Banco Montepio Group decided to proceed with the voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde – Em Liquidação, which was finalized on 30 September 2022.

Finibanco Angola came to meets the criteria set out in IFRS 5 to be considered as a discontinued entity following the sale agreement between Montepio Holding and Access Bank Plc, as described in note 56.

Following the agreement signed between Montepio Holding and Access Bank for the sale of the financial stake held in the share capital of Finibanco Angola, and considering that the price of this transaction as of 31 December 2022 had not yet been defined, we proceeded, based on the terms of the previously mentioned agreement, to determine the estimated impact which, with reference to 31 December 2022, totalled Euro 19,043 thousand, with same having been recorded under the caption Income/(loss) from discontinued operations, in the Income Statement.

58 NPL Disclosures

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non-Performing Loans) ratio greater than 5% must publish a set of information related to NPE (Non-Performing Exposures), restructured loans and assets received as payment in kind, according to a standardized format, as follows, with reference to 30 June 2023:

Credit quality of restructured exposures

(Euro thousand)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral and financial guarantees received on exposures with forbearance measures	
	Perfoming exposures with forbearance measures	Non-performing exposures with forbearance measures			Perfoming exposures with forbearance measures	Non-perfoming exposures with forbearance measures		Of which: Collateral and Financial guarantees received on non-perfoming exposures with forbearance measures
			Of which: Defaulted	of which: impaired				
Loans and advances	**100 291**	**330 160**	**330 160**	**330 160**	**(3,995)**	**(146,589)**	**235 785**	**157 095**
General governments	-	2 357	2 357	2 357	-	(250)	-	-
Other financial corporations	14	59 886	59 886	59 886	(1)	(37,823)	14 935	14 935
Non-financial corporations	57 513	220 998	220 998	220 998	(2,759)	(93,099)	152 582	111 631
Households	42 764	46 919	46 919	46 919	(1,235)	(15,417)	68 268	30 529
Loan commitments granted	111	8	8	8	(1)	-	-	-
	100 402	**330 168**	**330 168**	**330 168**	**(3,996)**	**(146,589)**	**235 785**	**157 095**

Credit quality of productive and non-productive exposures for days in arrears

(Euro thousand)

	Gross carrying amount											
	Perfoming exposures			Non-perfoming exposures								
		Not past due or past due <= 30 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 year <= 2 years	Past due > 2 years <= 5 years	Past due >5 years <= 7 years	Past due > 7 years	Of which: defaulted
Loans and advances	**11 548 684**	**11 512 826**	**35 859**	**531 344**	**314 767**	**27 569**	**26 533**	**55 164**	**31 040**	**5 206**	**71 062**	**531 344**
Central banks	577 830	577 830	-	-	-	-	-	-	-	-	-	-
General governments	97 433	97 433	-	2 357	-	-	-	-	2 357	-	-	2 357
Credit institutions	207 838	207 838	-	-	-	-	-	-	-	-	-	-
Other financial corporations	97 821	97 795	27	62 066	18 744	-	145	35 076	7 283	526	290	62 066
Non-financial corporations	4 058 728	4 049 527	9 201	365 094	230 667	18 420	17 944	9 749	17 297	3 072	67 944	365 094
Of which: SME	3 473 628	3 464 427	9 200	331 904	202 648	13 816	17 395	9 749	17 280	3 072	67 944	331 904
Households	6 509 034	6 482 403	26 631	101 827	65 356	9 149	8 444	10 339	4 103	1 608	2 828	101 827
Debt securities	**4 778 054**	**4 778 054**	-	-	-	-	-	-	-	-	-	-
General governments	4 115 388	4 115 388	-	-	-	-	-	-	-	-	-	-
Other financial corporations	119 434	119 434	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	543 232	543 232	-	-	-	-	-	-	-	-	-	-
Off balance sheet exposures	**1 968 290**	**-**	**-**	**67 886**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	6 040			-								
Credit institutions	196 329			-								
Other financial corporations	28 311			9								
Non-financial corporations	1 265 417			65 307								
Households	472 193			2 570								
	18 295 028	**16 290 880**	**35 859**	**599 230**	**314 767**	**27 569**	**26 533**	**55 164**	**31 040**	**5 206**	**71 062**	**531 344**

Credit quality of productive and non-performing exposures and their 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 imparments, 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	**12 307 906**	**10 238 915**	**2 060 264**	**598 434**	**598 192**	**(88 593)**	**(22 657)**	**(65 935)**	**(249 530)**	**(249 530)**	**(128 448)**	**8 858 016**	**281 740**
Central banks	1 253 948	1 253 948	-	-	-	-	-	-	-	-	-	-	-
General governments	101 654	99 623	2 031	2 356	2 356	(232)	(116)	(116)	(250)	(250)	(250)	6 687	-
Credit institutions	145 348	145 332	17	-	-	(24)	(24)	-	-	-	-	21	-
Other financial corporations	92 259	90 488	1 771	67 043	67 043	(507)	(426)	(81)	(32 531)	(32 531)	(600)	75 794	27 724
Non-financial corporations	4 117 210	3 079 157	1 029 325	412 537	412 344	(60 572)	(17 444)	(43 128)	(169 739)	(169 739)	(127 598)	2 671 342	196 281
Of which: SME	3 541 848	2 663 243	875 878	386 469	386 276	(54 344)	(15 230)	(39 114)	(161 704)	(161 704)	(99 598)	2 437 429	188 604
Households	6 597 487	5 570 367	1 027 120	116 498	116 449	(27 258)	(4 647)	(22 610)	(47 010)	(47 010)	-	6 104 172	57 735
Debt securities	**4 732 709**	**4 724 602**	**8 106**	**33 000**	**33 000**	**(9 374)**	**(8 360)**	**(1 013)**	**(14 272)**	**(14 272)**	**-**	**3 699**	**-**
General governments	4 131 978	4 131 978	-	-	-	(6 144)	(6 144)	-	-	-	-	-	-
Other financial corporations	89 580	87 315	2 265	33 000	33 000	(730)	(359)	(371)	(14 272)	(14 272)	-	-	-
Non-financial corporations	511 151	505 309	5 841	-	-	(2 500)	(1 857)	(642)	-	-	-	3 699	-
Off balance sheet exposures	**2 012 882**	**1 634 532**	**378 349**	**78 113**	**78 113**	**(10 623)**	**(4 557)**	**(6 066)**	**(8 894)**	**(8 894)**	**-**	**-**	**-**
General governments	5 760	5 735	25	-	-	(11)	(10)	-	-	-	-	-	-
Credit institutions	194 700	61 816	132 884	-	-	(559)	(12)	(547)	-	-	-	-	-
Other financial corporations	25 875	18 808	7 067	10	10	(53)	(24)	(30)	-	-	-	-	-
Non-financial corporations	1 295 514	1 086 104	209 410	74 692	74 692	(8 026)	(3 098)	(4 928)	(8 861)	(8 861)	-	-	-
Households	491 033	462 069	28 963	3 411	3 411	(1 974)	(1 413)	(561)	(33)	(33)	-	-	-
	19 053 497	**16 598 049**	**2 446 719**	**709 547**	**709 305**	**(108 590)**	**(35 574)**	**(73 014)**	**(272 696)**	**(272 696)**	**(128 448)**	**8 861 715**	**281 740**

Warranties obtained by swearing-in and enforcement proceedings

(Euro thousand)

	Warranties obtained by acquisition of possession	
	Value at initial recognition	**Accumulated negative changes**
Tangible fixed assets		
Others, except tangible fixed assets	446 236	(122 091)
Real estate	249 183	(51 774)
Comercial real estate	161 595	(57 311)
Movable goods (automobile, vessel, etc.)	48	(47)
Others, except tangible fixed assets	35 410	(12 959)
	446 236	**(122 091)**

This caption, as at 31 December 2022, is presented as follows:

Credit quality of restructured exposures

(Euro thousand)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral and financial guarantees received on exposures with forbearance measures	
	Perfoming exposures with forbearance measures	Non-performing exposures with forbearance measures			Perfoming exposures with forbearance measures	Non-perfoming exposures with forbearance measures		Of which: Collateral and Financial guarantees received on non-perfoming exposures with forbearance measures
			Of which: Defaulted	of which: impaired				
Loans and advances	127 128	393 535	393 535	393 535	(4 971)	(159 203)	301 715	198 676
General governments	-	2 356	2 356	2 356	-	(250)	-	-
Other financial corporations	38	65 295	65 295	65 295	(2)	(32 027)	26 680	26 659
Non-financial corporations	80 073	271 550	271 550	271 550	(3 777)	(107 191)	201 313	140 276
Households	47 017	54 334	54 334	54 334	(1 192)	(19 735)	73 722	31 741
Loan commitments granted	47	326	326	326	(1)	-	-	-
	127 175	**393 861**	**393 861**	**393 861**	**(4 972)**	**(159 203)**	**301 715**	**198 676**

QCredit quality of productive and non-productive exposures for days in arrears

(Euro thousand)

	Gross carrying amount												
	Perfoming exposures			Non-perfoming exposures									
		Not past due or past due <= 30 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 year <= 2 years	Past due > 2 years <= 5 years	Past due >5 years <= 7 years	Past due > 7 years	Of which: defaulted
Loans and advances	**12 307 906**	**12 276 282**	**31 625**	**598 434**	**342 968**	**20 046**	**30 221**	**60 706**	**44 089**	**12 254**	**88 150**	**598 434**
Central banks	1 253 948	1 253 948	-	-	-	-	-	-	-	-	-	-
General governments	101 654	101 654	-	2 356	-	-	-	2 356	-	-	-	2 356
Credit institutions	145 348	145 348	-	-	-	-	-	-	-	-	-	-
Other financial corporations	92 259	92 259	-	67 043	19 334	144	1 331	34 028	11 842	-	364	67 043
Non-financial corporations	4 117 210	4 107 624	9 587	412 537	246 903	12 439	18 201	12 942	27 385	10 541	84 127	412 537
Of which: SME	3 541 848	3 532 262	9 587	386 469	221 021	12 264	18 201	12 931	27 385	10 541	84 127	386 469
Households	6 597 487	6 575 449	22 038	116 498	76 731	7 463	10 689	11 380	4 862	1 713	3 659	116 498
Debt securities	**4 732 709**	**4 732 709**	**-**	**33 000**	**-**	**-**	**-**	**-**	**33 000**	**-**	**-**	**33 000**
General governments	4 131 978	4 131 978	-	-	-	-	-	-	-	-	-	-
Other financial corporations	89 580	89 580	-	33 000	-	-	-	-	33 000	-	-	33 000
Non-financial corporations	511 151	511 151	-	-	-	-	-	-	-	-	-	-
Off balance sheet exposures	**2 012 881**	**-**	**-**	**78 113**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	5 760			-								-
Credit institutions	194 700			-								-
Other financial corporations	25 875			10								-
Non-financial corporations	1 295 514			74 692								-
Households	491 032			3 411								-
	19 053 496	**17 008 991**	**31 625**	**709 547**	**342 968**	**20 046**	**30 221**	**60 706**	**77 089**	**12 254**	**88 150**	**631 434**

Credit quality of productive and non-performing exposures and their 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 imparments, 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	**12 307 906**	**10 238 915**	**2 060 264**	**598 434**	**598 192**	**(88 593)**	**(22 657)**	**(65 935)**	**(249 530)**	**(249 530)**	**(128 448)**	**8 858 016**	**281 740**
Central banks	1 253 948	1 253 948	-	-	-	-	-	-	-	-	-	-	-
General governments	101 654	99 623	2 031	2 356	2 356	(232)	(116)	(116)	(250)	(250)	(250)	6 687	-
Credit institutions	145 348	145 332	17	-	-	(24)	(24)	-	-	-	-	21	-
Other financial corporations	92 259	90 488	1 771	67 043	67 043	(507)	(426)	(81)	(32 531)	(32 531)	(600)	75 794	27 724
Non-financial corporations	4 117 210	3 079 157	1 029 325	412 537	412 344	(60 572)	(17 444)	(43 128)	(169 739)	(169 739)	(127 598)	2 671 342	196 281
Of which: SME	3 541 848	2 663 243	875 878	386 469	386 276	(54 344)	(15 230)	(39 114)	(161 704)	(161 704)	(99 598)	2 437 429	188 604
Households	6 597 487	5 570 367	1 027 120	116 498	116 449	(27 258)	(4 647)	(22 610)	(47 010)	(47 010)	-	6 104 172	57 735
Debt securities	**4 732 709**	**4 724 602**	**8 106**	**33 000**	**33 000**	**(9 374)**	**(8 360)**	**(1 013)**	**(14 272)**	**(14 272)**	**-**	**3 699**	**-**
General governments	4 131 978	4 131 978	-	-	-	(6 144)	(6 144)	-	-	-	-	-	-
Other financial corporations	89 580	87 315	2 265	33 000	33 000	(730)	(359)	(371)	(14 272)	(14 272)	-	-	-
Non-financial corporations	511 151	505 309	5 841	-	-	(2 500)	(1 857)	(642)	-	-	-	3 699	-
Off balance sheet exposures	**2 012 882**	**1 634 532**	**378 349**	**78 113**	**78 113**	**(10 623)**	**(4 557)**	**(6 066)**	**(8 894)**	**(8 894)**	**-**	**-**	**-**
General governments	5 760	5 735	25	-	-	(11)	(10)	-	-	-	-	-	-
Credit institutions	194 700	61 816	132 884	-	-	(559)	(12)	(547)	-	-	-	-	-
Other financial corporations	25 875	18 808	7 067	10	10	(53)	(24)	(30)	-	-	-	-	-
Non-financial corporations	1 295 514	1 086 104	209 410	74 692	74 692	(8 026)	(3 098)	(4 928)	(8 861)	(8 861)	-	-	-
Households	491 033	462 069	28 963	3 411	3 411	(1 974)	(1 413)	(561)	(33)	(33)	-	-	-
	19 053 497	**16 598 049**	**2 446 719**	**709 547**	**709 305**	**(108 590)**	**(35 574)**	**(73 014)**	**(272 696)**	**(272 696)**	**(128 448)**	**8 861 715**	**281 740**

Warranties obtained by swearing-in and enforcement proceedings

(Euro thousand)

	Warranties obtained by acquisition of possession	
	Value at initial recognition	Accumulated negative changes
Tangible fixed assets		
Others, except tangible fixed assets	446 236	(122 091)
Real estate	249 183	(51 774)
Comercial real estate	161 595	(57 311)
Movable goods (automobile, vessel, etc.)	48	(47)
Others, except tangible fixed assets	35 410	(12 959)
	446 236	**(122 091)**

59 Relevant facts

Election of Corporate Bodies

The General Assembly of Banco Montepio, in its annual session of 29 April 2022, proceeded to elect new members of the corporate bodies for the term of office 2022-2025.

Following the final endorsement granted by the Bank of Portugal, the composition of the corporate bodies of Banco Montepio was changed, namely the Presiding Board of the General Meeting, the Board of Directors and the Audit Committee, taking office on 25 July 2022.

60 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.

Sale of Finibanco Angola

In August 2023, the Banco Montepio Group finalized the sale of the stake it still held in Finibanco Angola, equivalent to 29.22% of the share capital, to Access Bank, for the amount of Kwanza 9,046,897 thousand, equivalent to Euro 9,983 thousand.

With the sale of the entire stake in Finibanco Angola, the Banco Montepio Group no longer has any exposure to the Angolan market, having materialized the strategy of simplifying the Group's corporate structure and focusing on the domestic market.

Montepio Investimento, S.A.

Montepio Holding, SGPS, S.A. (Montepio Holding) agreed to sell the 100% stake held in the share capital of Montepio Investimento, S.A., a bank with the commercial name BEM - Banco Empresas Montepio (BEM), to RAUVA Enterprises, S.A., a growing fintech, with registered office in Portugal.

The agreement was formalized with the signing of a share purchase and sale agreement (SPA – Share Purchase Agreement), which is subject, in particular, to the verification of certain precedent conditions necessary for the closing of the transaction, including approval by the supervisory and regulatory authorities.

Before the completion of the transaction, the transfer to Banco Montepio of all assets, liabilities and operations of BEM will be carried out. This transfer falls within the scope of the process of integrating BEM’s activity in Banco Montepio, which will allow capturing synergies and, simultaneously, preserving and enhancing the integrated value proposition of commercial banking and investment banking, successfully developed by the institution, with the purpose of better serving customers at all times.

The sale value will be based on a multiple of between 1,15x and 1,18x of the equity of BEM at the date of completion of the transaction, estimated at Euro 30 million. According to the information available to date, it is not possible to accurately estimate the value of the positive impact on the results of Banco Montepio.

Continuing the simplification of the corporate structure and improvement of the Group's operating model, with the finalization of this agreement, Banco Montepio takes another important step in the implementation of the commitments assumed in the Adjustment Program.

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.

R E P O R T   A N D   A C C O U N T S

ACCOUNTS AND NOTES TO THE INTERIM CONDENSED INDIVIDUAL ACCOUNTS

1ST HALF

2023

Banco Montepio

Banco Montepio

Interim Condensed Individual Income Statement
for the six months periods ended on 30 June 2023 and 2022

(Euro thousand)

	Notes	Jun 2023	Jun 2022
Interest and similar income	2	260 415	122 905
Interest and similar expense	2	80 186	30 209
Net interest income		180 229	92 696
Dividends from equity instruments	3	807	951
Net fee and commission income	4	63 579	56 326
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	5	8 860	2 668
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	6	55	1 233
Net gains/ (losses) arising from exchange differences	7	935	3 781
Net gains/ (losses) arising from sale of other financial assets	8	4 854	13 455
Other operating income/ (expense)	9	(22 191)	(34 816)
Total operating income		237 128	136 294
Staff costs	10	72 278	63 953
General and administrative expenses	11	28 027	25 503
Depreciation and amortization	12	17 276	15 916
Total operating cost		117 581	105 372
Impairment of loans and advances to customers and to credit institutions	13	5 723	(4 689)
Impairment of other financial assets	14	1 672	1 570
Impairment of other assets	15	51 032	8 665
Other provisions	16	(3 450)	(2 615)
Profit before income tax		64 570	27 991
Income Tax			
Current		3 054	(2 102)
Deferred		(34 348)	(16 839)
Net profit/ (loss) for the period		33 276	9 050
Earnings per share			
Basic		0.028	0.004
Diluted		0.028	0.004

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 2023 and 2022

(Euro thousand)

	Notes	Jun 2023	Jun 2022
Items that may be reclassified into the Income Statement			
Fair value reserves			
Financial assets at faur value			
through other comprehensive income			
Debt instruments	40	617	(4 473)
Taxes related fair value changes	28 and 40	(290)	1 387
		327	(3 086)
Items that will not be reclassified into the Income Statement			
Fair value reserves			
Financial assets at faur value			
through other comprehensive income			
Equity instruments	40	336	(73)
Remeasurements of post-employment and long-term benefits	44	(17 698)	128 822
Taxes on changes in liabilities	28	5 864	-
		(11 498)	128 749
Other comprehensive income/ (loss) for the period		(11 171)	125 663
Net profit/ (loss) for the period		33 276	9 050
Total comprehensive income/ (loss) for the period		22 105	134 713

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Condensed Individual Balance Sheet on 30 June 2023 and 31 December 2022

(Euro thousand))

	Notes	Jun 2023	Dec 2022
Assets			
Cash and deposits at central banks	17	630 051	1 383 801
Loans and deposits to credit institutions payable on demand	18	110 211	83 372
Other loans and advances to credit institutions	19	360 647	397 310
Loans and advances to customers	20	11 019 819	11 076 135
Financial assets held for trading	21	73 022	10 059
Financial assets at fair value through profit or loss	22	196 099	209 483
Financial assets at fair value through other comprehensive income	23	81 364	93 068
Other financial assets at amortized cost	24	4 588 001	4 615 731
Investments in associated companies	25	286 068	324 981
Other tangible assets	26	174 881	175 005
Intangible assets	27	49 247	46 942
Current tax assets	28	1 692	5 722
Deferred tax assets	28	388 956	417 557
Other assets	29	538 115	603 854
Total Assets		18 498 173	19 443 020
Liabilities			
Deposits from central banks	30	1 749 727	2 889 991
Deposits from other credit institutions	31	868 410	396 807
Deposits from customers	32	12 933 558	13 173 842
Debt securities issued	33	328 023	327 492
Financial liabilities associated to transfered assets	34	558 947	611 159
Financial liabilities held for trading	21	13 553	17 697
Provisions	35	24 799	28 624
Current tax liabilities	-	244	424
Other subordinated debt	36	211 301	217 029
Other liabilities	37	253 268	245 717
Total Liabilities		16 941 830	17 908 782
Equity			
Share capital	38	1 210 000	2 420 000
Legal reserve	39	196 833	193 266
Fair value reserves	40	4 638	3 975
Other reserves and Retained earnings	40	111 596	(1,118,673)
Net profit / (loss) for the period		33 276	35 670
Total Equity		1 556 343	1 534 238
Total Liabilities and Equity		18 498 173	19 443 020

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Condensed Individual Statement of Cash Flows
for the six months periods ended on 30 June 2023 and 2022

(Euro thousand)

	Jun 2023	Jun 2022
Cash flows arising from operating activities		
Interest income received	243 085	99 607
Interest expense paid	(24 842)	(32 466)
Commission income receuved	75 305	68 406
Commission income paid	(12 542)	(11 822)
Payments to employees and suppliers	(96 245)	(94 019)
Recovery of loans and interests	3 437	2 700
Other payments and receivables	(19 186)	45 935
Income tax payment	6 733	(2 140)
	175 745	76 201
(Increases) / decreases in operating assets		
Loans and advances to credit institutions and customers	97 279	(210 880)
(Purchase) / Sale of financial assets held for trading	(66 067)	66 731
(Purchase) / Sale of financial assets at fair value through profit or loss	19 736	-
(Purchase) / Sale of financial assets at fair value through other comprehensive income	12 920	4 879
(Purchase) / Sale of other financial assets at amortized cost	(24 071)	(1 102 306)
Other assets	42 471	90 833
	82 268	(1 150 743)
(Increases) / decreases in operating liabilities		
Deposits from customers	(253 783)	207 429
Deposits from credit institutions	470 749	(200 115)
Deposits from central banks	(1 185 000)	-
	(968 034)	7 314
	(710 021)	(1 067 228)
Cash from investing activities		
Dividends received (note 3)	807	951
Purchase of fixed assets (notes 27 and 28)	(18 484)	(14 400)
	(17 677)	(13 449)
Cash from financing activities		
Repayment of cash bonds and subordinated debt (notes 33 and 36)	-	(93 300)
Lease agreements	318	(4 396)
	318	(97 696)
Effect of changes in cash exchange rate and cash equivalents	469	4 884
Net change in cash and cash equivalents	(726 911)	(1 173 489)
Cash and cash equivalents at the beginning of the period:		
Cash and deposits at central banks (note 17)	1 383 801	2 943 744
Loans and advances to credit institutions payable on demand (note 18)	83 372	84 240
	1 467 173	3 027 984
Cash and cash equivalents at the end of the period:		
Cash and deposits at central banks (note 17)	630 051	1 789 033
Loans and advances to credit institutions payable on demand (note 18)	110 211	65 462
	740 262	1 854 495

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 Changes in Equity
for the six months periods ended on 30 June 2023 and 2022

(Euro thousand)

	Share capital (note 38)	Legal Reserve (note 39)	Fair value Reserve (note 40)	Retained earnings (note 40)	Total Shareholders equity
Balance on 31 December 2021	**2 420 000**	**193 266**	**8 974**	**(1 237 110)**	**1 385 130**
Other comprehensive income:	-	-	(3 159)	128 822	125 663
Remeasurements of post-employment and long-term benefits (note 44)	-	-	-	128 822	128 822
Changes in fair value of debt instruments (note 40)	-	-	(4 473)	-	(4 473)
Changes in fair value of equity instruments (note 40)	-	-	(73)	-	(73)
Reserves realized - Shares	-	-	1 387	-	1 387
Net income for the period	-	-	-	9 050	9 050
Total comprehensive income for the period	-	-	(3 159)	137 872	134 713
Balance on 30 June 2022	**2 420 000**	**193 266**	**5 815**	**(1 099 238)**	**1 519 843**
Other comprehensive income:	-	-	(1 840)	(10 385)	(10 838)
Remeasurements of post-employment and long-term benefits (note 44)	-	-	-	7 844	7 844
Changes in fair value of debt instruments (note 40)	-	-	(1 564)	-	(1 564)
Changes in fair value of equity instruments (note 40)	-	-	(1 082)	-	(1 082)
Earnings from equity instruments	-	-	-	1 873	1 873
Taxes related on changes in fair value (note 28)	-	-	2 193	-	2 193
Taxes on changes in liabilities (note 28)	-	-	-	(20 102)	(20 102)
Reserves realized - Shares	-	-	(1 387)	-	(1 387)
Net income for the period	-	-	-	26 620	26 620
Total comprehensive income for the period	-	-	(1 840)	16 235	14 395
Balance on 31 December 2022	**2 420 000**	**193 266**	**3 975**	**(1 083 003)**	**1 534 238**
Other comprehensive income:	-	-	663	(11 834)	(11 171)
Remeasurements of post-employment and long-term benefits (note 44)	-	-	-	(17 698)	(17 698)
Changes in fair value of debt instruments (note 40)	-	-	617	-	617
Changes in fair value of equity instruments (note 40)			336	-	336
Taxes related on changes in fair value (note 28)	-	-	(290)	-	(290)
Taxes on changes in liabilities (note 28)	-	-	-	5 864	5 864
Net income for the period	-	-	-	33 276	33 276
Total comprehensive income for the period	-	-	663	21 442	22 105
Capital reduction / Hedging negative retained earnings	(1 210 000)	-	-	1 210 000	-
Legal Reserve	-	3 567	-	(3 567)	-
Balance on 30 June 2023	**1 210 000**	**196 833**	**4 638**	**144 872**	**1 556 343**

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"), with registered office at Rua Castilho, no. 5, 1250-066, Lisbon, is a credit institution majority held by Montepio Geral Associação Mutualista (hereinafter "MGAM"), which was incorporated on 24 March 1844. Banco Montepio 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. Banco Montepio is authorized to perform banking operations in addition to those mentioned in its By-laws, if generally 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 2023 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2023.

The separate financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 29 September 2023. The condensed interim separate financial statements herein presented relate to 30 June 2023. These financial statements have been prepared, for the purposes of recognition and measurement, in accordance with IAS 34 Interim Financial Reporting ("IAS 34"), as endorsed by the European Union. Consequently, these financial statements do not include all the information required in the preparation of separate financial statements prepared in accordance with IFRS, as endorsed by the European Union, so they must be read in conjunction with the financial statements for the financial year ended 31 December 2022.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 Other 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.

   This portfolio also includes 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; and
   - 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 the management body, (iii) how risks are assessed and managed and (iv) how directors are remunerated.

Securities held for trading serve, essentially, 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, considering the frequency, value, the timing of sales in previous financial periods, the reasons for such sales and the expectations regarding future sales. Near-maturity sales and those motivated by the increased credit risk of the financial assets, or to manage concentration risk, among others, may be consistent with the model of holding assets to receive contractual cash flows, if those sales are infrequent (albeit significant in value) or if they are of an immaterial value, both individually and in aggregate (even if frequent). To the effect, 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 coincide with the reference interest rate term (for example, the interest rate is adjusted every three months), the Bank assesses, on initial recognition, such inconsistency in the interest component to determine whether the contractual cash flows represent only payments of principal and interest on the principal outstanding.

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

SPPI assessment

When the business model consists of 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. 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:

(ii) Financial liabilities at amortized cost

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

(iii) Financial assets held for trading

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

(iv) 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;

(v) 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) <u>Recognition and initial valuation of financial instruments</u>

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

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

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

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

- When the fair value is evidenced by the quotation in an active market of an equivalent asset or liability (i.e., level 1 inputs) or based on a valuation technique that uses only observable market data, the difference is recognized as a gain or loss; and
- In the remaining cases, the difference is deferred, and the moment of the initial recognition of the gain or loss is determined individually. This difference may then be (i) 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) <u>Subsequent valuation of financial instruments</u>

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

Whenever there is a change in the estimate of future cash flows, the new estimate of future cash flows is discounted at the initially estimated effective interest rate. The difference between the sum of these new future cash flows discounted at the initially estimated effective interest rate and the amount currently on the balance sheet is recognized in the income statement. Subsequently, interest continues to be accrued based on the original effective interest rate considering the estimated new cash flows and the amortized cost of the recalculated liability.

TLTRO III

Upon initial recognition of the TLTRO III programme, the Bank defined its effective interest rate based on its best estimate as to its compliance with the metrics defined by the programme. Subsequently, with the Bank having ensured compliance, in the second half of 2021, with the metrics for the change in the volume of eligible credit defined by the ECB for the special reference period between 1 March 2020 and 31 March 2021, which was confirmed by the ECB in September 2021, and in accordance with the provisions of IFRS 9 and to the extent that there was a significant change in future cash flows, the Bank updated the book value estimate of this financial liability, discounting the new estimate of future cash flows at the initially estimated effective interest rate. The difference between the sum of new future cash flows discounted at the initially estimated effective interest rate and the amount currently on the balance sheet was recognized directly in the income statement under the caption Other operating income/expense (see note 9).

Notwithstanding the additional special observation period having already ended on 31 December 2021, it is important to note that the policy followed by the Bank in this matter was to only update the effective interest rate of the TLTRO III programme after receipt of formal confirmation by the ECB, which only occurred in June 2022. Thus, on 30 June 2023, the Bank booked this formal confirmation by the ECB regarding the fulfilment of the targets for the variation of the volume of credit for the periods already ended, having carried out the respective remeasurement of the liability, through the recalculation of the amortized cost of the operation (for application of paragraph B5.4.6 of IFRS 9). With regard to subsequent periods and considering that future cash flows no longer depend on compliance with metrics, being only subject to the volatility of the respective index, the Bank calculates in each reporting period the future cash flows using the best estimate of the available interest rate, recalculating the effective interest rate to be applied prospectively for the purposes of calculating the amortized cost of the operation.

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 is that from financial assets and liabilities at fair value through profit or loss.

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

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

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

The gross book value of a contract is its 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 in 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.

b.7) *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. On the renegotiation date the initial recognition date is considered for the purpose of calculating impairment, including for the purpose of assessing whether a significant increase in credit risk has occurred. 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 the 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, which 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 shall continue to monitor whether there has been a significant increase in the credit risk of these assets, applying specific models for modified assets.

b.8) *De-recognition that does not result from a modification*

Financial assets granted are derecognized when the associated cash flows are extinguished, collected or disposed of to third parties and (i) the 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 have control of the asset. Gains and losses from the disposal of loans and advances to customers on a definitive basis are recorded in Other operating income/(expense). These gains or losses correspond to the difference between the sale value set and the book value of these assets, net of impairment losses.

The Bank engages in transactions in which it has the contractual right to receive cash flows from assets but assumes a contractual obligation to channel those cash flows to other entities and substantially transfers all the risks and rewards. These transactions result in de-recognition of the asset if the Bank:

- Does not have any obligation to make payments unless it receives equivalent amounts from the assets;
- It is prohibited from selling or pledging the assets;
- If it is obliged to remit any cash flow it receives from assets without material delays.

Guarantees granted by the Bank (shares and bonds) through repurchase agreements and securities' lending and borrowing operations are not 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.9) *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.10) *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 a cumulative balance sheet caption, which reduces the book value of the asset, while impairment of assets measured at fair value through other comprehensive income is recognized against other comprehensive income.

Impairment losses of loans and advances to customers and of other loans and advances to credit institutions in the financial year, measured at amortized cost, are recognized in the income statement in the caption Impairment of loans and advances, 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 allocations and reversals are recorded in the caption Other provisions in the income statement.

For the purpose of accounting for impairment losses of debt instruments, the following definitions shall be 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, considering 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, considering: (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 twelve-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 twelve months from the reference date.

b.11) <u>Impairment model of loans and advances to customers</u>

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, Other 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 originated 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.

b.11.1) Calculation of ECLs

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

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

b.11.2) 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;
- Unproductive loans, that is, when interest relating to loan obligations is no longer recognized in the financial statements due to the degradation of credit quality;
- Individually significant customers with individual impairment;
- Sale of loan contract with loss in excess of 5%;
- Bankruptcy/insolvency customers;
- Customers with loans written off from assets in Banco Montepio or in the CCR, in the case of Corporate customers;
- 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.11.3) Significant increase in credit risk (SICR)

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

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

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

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

When evaluating the significant increase in credit risk, Banco Montepio also considers the existence of arrears of more than 30 days, as well as other indicators of Customer behaviour vis-à-vis 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 Bank of Portugal's Central Credit Register ("CCR") ("Central de Responsabilidades de Crédito").

b.11.4) Additional Stage criteria and deterioration of credit ratings

In the context of the recent energy crisis, high inflation environment and the consequent successive increases in the reference interest rates and with the aim of anticipating the risk degradation associated with exposures most impacted, the following additional criteria were considered for Stage 2 classification level:

Stage 2

- Corporate customers for which the Bank, through a specific analysis of their activity sector, concludes that they are in a more vulnerable situation and, therefore, are at greater risk of default;
- Individuals, whose average balances of demand and time deposits are lower than the value of the instalment, which rating, according to the internal scale, is equal to or greater than 11. For these customers, a worsening of the scoring rating to the minimum rating for classification in stage 2 is also considered, considering their original rating and the thresholds for classification in stage 2 defined internally.

b.11.5) 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 includes 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 supported on 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 and arrear 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.

b.11.6) 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 the debtor, 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. If the impairment value determined is zero, the average impairment rate of financial assets classified in Stage 2 of the same segment is attributed, calculated on a collective basis, in accordance with the collective analysis methodology. Likewise, whenever, through individual analysis, a lower rate than the one previously mentioned is determined, said rate prevails.

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 determined.

All Customers or economic groups that meet the following criteria are subject to individual analysis:

- Economic Groups with a global exposure amount ≥ 0.5 m€ in which at least one of the participants is the holder of operations classified as Stage 3, with Customers with an exposure amount ≥ 0.5 m€ being selected;
- Customers holding Stage 2 operations with an exposure amount ≥ 2.5 m€ and Customers with an exposure amount ≥ 2.5 m€ that are part of the same Economic Group;
- Customers holding Stage 1 operations with an exposure amount ≥ 5.0 m€;
- Customers corresponding to Shareholding Management Companies (SGPS) with an economic activity code (CAE) starting with 642 (holding and financial holding companies) with an exposure amount ≥ 2.5 m€;
- Customers holding loans under Project Finance with an exposure amount ≥ 2.5 m€;
- Customers that met the above-mentioned criteria in the last 3 months;
- 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 written off.

The individual analysis is the responsibility of the Individual Impairment Office 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 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 materializes 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 of the Company:

- In the case of a 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 a 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 the above referred 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.12) 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.13) Synthetic securitization

On 31 May 2023, Banco Montepio carried out an operation that configures a synthetic securitization structure, which has underlying it a portfolio of loans to individuals with mortgage guarantee. As this is a synthetic operation, it does not involve any credit assignment, being based on the contracting of credit risk protection insurance that focuses on the mezzanine component of the structure, with Banco Montepio maintaining an exposure to the senior, junior and Synthetic Excess Spread components (equivalent to one year's Expected Loss of the securitized portfolio). The mezzanine risk of the operation is thus assumed by market counterparties, in order to substantiate the significant transfer of risk, with reference to the underlying portfolio, promoting its prudential derecognition. This new securitization is uncollateralized in nature, without recourse to SPV or similar, thus not constituting a Simple Transparent and Standardized (STS) operation.

On 21 December 2022, Banco Montepio carried out an operation that configures a synthetic securitization structure, which has underlying it a portfolio of loans to individuals with mortgage guarantee. As this is a synthetic operation, it does not involve any credit assignment, being based on the contracting of a financial guarantee that focuses on the mezzanine component of the operation, with Banco Montepio maintaining an exposure to the senior, junior and Synthetic Excess Spread components (equivalent to one year's Expected Loss of the securitized portfolio). The mezzanine risk of the operation is thus assumed by market counterparties, in order to substantiate the significant transfer of risk, with reference to the underlying portfolio, promoting its prudential derecognition. The securitization in question was structured in such a way that it can be categorized as Simple Transparent and Standardized (STS), with same being certified by Prime Collateralized Securities (PCS). As this is a collateralized operation, the structuring uses a Special Purpose Vehicle (SPV) established for this purpose in Ireland. This SPV is not subject to consolidation by Banco Montepio.

On 18 December 2020, Banco Montepio contracted an operation that configures a synthetic securitization structure, which is based on a loan portfolio of Small and Medium-sized Enterprises (SMEs). 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 (18.0% 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 are the guarantors of the senior and mezzanine tranches, with Banco Montepio bearing a commission of 0.3% and 4.5% (after the retrocession effect) to guarantee each of the tranches, respectively. Banco Montepio retained the risk of the junior and of the excess spread tranches.

The operations in question aim to reinforce the CET1 ratio, not generating any increase in liquidity, and only capturing prudential effects. In these operations there were no sales of loans to third parties, with no transfers of collections taking place.

With these operations, Banco Montepio reduced the risk-weighted assets (RWAs) associated with the loan and advances to customers' portfolio without, however, there being any accounting de-recognition of financial assets. However, as most of the risks and benefits associated with the loans in question were not transferred, the derecognition criteria of the financial assets defined in the accounting policy presented in b.8) above are not met.

c) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Fair value hedging

In a fair value hedging operation of an asset or liability, the balance sheet value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in its fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognized in the income statement, together with changes in the fair value of the hedged assets or liabilities, attributable to the hedged risk. In cases where the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income, the changes in fair value are also recognized in other comprehensive income. If the hedge no longer meets the effectiveness requirement, but the risk management objective remains, Banco Montepio may adjust the hedge to comply with the eligibility criteria. If the hedge fails to meet the criteria required for hedge accounting (in the event that the hedge instrument expires, is sold, terminated or exercised, without having been replaced according to the entity's documented risk management objective), the derivative financial instrument is transferred to the trading book and hedge accounting is discontinued prospectively. If the hedged asset or liability corresponds to a fixed-income instrument, the revaluation adjustment is amortized via the income statement until its maturity using the effective interest rate method.

Cash flow hedging

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

d) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently of its legal form, evidencing a residual interest in the assets of an entity after deducting all 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 other loans and advances to credit institutions. The receivables are collateralized by the related securities.

Securities sold through repurchase agreements (repos) continue to be recognized 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 associates

Investments in subsidiaries and associates 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).

Associates 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 associates 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 associates 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 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 assets in the caption Other assets, due to their length of stay in the portfolio exceeding 12 months. The accounting method is 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.

Lessee 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 modification 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;
- a modification 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 modification of the lease agreement 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.

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

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

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

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

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

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

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

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

Regarding 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;
- in the caption Cash flows from financing activities - Finance lease agreements, which includes the amounts related to payments of the capital portion of the lease liabilities.

Lessor perspective

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

Within the scope of its activity, the Bank classifies as finance leases, operations in which, substantially, all the risks and rewards associated with the leased asset are transferred to the lessee.

These are recorded as a loan granted in the Loans and advances to customers caption of the balance sheet by the sum of the present value of all instalments receivable from the lessee during the lease term and any unsecured residual value that the lessee is responsible for. These include fixed instalments (less payments made by the lessee) as well as variable instalments determined with reference to an index or rate, as well as the exercise price of the purchase option, if there is reasonable certainty that it will be exercised by the lessee, and lessee termination penalties if the lease term reflects the exercise of the termination option.

Financial income obtained as a lessor is recorded in the income statement under the caption Interest and similar income.

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:

4. 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: income in the form of account maintenance fees);
5. 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);
6. 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:

   (iv) 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) are received in advance and are deferred and recognized over the life of the operation;

   (v) Commissions agreed for the commitment to provide financing 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 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
Other fixed assets	4 to 10

Whenever there is an indication that a tangible fixed asset might be impaired, its recoverable amount is estimated, and an impairment loss is recognized if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use, this being calculated based on the present value of the future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

The impairment losses of tangible fixed assets are recognized in profit or loss for the period.

Gains or losses on the disposal of assets are determined by the difference between the realizable value and the book value of the asset and are recognized in the income statement.

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, deposits at central banks and deposits at other credit institutions.

The concepts used in the presentation of the statements of cash flow are as follows:

- Cash Flows: Cash and cash equivalents include cash, deposits at central banks and 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;
- Investing activities: the acquisition, sale or other disposals of long-term assets, such as financial shareholdings in subsidiaries and associates, 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 plan

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 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 44.

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 that of 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 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 (i) the termination of the employment relationship between the Bank and the employee as a consequence of a Bank decision, (ii) the creation of a valid expectation for the employee or (iii) 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 came to be 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.

The recording of the tax impacts of transactions carried out by the Banco Montepio corresponds to Management's understanding of the applicable tax treatment in light of the legislation issued. In situations where interpretation takes place and this is questioned by the Tax Administration, Management reanalyses same, assessing the probability of there being a liability to be recorded, depending on whether the probability of paying same is higher or lower than 50%.

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 its 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: (i) It is unlikely that an outflow of resources incorporating economic benefits will be required to settle that obligation; and (ii) 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:

- 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;
- 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:

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.

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 military conflict underway in Ukraine. 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 twelve-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 variables and how each 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:*

The loss given default 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.

The use of alternative methodologies and different assumptions and estimates could result in a different level of the impairment losses recognized and presented in notes 19, 20, 23 and 24, with a consequent impact in the income statement of Banco Montepio.

Given the uncertainty of the current international economic context caused by the military conflict in Ukraine, in accordance with the provisions of IFRS 9, Banco Montepio updated, for the purposes of measuring credit impairment losses, the prospective information related to the macroeconomic data available on risk parameters, determining impacts at the level of the expected credit loss (see notes 13 and 48).

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 21, 22 and 23. The detail of the fair value calculation of derivative financial instruments and other financial assets carried at fair value is presented in note 43.

Impairment of investments in subsidiaries and associates

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 associates 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 25, 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 financial year and presented in note 28. 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 with reference to 30 June 2023, the tax rules resulting from Law no. 98/2019, of 4 September, were applied, 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.

The Portuguese Tax and Customs Authority is entitled to review the annual taxable income assessment made by Banco Montepio for a period of four years, save where any deduction or tax credit has been made, in which case the period is that of the exercise of that right. Hence, corrections to the assessments may occur, mainly because of differences in interpretation of tax law. The Board of Directors considers it improbable that these will have a materially relevant effect on the financial statements.

Pensions and other post-employment and long-term benefits

The determination of the pension payment liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as the discount rate, pension and salary growth rates and mortality tables, estimated return on investments and others factors that may have an impact on the pension plan costs and liabilities.

Changes to these assumptions could have a significant impact on the amounts determined and presented in note 44.

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.

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 29.

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 35.

Recoverable amount of own properties

The measurement of impairment considers the principles defined in IAS 36, which requires that their recoverable amount be determined as the lower of their fair value and their value in use, being calculated based on the present value of the estimated future cash flows expected to be obtained from the continued use of the assets and from their disposal.

Alternative methodologies and the use of different assumptions and estimates could result in different conclusions about the recoverable amount of the Bank's own properties.

2 Net interest income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Interest and similar income		
Loans and advances to customers	229 359	102 974
Other financial assets at amortized cost	17 642	4 455
Deposits and other loans and advances to credit institutions	12 970	11 883
Financial assets held for trading	161	41
Financial assets at fair value through other comprehensive income	267	286
Hedging derivatives	-	3 263
Financial assets at fair value through profit or loss	6	3
Other interest and similar income	10	-
	260 415	122 905
Interest and similar expense		
Deposits from customers	22 207	2 966
Financial liabilities associated to transferred assets	11 985	5 857
Deposits from central banks and other credit institutions	32 297	3 968
Other subordinated debt	9 684	9 435
Financial liabilities held for trading	-	-
Hedging derivatives	-	1 116
Lease liabilities	192	226
Other interest and similar expense	3 290	2 508
	80 186	30 209
Net interest income	180 229	92 696

The caption Interest and similar income – Loans and advances to customers, as at 30 June 2023, includes, respectively, the amount of Euro 8,093 thousand and the amount of Euro 3,803 thousand (30 June 2022: Euro 7,405 thousand and Euro 1,231 thousand), related to commissions and to other expenses, 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 2023, includes the amount of Euro 6 thousand (30 June 2022: Euro 3 thousand) related to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

For financing lines under the TLTRO III programme, the Bank considers that the operation consists of a loan with a floating rate, indexed to the Deposit Facility Rate (DFR), which is also subject to the achievement of the targets in respect of the change in the volume of eligible credit defined by the ECB. In June 2022, the Bank obtained confirmation from the European Central Bank of the compliance with the change in the volume of the eligible credit targets defined by the ECB, namely for the period 24 June 2020 through 23 June 2022. Hence, for the referred interest counting period, the Bank used the rate of -1%. The rate of the subsequent periods coincided, until 23 November 2022, with the DFR's average verified since the start of each one of the tranches; as from that date the rate is adjusted with the DFR in force at each moment.

The caption Interest and similar expense – Other interest and similar charges includes, as at 30 June 2023, the amount of Euro 3,289 thousand (30 June 2022: Euro 2,506 thousand) related to costs incurred with the synthetic securitization operations.

3 Dividends from equity instruments

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Financial assets at fair value through other comprehensive income	807	951
	807	951

As at 30 June 2023, this caption includes, essentially, dividends received from Unicre in the amount of Euro 573 thousand and from SIBS in the amount of Euro 186 thousand (30 June 2022: Euro 505 thousand received from Unicre and Euro 406 thousand from SIBS).

4 Net fee and commission income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Fee and commission income		
From banking services	55 627	49 729
From transactions on behalf of third parties	11 312	11 654
From insurance brokerage services	4 737	3 731
Guarantees provided	2 050	1 711
Other fee and commission income	1 579	1 581
	75 305	68 406
Fee and commission expense		
From banking services rendered by third parties	10 821	10 400
From transactions with securities	135	215
Other fee and commission expense	770	1 465
	11 726	12 080
Net fee and commission income	63 579	56 326

As at 30 June 2023 and 2022, the caption Insurance brokerage services has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Life insurance	2 187	1 588
Non-life insurance	2 550	2 143
	4 737	3 731

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..

5 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 2023			Jun 2022		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	1 105	578	527	1 185	4 326	(3.141)
Issued by other entities	49	23	26	38	31	7
Shares	783	436	347	410	871	(461)
Investment units	5	17	(12)	67	322	(255)
	1 942	1 054	888	1 700	5 550	(3.850)
Derivative financial instruments						
Interest rate contracts	38 572	36 786	1 786	55 927	59 605	(3.678)
Exchange rate contracts	11 951	12 056	(105)	14 048	14 097	(49)
Futures contracts	5 535	6 310	(775)	5 750	3 850	1 900
Option contracts	4 156	4 026	130	1 657	1 830	(173)
Commodities contracts	-	-	-	195	-	195
	60 214	59 178	1 036	77 577	79 382	(1.805)
Financial assets at fair value through profit or loss						
Loans and advances to customers	1 260	508	752	1 678	1 959	(281)
	70	51	19	20	364	(344)
	1 330	559	771	1 698	2 323	(625)
Securities						
Shares	16	-	16	-	(23)	23
Securitization units	5 623	950	4 673	8 038	(752)	8 790
Loans and advances to customers	21	16	5	-	67	(67)
	5 660	966	4 694	8 038	(708)	8 746
Financial liabilities at fair value through profit or loss						
Deposits from customers	2 229	758	1 471	737	-	737
Hedging derivatives						
Interest rate contracts	-	-	-	6 360	9 608	(3.248)
	-	-	-	6 360	9 608	(3.248)
Hedged financial liabilities						
Debt securities issued	-	-	-	2 713	-	2 713
	-	-	-	2 713	-	2 713
	71 375	62 515	8 860	98 823	96 155	2 668

Financial assets at fair value through profit or loss include, on 30 June 2023, in terms of Investment units, a positive impact of Euro 752 thousand (30 June 2022: negative impact of Euro 281 thousand), determined by the positive effects of Fundo VIP (fund) of Euro 853 thousand, of C2 Growth I (fund) of Euro 942 thousand, of Fundo CR Revitalizar Centro (fund) of Euro 301 thousand and of Fundo Vega (fund) of Euro 159 thousand, which partially offsets the negative effects of Fundo Carteira Imobiliária (fund) of Euro 868 thousand and of Fundo Reestruturação Empresarial (fund) of Euro 522 thousand.

The Net gains/(losses) arising from the securitization fund units reflect the change in the value of the securitized loan volume, which as at 30 June 2023 recorded the amount of Euro 562,179 thousand (30 June 2022: Euro 671,799 thousand).

6 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 2023			Jun 2022		
	Gains	Losses	Total	Gains	Losses	Total
Fixed-income securities						
Bonds						
Issued by public entities	2	-	2	18	1 058	(1 040)
Issued by other entities	24	-	24	-	-	-
Commercial paper	29	-	29	2 273	-	2 273
	55	-	55	2 291	1 058	1 233

As at 30 June 2023, the caption Bonds – Issued by public entities includes net gains obtained on the sale of Portuguese sovereign bonds in the amount of Euro 2 thousand. As at 30 June 2022, this caption included net losses generated on the sale of Portuguese sovereign bonds in the amount of Euro 1,040 thousand.

7 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023			Jun 2022		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differencies	10 883	9 948	935	12 490	8 709	3 781

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

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

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Disposal of financial assets at amortized cost	1 070	-
Disposal of other assets	3 817	9 337
Disposal of loans and advances to customers	(33)	4 118
	4 854	13 455

In the first half of 2022, the caption Disposal of loans and advances to customers considers the result of the sale of secured loans and advances in the scope of the Gerês operation with the realization of a capital gain of Euro 4,118 thousand.

The caption Disposal of other assets considers the result of the sale of properties related to assets received in recovery of credit, with a capital gain of Euro 5,309 thousand being recorded in the first half of 2022 on the sale of real estate.

9 Other operating income/(expense)

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Other operating income		
Management fees on demand deposits	1 690	1 656
Services provided	2 537	2 058
Reimbursement of expenses	1 242	1 056
Income from the valuation of financial liabilities	-	-
Other	3 500	3 425
	8 969	10 301
Other operating expenses		
Contributions:		
Banking sector	10 857	11 300
Ex-ante to the Single Resolution Fund	5 021	8 215
National Resolution Fund	2 131	4 707
Deposits Guarantee Fund	144	153
Revaluation of investment properties	-	11 921
Expenses with trading properties	3 373	3 428
Servicing and expenses with recovery and disposal of loans	3 066	1 535
Expenses with issuances	636	424
Taxes	364	767
Donations and memberships	154	75
Other	5 414	2 592
	31 160	45 117
Other net operating income/(expense)	(22 191)	(34 816)

On 30 June 2023, the caption Other operating income – Other, includes income associated with the recovery of credit in the amount of Euro 821 thousand (30 June 2022: Euro 556 thousand) and with the restitution of taxes in the amount of Euro 253 thousand (30 June 2022: Euro 1,191 thousand).

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 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 first half of 2023 and 2022, 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 2023, Banco Montepio had settled Euro 11,325 thousand (30 June 2022: Euro 9,867 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 19. For irrevocable payment commitments only cash collateral is accepted.

The caption Contribution to the National Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are 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 expense - Servicing and expenses with the recovery of credit registers the servicing costs charged by third parties related to a portfolio of non-performing loans.

The caption Other operating expense – Expenses with properties held for trading includes, on 30 June 2023, the amount of Euro 1,410 thousand (30 June 2022: Euro 1,356 thousand) related to services provided by Montepio - Gestão de Activos Imobiliários, A.C.E..

On 30 June 2022, the caption Other operating expense – Losses on the valuation of financial liabilities considers Euro 11,921 thousand in respect of a loss arising from the change in the estimate of the book value of the financing lines in the TLTRO III programme which occurred in the first half of 2023 (see note 1 b.4). This change resulted from (i) the formal confirmation in June 2022 by the ECB of compliance with the targets for the change in the volume of credit for the periods already ended and (ii) the revision of the interest rate to be applied to the next periods, which are no longer dependent on compliance with metrics, being only associated with the future evolution of the DFR, which was revised upwards by the ECB, with the Bank proceeding to update the estimate of future cash flows accordingly. As a result, the difference between the sum of the new future cash flows discounted at the initially estimated effective interest rate and the balance sheet value at the time was recognized directly under Other operating income (by application of paragraph B5.4.6 of IFRS 9).

The caption Other operating expense - Other includes card issuance costs, commission refunds, ECB supervision fee and other operating expense.

10 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Remuneration	51 407	46 650
Mandatory social charges	14 788	14 112
Charges with Pension Funds	1 824	1 180
Other staff costs	4 259	2 011
	72 278	63 953

On 30 June 2023, the caption Staff costs includes the amount of Euro 5,491 thousand, within the scope of the Employee Adjustment Programme related to the resulting charges arising from early retirements and mutual-agreement terminations.

In 2022, the members of the Corporate Bodies did not receive any variable remuneration. In the first half of 2023, members of the Corporate Bodies received the amount of Euro 78 thousand, related to variable remuneration of 2021. 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 are presented as follows:

(Euro thousand)

	Jun 2023			
	General Meeting Board	Board of Directors	Other key management staff	Total
Remuneration and other short-term benefits	4	1 578	1 771	3 353
Pension costs	-	310	61	371
Costs with healthcare benefits (SAMS)	-	8	32	40
Social Security charges	1	340	385	726
	5	2 236	2 249	4 490

(Euro thousand)

	Jun 2022			
	General Meeting Board	Board of Directors	Other key management staff	Total
Remuneration and other short-term benefits	7	1 645	1 609	3 261
Pension costs	-	411	96	507
Costs with healthcare benefits (SAMS)	-	8	30	38
Social Security charges	1	314	355	670
	8	2 378	2 090	4 476

As at 30 June 2023, loans granted to members of the Board of Directors (including the members of the Audit Committee) amounted to Euro 122 thousand (30 June 2022: Euro 571 thousand) and to key management personnel, Euro 2,772 thousand (30 June 2022: Euro 2,819 thousand), as described in note 46.

11 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Rental costs	321	254
Specialized services		
IT services	7 385	6 164
Independent work	2 754	2 067
Other specialized services	7 471	6 902
Maintenance and repairs	2 354	2 180
Communication costs	1 954	1 878
Advertising costs	1 463	1 729
Transportation	1 250	1 039
Water, energy and fuel	830	1 171
Insurance	473	483
Travel, accommodation and entertainment expenses	443	316
Training	396	404
Consumables	233	249
Other general administrative costs	700	667
	28 027	25 503

The caption Rents and hires includes, as at 30 June 2023, the amount of Euro 104 thousand (30 June 2022: Euro 45 thousand) relating to short-term leases, of which Euro 56 thousand (30 June 2022: Euro 19 thousand) correspond to rents paid on properties and Euro 48 thousand (30 June 2022: Euro 26 thousand) refer to rents paid on vehicles, in both cases used by Banco Montepio while lessee.

12 Depreciation and amortization

The amount of this caption has the following breakdown:

(milhares de euros)

	jun 2023	jun 2022
Intangible assets (note 26)		
Software	10 956	8 987
Other tangible assets (note 27)		
Real Estate		
For own use		
Leasehold improvements in rented buildings	1 254	1 274
Equipment	47	124
IT equipment		
Fixtures	939	1 189
Furniture	775	770
Security equipment	55	58
Machinery and tools	41	41
Transportation	18	18
Right-of-use assets	4	4
Real Estate		
Motor vehicles		
Imóveis	2 131	2 634
Viaturas	1 056	817
	6 320	6 929
	17 276	15 916

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).

13 Impairment of loans and advances to customers and to credit institutions

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Other loans and advances to credit institutions (note 19)		
Charge for the period	30	592
Reversal for the period	(584)	(373)
	(554)	219
Loans and advances to customers (note 20)		
Charge for the period	165 276	188 077
Reversal for the period	(155 562)	(190 285)
Recovery of loans and interest	(3 437)	(2 700)
	6 277	(4 908)
	5 723	(4 689)

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

14 Impairment of other financial assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Financial assets at fair value through other comprehensive income (note 23)		
Charge of the period	28	203
Reversal of the period	-	(3)
	28	200
Other financial assets at amortized cost (note 24)		
Charge of the period	1 644	1 374
Reversal of the period	-	(4)
	1 644	1 370
	1 672	1 570

15 Impairment of other assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Investments in associated companies (note 25)		
Charge for the period	39 551	107
	39 551	107
Other tangible assets (note 26)		
Charge for the period	1 107	514
Reversals for the period	-	(265)
	1 107	249
Other assets (note 29)		
Charge for the period	10 801	9 505
Reversals for the period	(427)	(1 196)
	10 374	8 309
	51 032	8 665

16 Other provisions

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2023	Jun 2022
Guarantees and commitments (note 36)		
Charge for the period	9 854	11 209
Reversals for the period	(13 096)	(11 091)
	(3 242)	118
Other risks and charges (note 36)		
Charge for the period	332	-
Reversals for the period	(540)	(2 733)
	(208)	(2 733)
	(3 450)	(2 615)

17 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Cash	147 443	149 888
Deposits at central banks		
Bank of Portugal	482 608	1 233 913
	630 051	1 383 801

The caption Deposits at central banks – Bank of 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.

18 Deposits and loans and advances to credit institutions repayable on demand

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Credit institutions in Portugal	1 388	693
Credit institutions abroad	76 928	50 427
Amounts to be collected	31 895	32 252
	110 211	83 372

The caption Amounts to be collected refers to cheques drawn by third parties on other credit institutions, and which are due for collection.

In the first half of 2023, the Deposits at other credit institutions and central banks were remunerated at the average rate of 2.26% (2022: 1.06%).

19 Other loans and advances to credit institutions

This caption is presented as follows:

	(Euro thousand)	
	Jun 2023	**Dec 2022**
Loans and advances to credit institutions in Portugal		
Other loans	246 193	332 674
Term deposits	2 810	2 863
	249 003	335 537
Loans and advances to credit institutions abroad		
CSA's	49 947	29 690
Term deposits	11 209	16 039
Reverse repos	21 970	-
Other loans and advances	29 535	17 400
	112 661	63 129
	361 664	398 666
Impairment for credit risk of loans and advances to credit institutions	(1 017)	(1 356)
	360 647	397 310

As at 30 June 2023 and 31 December 2022, the caption Loans, included in Other loans and advances to credit institutions in Portugal - Loans, includes loans made to subsidiaries of Banco Montepio.

Credit Support Annexes ("CSA's") are contracts that regulate the delivery, reception and monitoring of collateral delivered/received to cover the exposure of a counterparty of the contract to the other, as a result of open positions in over-the-counter derivatives. Despite the fact that collaterals under the CSA contracts can take the form of securities or cash, in Banco Montepio's case, all collaterals are in the form of cash.

Collaterals in cash delivered (constitution of reinforcement) or received (collateral release) result from the changes in the fair value of the various derivative instruments that Banco Montepio negotiated with each one of the counterparties and are materialized through an effective transfer of cash, processed through TARGET2 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 2023, Banco Montepio holds an amount of Euro 11,209 thousand (31 December 2022: Euro 16,039 thousand) related to other loans and advances to credit institutions given as collateral for the above-mentioned operations.

As at 30 June 2023, the caption Term deposits included in Other loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 11,325 thousand (31 December 2022: Euro 9,867 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 9.

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

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	1 356	2 094
Charge for the period	30	849
Reversal for the period	(584)	(1.375)
Transfers	214	(214)
Exchange differences	1	2
	1 017	1 356

In the first half of 2023, the Other loans and advances to other credit institutions were remunerated at the average rate of 2.79% (2022: 0.97%).

20 Loans and advances to customers

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Corporate		
Loans not represented by securities		
Loans	2 931 962	3 017 766
Current account loans	761 518	720 713
Finance lease	257 750	268 636
Discounted bills	26 711	26 793
Factoring	243 203	223 813
Overdrafts	1 371	602
Other loans	308 721	299 277
Loans represented by securities		
Commercial paper	178 889	157 713
Bonds	218 622	139 561
Retail		
Mortgage loans	5 308 527	5 402 609
Finance leases	26 260	28 099
Consumer credit and other loans	867 370	866 035
	11 130 904	11 151 617
Value correction of assets subject to hedging operations	(69)	(74)
Past due loans and advances and interest		
Less than 90 days	5 615	7 987
More than 90 days	186 094	258 654
	191 709	266 641
	11 322 544	11 418 184
Impairment for credit risks	(302 725)	(342 049)
	11 019 819	11 076 135

As at 30 June 2023, the caption Loans and advances to customers includes the amount of Euro 2,751,612 thousand (31 December 2022: Euro 2,753,360 thousand) related to the issue of covered bonds realized by Banco Montepio, as referred to in note 33.

As at 30 June 2023, the loans and advances that Banco Montepio granted to its shareholders and to related parties including Companies of the consolidation perimeter, amounted to Euro 397,691 thousand (31 December 2022: Euro 360,785 thousand), as described in note 46. The celebration of business between Banco Montepio and its shareholders or with individual or legal persons related to these, according to article 20 of the Portuguese Securities Code, regardless of the value, is always submitted to deliberation and assessment by the Board of Directors and the Audit Committee, under a proposed made by the commercial network, supported by analyses and opinions as to the compliance with the limit established in article 109 of the Legal Framework of Credit Institutions and Financial Companies issued by the Risk Directorate. The impairment for credit risks related to these contracts amounts to Euro 2,274 thousand as at 30 June 2023 (31 December 2022: Euro 4,695 thousand).

As at 30 June 2023, the caption Loans and advances to customers includes the amount of Euro 562,180 thousand (31 December 2022: Euro 614,720 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 referred in note 47.

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 43.

The analysis of the caption Loans and advances to customers, by interest rate type, as at 30 June 2023 and 31 December 2022, is as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Variable-rate loans and advances	9 773 355	10 094 914
Fixed-rate loans and advances	1 549 189	1 323 270
	11 322 544	11 418 184

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

(Euro thousand)

	Jun 2023	Dec 2022
Asset-backed loans	155 818	184 751
Other guaranteed loans	22 439	30 613
Finance leases	4 038	2 199
Secured loans	-	33 000
Other loans and advances	9 414	16 078
	191 709	266 641

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

(Euro thousand

	Jun 2023	Dec 2022
Corporate		
Construction/Production	22 895	33 270
Investment	118 613	141 395
Treasury	24 534	56 017
Other	5 752	8 524
Retail		
Mortgage loans	14 124	15 806
Consumer credit	3 296	8 273
Other	2 495	3 356
	191 709	266 641

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 30 June 2023, 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	205 428	521 145	7 809 963	155 818	8 692 354
Other guaranteed loans	371 238	122 343	216 075	22 439	732 095
Finance leases	4 900	97 626	181 484	4 038	288 048
Secured loans	178 889	123 791	94 831	-	397 511
Other loans and advances	581 349	100 095	521 678	9 414	1 212 536
	1 341 804	965 000	8 824 031	191 709	11 322 544

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 31 December 2022, 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	194 627	563 200	8 005 121	184 751	8 947 699
Other guaranteed loans	320 350	112 935	224 541	30 613	688 439
Finance leases	5 137	97 812	193 786	2 199	298 934
Secured loans	157 957	69 755	69 562	33 000	330 274
Other loans and advances	549 834	149 721	437 205	16 078	1 152 838
	1 227 905	993 423	8 930 215	266 641	11 418 184

The outstanding amount of Finance leases, by residual maturity, as at 30 June 2023, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	57 341	155 443	119 174	331 958
Outstanding interest	(14.909)	(38.071)	(30.374)	(83.354)
Residual values	1 389	9 676	24 341	35 406
	43 821	127 048	113 141	284 010

The outstanding amount of Finance leases, by residual maturity, as at 31 December 2022, is analysed as follows:

(Euro thousand)

	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	55 195	151 836	113 502	320 533
Outstanding interest	(10 990)	(28 114)	(21 665)	(60 769)
Residual values	1 561	9 290	26 120	36 971
	45 766	133 012	117 957	296 735

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 2023	Dec 2022
Opening balance	342 049	499 471
Charge for the period	165 276	423 068
Reversal for the period	(155 562)	(403 100)
Utilization	(49.037)	(184.909)
Exchange rate differences	(479)	2 195
Transfers	-	1 107
Financial liabilities associated with transferred assets and stage 3 interest	478	4 217
Closing balance	302 725	342 049

The caption Transfers includes, in 2022, the impairment associated with the loans and advances included in the Gerês Secured operation.

The use of impairment corresponds to the loans and advances written off by 30 June 2023 and 31 December 2022 and to loan assignment operations to third parties.

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

(Euro thousand)

	Jun 2023	Dec 2022
Asset-backed loans and finance leases	240 092	255 973
Other secured loans	37 381	52 857
Unsecured loans	25 252	33 219
	302 725	342 049

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

(Euro thousand)

	Jun 2023	Dec 2022
Asset-backed loans and finance leases	22 121	107 540
Other secured loans	6 245	21 329
Unsecured loans	20 671	56 040
	49 037	184 909

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

Regarding the forbearance measures and in accordance with Implementing Regulation (EU) 2015/227, of 9 January 2015, contractual changes were considered (grace period of the principal, extension of the term, deferral of the principal, etc.) as were the consolidation of debts in another contract with conditions adjusted to the Customer's current situation.

As at 30 June 2023, 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 424,031 thousand (31 December 2022: Euro 512,906 thousand) and present an impairment of Euro 148,870 thousand (31 December 2022: Euro 162,394 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 2023 and 31 December 2022, by credit type, is as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Corporate		
Loans not represented by securities		
Loans	7 751	99 581
Current account loans	1 362	28 989
Finance leases	422	2 573
Other loans	637	31 013
Retail		
Mortgage loans	5 363	7 603
Consumer credit and other loans	206	2 435
	15 741	172 194

As at 30 June 2023, and as regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 2,680 thousand, which corresponds to an impairment rate of 17% (31 December 2022: Euro 40,011 thousand, impairment rate of 23.2%). The decrease in the impairment rate compared with December 2022 is explained by the greater collateralization of the newly restructured contracts.

Synthetic securitization

On 31 May 2023, Banco Montepio carried out a new synthetic securitization, which has underlying it a portfolio of loans to individuals with mortgage guarantee. The operation's legal maturity is 4 February 2066 and it amounts to Euro 807,797 thousand as at 30 June 2023.

On 21 December 2022, Banco Montepio carried out an operation that configures a synthetic securitization structure, which has underlying it a portfolio of loans to individuals with mortgage guarantee. The operation's legal maturity is 29 December 2052 and it amounts to Euro 739,852 thousand as at 30 June 2023 (31 December 2022: Euro 878,848 thousand).

On 18 December 2020, the 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 Enterprises (SMEs). The operation's legal maturity is 25 March 2036 and the respective amount is Euro 343,092 thousand as at 30 June 2023 (31 December 2022: Euro 402,444 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 4.5%, with quarterly payments.

21 Financial assets and liabilities held for trading

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

(Euro thousand)

	Jun 2023	Dec 2022
Financial assets held for trading		
Securities		
Shares	6 620	1 373
Bonds	58 986	1 869
Investment units	200	-
	65 806	3 242
Derivative instruments		
Derivative financial instruments with positive fair value	7 216	6 817
	73 022	10 059
Financial liabilities held for trading		
Derivative instruments		
Derivative financial instruments with negative fair value	13 553	17 697
	13 553	17 697

As provided for in IFRS 13, as at 30 June 2023 and 31 December 2022, the financial instruments measured in accordance with the valuation levels described in note 43, are as follows:

(Euro thousand)

	Jun 2023			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	6 620	-	-	6 620
Bonds	58 986	-	-	58 986
Investment units	200	-	-	200
	65 806	-	-	65 806
Derivative instruments				
Derivative instruments with positive fair value	-	7 211	5	7 216
	65 806	7 211	5	73 022
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	8 974	4 579	13 553
	-	8 974	4 579	13 553

(Euro thousand)

	Dec 2022			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	1 373	-	-	1 373
Bonds	1 869	-	-	1 869
	3 242	-	-	3 242
Derivative instruments				
Derivative instruments with positive fair value	-	6 817	-	6 817
	3 242	6 817	-	10 059
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	7 694	10 003	17 697
	-	7 694	10 003	17 697

The book value of the derivative financial instruments as at 30 June 2023 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 2023								
		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**
Intereste rate swaps	Deposits from customers	72 782	19	(2 213)	(2 194)	(669)	(3 564)	(1 471)	69 103	72 667
Intereste rate swaps	Loans and advances to customers	903	10	(5)	5	4	(69)	5	812	875
Intereste rate swaps	-	540 087	3 008	(7 497)	(4 489)	5 403	-	-	-	-
Currency swap (short)	-	41 222	12	(5)	7	(5)	-	-	-	-
Currency swap (long)	-	41 187								
Future options (short)	-	14 869	-	-	-	-	-	-	-	-
Future options (long)	-	31 232								
Forwards (Short)	-	8 870	-	-	-	-	-	-	-	-
Forwards (Long)	-	8 876								
Options (Short)	-	118 960	4 167	(3 833)	334	(190)	-	-	-	-
Options (Long)	-	116 213								
		995 201	7 216	(13 553)	(6 337)	4 543	(3 633)	(1 466)	69 915	73 542

(1) Includes the result of derivatives disclosed in note 5.

Derivatives held for risk management include derivatives contracted for the purpose of hedging certain financial assets and liabilities, but that were not designated as hedging derivatives.

The book value of the derivative financial instruments as at 31 December 2022 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 2022								
		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**
Intereste rate swaps	Deposits for customers	63 906	-	(1 525)	(1 525)	(1 443)	(2 093)	(2 246)	61 565	63 658
Intereste rate swaps	Loans and advances to customers	959	7	(6)	1	23	(74)	(104)	863	931
Intereste rate swaps	-	577 433	3 376	(13 268)	(9 892)	(3 362)	-	-	-	-
Currency swap (short)	-	36 834	37	(25)	12	(96)	-	-	-	-
Currency swap (long)	-	36 860								
Future options (short)	-	10 392	-	-	-	-	-	-	-	-
Future options (long)	-	1 712								
Forwards (Short)	-	19 887	-	-	-	-	-	-	-	-
Forwards (Long)	-	19 912								
Options (Short)	-	107 286	3 397	(2 873)	524	92	-	-	-	-
Options (Long)	-	107 549								
		982 730	6 817	(17 697)	(10 880)	(4 786)	(2 167)	(2 350)	62 428	64 589

(1) Includes the result of derivatives disclosed in note 5.

22 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Variable income securities		
Investment units	163 028	175 299
Securitization units	32 757	33 769
Loans and advances to customers at fair value		
Loans not represented by securities	314	415
	196 099	209 483

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 43, as follows:

	(Euro thousand)	
	Jun 2023	
	Level 3	**Total**
Variable income securities		
Investment units	163 028	175 299
Securitization units	32 757	33 769
Loans and advances to customers at fair value		
Loans not represented by securities	314	415
	196 099	209 483

As at 30 June 2023, 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 163,028 thousand (31 December 2022: Euro 175,299 thousand), of which Euro 119,462 thousand (31 December 2022: Euro 132,500 thousand) are related to real estate investment funds. The caption Variable-income securities – Investment units includes, as at 30 June 2023, the amount of Euro 26,671 thousand (31 December 2022: Euro 26,830 thousand) related to investment units in specialized credit funds acquired in the scope of the sale of loans and advances to customers, as referred in note 50. The securitization units correspond to the residual notes acquired by Banco Montepio.

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 2023, for 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 19,579 thousand (31 December 2022: Euro 20,907 thousand) having been determined.

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

	(Euro thousand)	
	Jun 2023	**Dec 2022**
Opening balance	209 068	286 316
Acquisitions	355	761
Remeasurements	(1 207)	3 469
Disposals	(12 431)	(81 478)
Closing balance	195 785	209 068

The movements occurring in level 3 of the Loans and advances to customers at fair value relate, in their entirety, to revaluations observed in the first half of 2023 and financial year 2022.

23 Financial assets at fair value through other comprehensive income

This caption, as at 30 June 2023, is presented as follows:

(Euro thousand)

	Jun 2023				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	20 073	-	(2 406)	(38)	17 629
Foreign	40 500	-	(300)	(80)	40 120
Bonds issued by other entities					
Domestic	2 500	-	(543)	(382)	1 575
Foreign	826	-	(27)	(1)	798
Variable income securities					
Shares					
Domestic	5 055	10 785	-	-	15 840
Foreign	6 238	8	(844)	-	5 402
	75 192	10 793	(4 120)	(501)	81 364

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

This caption, as at 31 December 2022, is presented as follows:

(Euro thousand)

	Dec 2022				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	21 025	6	(2 605)	(39)	18 387
Foreign	40 966	-	(765)	(73)	40 128
Bonds issued by other entities					
Domestic	6 927	70	(566)	(395)	6 036
Foreign	1 118	-	(53)	(2)	1 063
Papel Comercial	6 489	19	-	(19)	6 489
Variable income securities					
Shares					
Domestic	5 113	10 785	-	-	15 898
Foreign	6 238	8	(1 179)	-	5 067
	87 876	10 888	(5 168)	(528)	93 068

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

On 30 June 2023, the Bank considered for the valuation of the SIBS, Unicre and ABANCA shares, the assumptions disclosed in the financial statements as at 31 December 2022.

As at 30 June 2023 and 31 December 2022, 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 2023				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	17 629	-	-	-	17 629
Foreign	40 120	-	-	-	40 120
Bonds issued by other entities					
Domestic	-	-	1 575	-	1 575
Foreign	-	798	-	-	798
	57 749	798	1 575	-	60 122
ariable income securities					
Shares					
Domestic	-	-	15 100	740	15 840
Foreign	-	-	4 976	426	5 402
	-	-	20 076	1 166	21 242
	57 749	798	21 651	1 166	81 364

(Euro thousand)

	Dec 2022				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	17 382	1 005	-	-	18 387
Foreign	40 128	-	-	-	40 128
Bonds issued by other entities					
Domestic	-	-	6 036	-	6 036
Foreign	-	1 063	-	-	1 063
Commercial Paper	-	-	6 489	-	6 489
	57 510	2 068	12 525	-	72 103
Shares					
Domestic	-	-	15 100	798	15 898
Foreign	-	-	4 771	296	5 067
	-	-	19 871	1 094	20 965
	57 510	2 068	32 396	1 094	93 068

As provided for in IFRS 13, financial instruments are measured according to the valuation levels described in note 43.

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 2,165 thousand as at 30 June 2023 (31 December 2022: Euro 3,240 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the net positive amount of Euro 9,442 thousand (31 December 2022: positive amount of Euro 9,302 thousand) recognized in fair value reserves.

In this caption, Banco Montepio has some securities (shares) 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 2023, the impairment recorded for these level 3 securities amounted to Euro 382 thousand (31 December 2022: Euros 413 thousand).

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

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	32 396	37 438
Acquisitions	-	6 489
Revaluations	215	(1.483)
Acquisitions	(10.960)	(10.048)
Closing balance	21 651	32 396

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

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	528	2 759
Charge for the period	28	316
Reversal for the period	-	(94)
Utilization	(55)	(2.453)
Closing balance	501	528

In the scope of the liquidity providing operations, the nominal value of the assets pledged as collateral to the European Central Bank, presented in this caption, amounts, as at 30 June 2023, to Euro 56,572 thousand after haircut (31 December 2022: Euro 57,405 thousand), as described in note 30.

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.

24 Other financial assets at amortized cost

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Fixed income securities		
Bond issued by public entities		
Domestic	1 065 766	1 073 852
Foreign	3 008 452	3 019 510
Bonds issued by other entities		
Domestic	473 308	506 105
Foreign	28 838	22 956
Commercial Paper		
Domestic	4 005	-
Foreign	14 897	-
	4 595 266	4 622 423
Impairment for other financial assets at amortised cost	(7 265)	(6 692)
	4 588 001	4 615 731

The fair value of the portfolio of Other financial assets at amortized cost is disclosed in note 43.

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

As at 30 June 2023, the loan obtained from the EIB is collateralized by Italian, Spanish and Greek sovereign bonds with a nominal value of Euro 368,007 thousand (31 December 2022: Euro 376,651 thousand by Portuguese, Italian, Spanish, Irish and Greek sovereign bonds), provided as collateral and recorded in the caption Other financial assets at amortized cost, as disclosed in note 31.

In the scope of the liquidity providing operations, the nominal value of the assets pledged as collateral to the European Central Bank presented in this caption amounts, as at 30 June 2023, to Euro 3,366,048 thousand (31 December 2022: Euro 3,585,141 thousand) after the application of a haircut, as described in note 30.

As at 30 June 2023, the nominal value of the securities given in guarantee to the Deposits Guarantee Fund amounted to Euro 29,000 thousand (31 December 2022: Euro 28,000 thousand) as per note 42.

Securities given in guarantee to the Portuguese Securities Market Commission (“CMVM”) within the scope of the Investors’ Compensation System, recorded under Other financial assets at amortized cost, have a nominal value of Euro 1,000 thousand, as at 30 June 2023 and 31 December 2022.

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

(Euro thousand

	Jun 2023	Dec 2022
Opening balance	6 692	4 619
Charge for the period	1 644	2 094
Reversal for the period	-	(4)
Utilizations	(1.071)	-
Transfers	-	(17)
Closing balance	7 265	6 692

25 Investments in subsidiaries and associates

This caption is presented as follows:

	Jun 2023	Dec 2022
		(Euro thousand
Investments in associated companies		
Montepio Holding, S.G.P.S., S.A.	413 750	413 750
Montepio Serviços, A.C.E.	638	-
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Activos Imobiliários, ACE	637	637
	418 225	417 587
Impairment of investments in associated companies	(132 157)	(92 606)
	286 068	324 981

Investments in subsidiaries and associates

Banco Montepio analysed the impairment of investments made in its subsidiaries, considering the recoverable value of the businesses developed by each one. The recoverable value, in accordance with the accounting policy described in this report, was determined by the higher of fair value less costs to sell and value in use, in the case of continuing subsidiaries, and fair value less costs to sell, in the case of discontinued subsidiaries.

The value in use was determined based on the business plan approved by management and, depending on the specificity of the businesses and the markets in which Banco Montepio's subsidiaries operate, differentiated levels for the discount rate, for the solvency levels required for the banking activity and for the growth of net income in perpetuity, were also considered.

The verification of the assumptions used and the evolution of the macroeconomic and market conditions may result in the change of these same assumptions and, consequently, in the recoverable value determined for the subsidiaries object of this analysis.

The financial statements have been prepared on the assumption of the continuity of the respective operations, which depend on the future evolution of the assumptions underlying the recoverable value of its financial shareholdings as well as on the success of the initiatives to be taken by the Board of Directors to reinforce the net equity.

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

As a result of the analyses carried out, we concluded on the need to recognize, in the financial statements as at 30 June 2023, an impairment in Banco Montepio in the amount of Euro 132,157 thousand (31 December 2022: Euro 92,606 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. and Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. and a shareholding of 29.22% 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.

Montepio Serviços, A.C.E.

In June 2023, Agrupamento Montepio Seguros, A.C.E., with Banco Montepio holding eighty-five per cent of the voting rights, was incorporated. The purpose of the Grouping is to improve the conditions for the exercise and results of its members' economic activities, essentially aiming to optimize resources, achieve greater operational efficiency and obtain economies of scale through the elimination of replicated cost structures.

The movements in impairment of investments in subsidiaries and associates are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	92 606	97 939
Charge for the period	39 551	-
Reversal for the period	-	(5.333)
Closing balance	132 157	92 606

The information related to subsidiaries and associates is presented in the following table:

(Euro thousand)

	Number of shares	% Stake	Unit value	Acquisition cost
30 June 2023				
Investments in associated companies				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100%	1.00	413 750
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20%	5.00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26%	1.00	637
Montepio Serviços, ACE	-	85%		638
CESource, ACE	-	18%		-
				418 225
31 December 2022				
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, ACE	636 924	26,00%	1,00	637
CESource, ACE	-	18,00%	-	-
				417 587

The subsidiaries and associates of Banco Montepio are listed in note 52.

26 Other tangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Investments		
Real estate		
For own use	167 885	168 621
Leasehold improvements in rented building	28 301	28 301
Equipment		
IT equipment	89 494	86 864
Fixtures	31 557	31 548
Furniture	16 998	16 879
Security equipment	4 251	4 254
Machinery and tools	2 684	2 686
Transportation equipment	298	298
Other equipment	1	1
Works of art	2 870	2 870
Assets in operating leases	58	58
Right-of-use assets		
Real estate	27 035	25 908
Motor vehicles	8 704	7 580
Other tangible assets	540	540
Work in progress	2 142	1 342
	382 818	377 750
Accumulated depreciation		
Charge for the period	6 320	13 268
Accumulated charge in previous periods	200 424	188 972
	206 744	202 240
Impairment of Other Tangible Assets	(1 193)	(505)
	174 881	175 005

The caption Right-of-use assets corresponds, essentially, to real estate (branches and central buildings) and to the car fleet, being depreciated according to the lease term of each agreement, as indicated in note 1 i).

The movements in impairment of Other tangible assets are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	505	480
Charge for the period	1 107	1 992
Reversal of the period	-	(265)
Transfers	(419)	(1 702)
Closing balance	1 193	505

On 30 June 2023, a net allocation of impairment reversals was made in Euro 1,107 thousand (31 December 2022: Euro 1,727 thousand) related to branches closed in the scope of the Distribution network resizing plan.

The caption Transfers relates to the impairment associated with branches closed that were transferred to Other assets – Assets received in recovery of credit, as described in note 29.

27 Intangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Investments		
Software	210 567	196 649
Other Intangible Assets	3 012	2 658
Work in progress	4 991	6 002
	218 570	205 309
Accumulated depreciation		
Charge for the period	10 956	19 139
Accumulated charge in previous periods	158 367	139 228
	169 323	158 367
	49 247	46 942

28 Taxes

Deferred tax assets and liabilities, as at 30 June 2023 and 31 December 2022, can be analysed as follows:

(Euro thousand)

	Assets		Liabilities		Net	
	Jun 2023	Dec 2022	Jun 2023	Dec 2022	Jun 2023	Dec 2022
Deferred taxes not dependent on future profitability						
Impairment on loans granted	9 395	36 203	-	-	9 395	36 203
Post-employment and long-term benefits	20 131	22 499	-	-	20 131	22 499
	29 526	58 702	-	-	29 526	58 702
Deferred taxes dependent on future profitability						
Financial instruments	15 999	16 982	(5 941)	(6 970)	10 058	10 012
Other tangible assets	-	-	-	(6)	-	(6)
Provisions/Impairment						
Impairment on loans granted	84 913	87 695	-	-	84 913	87 695
Other risks and charges	6 956	8 189	-	-	6 956	8 189
Impairment in securities and non-financial assets	3 979	3 048	-	-	3 979	3 048
Impairment in financial assets	2 377	2 202	-	-	2 377	2 202
Post-employment and long-term benefits	42 300	45 920	(14 237)	(20 102)	28 063	25 818
Other	-	1 989	-	-	-	1 989
Taxes losses carried forward	223 084	219 908	-	-	223 084	219 908
	409 134	444 635	(20 178)	(27 078)	388 956	417 557

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" or "REAID"), 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, the REAID is not applicable to costs and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor to their associated deferred tax assets.

Law no. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. net loss in separate annual accounts or in settlement accounts on the voluntary winding-up, insolvency decided by law or withdrawal of the respective authorization), there will be a conversion into tax credits of deferred tax assets that resulted from the non-deduction of costs and of deductions of asset values resulting from credit impairment losses and post-employment and long-term employment benefits. In such case, a special reserve corresponding to 110% of their amount shall be constituted, requiring the simultaneous constitution of conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State of the same amount. Tax credits may be offset against tax debts of the beneficiaries (or of an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. 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, those 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 Banco Montepio recorded a net accounting loss in 2020 and 2021, and following the approval of the annual accounts by the corporate bodies and, consequently, the application of said Regime, in financial years 2021 and 2022, respectively, there was a conversion into tax credits of deferred tax assets that resulted from the non-deduction of expenses and of deductions in respect of the value of assets resulting from impairment losses on credits and of post-employment and long-term employee benefits; and a special reserve corresponding to 110% of its amount was constituted for this purpose, as described in note 40.

As at 30 June 2023, under the terms of article 8 of the annex to Law no. 61/2014, of 26 August, Banco Montepio has a special reserve in the amount of Euro 4,887 thousand (31 December 2022: Euro 5,076 thousand), to which corresponds a tax credit of Euro 4,443 thousand (31 December 2022: Euro 4,614 thousand) which is an integral part of the total current tax assets. These amounts may be changed in the context of the certification that the Tax and Customs Authority will carry out.

Deferred taxes are calculated based on the tax rates expected to be in force on the date of reversal of the timing differences, which correspond to the rates approved or substantially approved at the balance sheet date.

The caption Post-employment and long-term employee benefits includes the amount of Euro 1,963 thousand (31 December 2022: Euro 2,081 thousand) related to deferred taxes associated with the cost generated by the transfer of liabilities with pensioners to the General Social Security System.

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 first half of 2023 and financial year 2022, deferred taxes dependant on the future profitability, recorded in the caption Post-employment and long-term employee benefits, include the amount of Euro 20,131 thousand related to post-employment and long-term benefits in excess of the existing limits.

In the first half of 2023 and financial year 2022, and in function of (i) the tax rates in force, (ii) the expectation of the conversion into tax-accepted costs and profits, and (iii) the prospects of tax profits or tax losses in each one of the subsequent periods, the rate (considering the base rate and the surcharges) used by Banco Montepio to calculate deferred taxes, depending on the specific cases associated with timing differences or tax loss carry-forwards, corresponds, respectively, to 30.5% and 21.0%.

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 medium-/long-term business plan of Banco Montepio, which constitutes an extension of the Group's three-year strategic plan. The financial projections reflect management's perspective as to the evolution of the activity and sustainability of the business model, and given the macroeconomic context and the financial variables, the evolution of the economic activity and credit risk, among others.

The recovery of the profitability, liquidity and capital levels of Banco Montepio, is hinged on four strategic focuses, having as the first condition the sustainability of the capital position, the growth in core business areas with an emphasis on families, SMEs and the social economy, privileging segments and products with lower capital consumption with lower risk, the improvement of the efficiency and profitability, 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 items that stand out:

- Control of operating costs, despite the inflationary pressures currently felt, through the elimination of redundancies and the taking advantage of synergies, due, among others, to the simplification of the organizational structure and of the processes, together with the reinforcement of the digitization.
- Increase in the commercial network business with growth in credit portfolios with lower risk and capital consumption, based on an appropriate management of the return on capital employed. Potential for growth in the complementary margin in cross-selling and new business areas, leveraging the potential of the customer base that Banco Montepio enjoys, benefiting from the unique positioning of an almost bicentennial and mutualistic institution.
- Banco Montepio's balance sheet structure enhances the growth of the net interest income in the context of an increase in interest rates. Potential for growth of the commissions, evidencing the impacts of a management of the price list, through the adjustment of same to the value proposal for each segment, and 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, in which customer resources constitute the main source of financing for the activity.
- 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, with the aim of achieving an NPL ratio below 5% in the short term, or through the reduction of properties carried on the balance sheet.
- 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 2023 and 31 December 2022, Banco Montepio recognized all deferred tax assets; hence, there are no deferred tax assets to be recognized.

In addition, a sensitivity analysis was carried out considering a scenario in which profit or loss before tax evolved at a rate 10% lower than that considered in the aforementioned projections, with no impact at the level of deferred taxes being determined.

The deferred tax assets associated with tax losses carried forward, by expiry year, are presented as follows:

(Euro thousand)

Expiry date	Jun 2023	Dec 2022
2032	15 629	15 629
2033	18 931	18 931
Undetermined	188 524	185 348
	223 084	219 908

The expiry years indicated above reflect that stipulated in the Supplementary State Budget for 2020 (Law no. 27-A/2020, of 24 July), under which the 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 State Budget Law for 2023 (Law no. 24-D/2022, of 30 December), which came into force on 1 January 2023, establishes that tax losses calculated in tax years beginning on or after 1 January 2023, as well as those calculated previously that have not expired, are carried forward to future years without any time limitation, no longer being subject to a maximum deduction period. Additionally, it also establishes that the deduction limit against taxable income is reduced to 65%, maintaining the increase of 10 percentage points for tax losses calculated in the 2020 and 2021 tax periods (i.e., the deduction can be made up to 75% of taxable income).

However, regarding the time limitation referred to in the previous paragraph, this does not apply to tax losses calculated in tax periods prior to 1 January 2023 in which one of the situations provided for in no. 1 of article 6 of the REAID is verified, with the deduction period in force on 31 December 2022 being applied to tax losses calculated in those tax periods.

Tax recognized in net income/(loss) and in reserves during the first half of 2023 and financial year 2022 originated as follows:

(Euro thousand)

	Jun 2023		Dez 2022	
	Charged to net income/(loss)	Recognized in reserves and retained earnings	Recognized in net income/(loss)	Recognized in reserves and retained earnings
Financial instruments	(1 653)	(290)	(2 520)	2 193
Impairment/Provision	(29 889)	-	(33 886)	-
Post-employment and long-term benefits	(5 988)	5 864	(3 272)	(20 102)
Tax losses carried forward	3 176	-	4 837	-
Other	6	-	-	-
Deferred taxes/recognized as profit/(loses)	(34 348)	5 574	(34 841)	(17 909)
Current taxes	3 054	-	(2 664)	-
	(31 294)	5 574	(37 505)	(17 909)

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

(Euro thousand))

	Jun 2023		Jun 2022	
	%	Amount	%	Amount
Profit/ (loss) before income tax		64 570		27 991
Income tax based on the current nominal tax rate	(21,0)	(13 560)	(21)	(5 878)
Fiscal Profit/ (loss)	(6,7)	(4 321)	-	-
Banking sector extraordinary contribution	(3,5)	(2 280)	(7)	(2 008)
Post-employment benefits and pension fund	2,2	1 393	(5)	(1 362)
Taxable provisions/impairment	(2,1)	(1 365)	(11)	(2 952)
Autonomous taxation	(0,4)	(244)	(1)	(368)
Corrections to previous periods	1,9	1 240	-	-
Effect of differences in income tax for the period	(17,4)	(11 251)	(24)	(6 623)
Deferred tax from taxes losses carried forward	4,5	2 893	3	820
Other	(5,9)	(3 799)	(2)	(570)
Income tax for the period	(48,5)	(31 294)	(68)	(18 941)

Law no. 98/2019, of 4 September, amended 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, contemplating 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 related to financial years 2022 and 2021, 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 relevant 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 2020 tax period.

In 2018, Banco Montepio became the dominant company of the Tax Group subject to corporate income tax under the Special Taxation Regime of Groups of Companies ("RETGS"), which former dominant company was Montepio Holding, S.G.P.S., S.A.

In this context, the Group considers that the effects of the calculation of the taxable income according to RETGS are reflected in the amount 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 1,692 thousand (31 December 2022: Euro 5,722 thousand) includes the amount of Euro 343 thousand (31 December 2022: Euro 4,614 thousand) related to the tax credit amount for financial years 2020 and 2022 determined in the scope of the REAID and IRC recoverable in the amount of Euro 1,348 thousand (31 December 2022: Euro 1,108 thousand).

29 Other assets

This caption is presented as follows:

	(Euro thousand) Jun 2023	Dec 2022
Assets received in recovery of credit	362 174	420 119
Post-employment benefits	116 435	135 867
Supplies - Montepio Holding	107 145	107 145
Other debtors	45 190	46 936
Sundry debtors	18 680	10 744
Price deposits	7 189	7 335
Bonifications to be received from the Portuguese Government	4 573	5 778
Deferred costs	7 910	3 012
Other amounts receivable	6 431	5 148
	675 727	742 084
Impairment for assets received in recovery of credit	(113 198)	(116 098)
Impairment for other assets	(24 414)	(22 132)
	538 115	603 854

The caption Assets received in recovery of credit is presented as follows:

	(Euro thousand) Jun 2023	Dec 2022
Assets received in recovery of credit	362 174	420 119
Impairment for assets received in recovery of credit	(113 198)	(116 098)
	248 976	304 021

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 2023, the caption Assets received in recovery of credit includes the amount of Euro 1,394 thousand (31 December 2022: Euro 1,326 thousand) related to equipment resulting from the resolution of loans and advances to customers' contracts and which are 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 sold in under one year and that there is a strategy to this end. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period. The referred caption includes, as at 30 June 2023, properties for which promissory contracts to buy and sell, in the amount of Euro 24,082 thousand (31 December 2022: Euro 26,649 thousand), have already been celebrated.

The movements in the first half of 2023 and financial year 2022 in Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	420 119	571 228
Acquisitions	3 478	10 209
Disposals	(58 915)	(161 192)
Other movements	(2 508)	(2 696)
Transfers	-	2 570
Closing balance	362 174	420 119

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

(Euro thousand)

	Jun 2023	Dec 2022
Opening balance	116 098	133 653
Charge of the period	7 876	20 865
Reversal of the period	(100)	(1 025)
Utilization	(11 095)	(39 097)
Transfers	419	1 702
Closing balance	113 198	116 098

The caption Transfers considers impairment associated with branches closed that were transferred to Other tangible assets as described in note 26.

The caption Post-employment and long-term benefits corresponds to the net value of assets and liabilities of the Pension Fund.

Notwithstanding the impairment losses observed, Banco Montepio recognized in profit or loss, in the first half of 2023, gains on the sale of Assets received in recovery of credit in the amount of Euro 4,070 thousand (31 December 2022: Euro 16,344 thousand), included in the caption Disposal of other assets, as described in note 8.

As at 30 June 2023 and 31 December 2022, the caption Other debtors is analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Supplementary capital contributions	14 910	14 910
Other	30 280	32 026
	45 190	46 936

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 2023 and 31 December 2022.

The caption Other debtors includes the amounts outstanding related to factoring and confirming operations, advances to suppliers and other debtors. Additionally, it 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 2023.

As at 30 June 2023 and 31 December 2022, the caption Recoverable grants receivable from the Portuguese State is presented as follows:

	Jun 2023	Dec 2022
		(Euro thousand)
Bonifications overdue and not yet claimed	2 126	2 183
Bonifications claimed from state not yet settled	2 268	3 506
Bonifications processed and not yet claimed	179	89
	4 573	5 778

The caption Recoverable grants receivable from the Portuguese State corresponds to recoverable grants in respect of mortgage and SME loans, which amounts were determined in accordance with the legal provisions applicable to subsidized-interest loans that do not bear interest and are claimed regularly.

The movements in the impairment of Other assets are analysed as follows:

	Jun 2023	Dec 2022
		(Euro thousand
Opening balance	22 132	23 358
Charge for the period	2 925	1 021
Reversal for the period	(327)	(390)
Utilization	(102)	(2 071)
Closing balance	24 414	22 132

As at 30 June 2023, the impairment of Other assets includes the impairment constituted for the exposures of Supplementary capital contributions of Euro 14,910 thousand (31 December 2022: Euro 14,910 thousand), for Price deposits of Euro 3,079 thousand (31 December 2022: Euro 3,186 thousand), for Guarantee commissions of Euro 589 thousand (31 December 2022: Euro 590 thousand), for Factoring operations of Euro 498 thousand (31 December 2022: Euro 498 thousand) and for Other debtors of Euro 5,338 thousand (31 December 2022: Euro 2,948 thousand).

The expectations regarding receipts associated with price deposits are regularly evaluated by the Credit Recovery Directorate, considering, namely, the status of each process and the information known/made available by the insolvency administrators. Consequently, the estimate of impairment associated with these price deposits is adjusted whenever necessary.

30 Deposits from central banks

As at 30 June 2023, 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 23 and 24.

For the financing lines under the TLTRO III programme, the effective interest rate used in the first half of 2023 and financial year 2022 considers the interest rates applicable to each operation in the elapsed period and the confirmation obtained from the European Central Bank as to the achievement of the targets in respect of the change in the volume of eligible credit defined by the ECB. This procedure implies the periodization of the interest rate of each of the TLTRO III operations by tranches.

As at 30 June 2023, these funds consist of three operations with maturities and amounts as follows: in September 2023, in the amount of Euro 189,486 thousand, in March 2024, in the amount of Euro 1,504,800 thousand and in December 2024, in the amount of Euro 55,441 thousand.

31 Deposits from other credit institutions

This caption is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	11 537	-	11 537	28 513	-	28 513
Term deposits	-	10 136	10 136	-	1 002	1 002
	11 537	10 136	21 673	28 513	1 002	29 515
Deposits from credit institutions abroad						
EIB loan	-	300 708	300 708	-	300 007	300 007
Deposits repayable on demand	47 245	-	47 245	61 788	-	61 788
Sales operations with repurchase agreement	-	492 851	492 851	-	-	-
Repos collaterals	-	-	-	-	-	-
Other deposits	5 933	-	5 933	5 497	-	5 497
	53 178	793 559	846 737	67 285	300 007	367 292
	64 715	803 695	868 410	95 798	301 009	396 807

The amount of the EIB loan presented in the table above has as its main objective the financing of SMEs, and considers the loan obtained in November 2020, in the amount of Euro 300,000 thousand, with a term of twelve years, a grace period of four years, fixed amortizations and a rate of 0.019%.

The amount of the EIB loan is collateralized by Spanish, Italian and Greek sovereign bonds in the nominal amount of Euro 368,007 thousand (31 December 2022: Euro 376,651 thousand by Portuguese, Italian, Spanish, Irish and Greek sovereign bonds), recorded in the caption Other financial assets at amortized cost, as described in note 24.

32 Deposits from customers

This caption is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	6 194 211	13	6 194 224	6 674 446	39	6 674 485
Term deposits	-	6 602 084	6 602 084	-	6 342 677	6 342 677
Saving accounts	-	116 894	116 894	-	135 699	135 699
Other deposits	23 920	-	23 920	23 074	-	23 074
Adjustments arising from fair value option operations	(3.564)	-	(3.564)	(2.093)	-	(2.093)
	6 214 567	6 718 991	12 933 558	6 695 427	6 478 415	13 173 842

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 authorized to receive deposits, in accordance with that laid down in said Ordinance. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

In the first half of 2023, deposits from customers were remunerated at the average rate of 0.34% (2022: 0.05%).

33 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(Euro thousand)

	Jun 2023	Dec 2022
Covered Bonds	328 023	327 492

The fair value of the debt securities issued is presented in note 43.

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 2023 and 31 December 2022.

As at 30 June 2023, 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	301 768	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	Aa2/AA
Covered bonds - 8S	1 250 000	1 252 150	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	Aa2/AA
Covered bonds - 9S	250 000	251 146	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	Aa2/AA
Covered bonds - 11S	500 000	328 023	328 023	November 2019	November 2024	annually	Fixed at 0.125%	Aa2/AA
	2 300 000	2 133 087	328 023					

As at 31 December 2022, 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	301 102	-	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	Aa2/AA
Covered bonds - 8S	1 250 000	1 251 553	-	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	Aa2/AA
Covered bonds - 9S	250 000	250 723	-	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	Aa2/AA
Covered bonds - 11S	500 000	327 492	327 492	November 2019	November 2024	annually	Fixed at 0.125%	Aa2/AA
	2 300 000	2 130 870	327 492					

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 2023, the value of the loans collateralizing these issues amounted to Euro 2,751,612 thousand (31 December 2022: Euro 2,753,360 thousand), according to note 20.

The movements in Debt securities issued are analysed as follows:

	Jun 2023	Dec 2022
	(Euro thousand)	
Opening balance	327 492	1 215 119
Reimbursements	-	(750 000)
Other movements [(a)]	531	(137 627)
Final balance	328 023	327 492

(a) Included is the movement of accrued interest on the balance sheet.

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 2023, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Security	Issue date	Maturity date	Interest rate	Book value
COVERED BONDS - 11S	14-11-2019	14-11-2024	Annual fixed rate of 0,125%	500 000
				500 000
			Repurchase of covered bonds - 11S	(171 400)
			Accrual based accounting, deferred income and costs	(577)
				328 023

As at 31 December 2022, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Security	Issue date	Maturity date	Interest rate	Book value
COVERED BONDS - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0,125%	500 000
				500 000
			Repurchase of covered bonds - 11S	(171 400)
			Accrual based accounting, deferred income and costs	(1 108)
				327 492

34 Financial liabilities associated with assets transferred

In the scope of the securitization operations described in note 47, in respect of which Banco Montepio retained the majority of the risks and rewards associated with the securitized loans, the Bank recorded the financial liabilities associated with the assets transferred, which are detailed as follows:

	Jun 2023	Dec 2022
	(Euro thousand)	
Pelican Mortgages No 3	90 375	98 035
Pelican Mortgages No 4	340 600	361 076
Aqua Mortgages No 1	53 617	58 233
Pelican Finance No 2	74 355	93 815
	558 947	611 159

35 Provisions

This caption is presented as follows:

	(Euro thousand) Jun 2023	Dec 2022
Provisions for guarantees and commitments	16 015	19 312
Provisions for other risks and charges	8 784	9 312
	24 799	28 624

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, legal cases and fraud.

The movements in provisions for guarantees and commitments assumed are analysed as follows:

	(Euro thousand) Jun 2023	Dec 2022
Opening balance	19 312	16 076
Charge of the period	9 854	24 881
Reversal of the period	(13 096)	(21 621)
Utilization	(55)	(24)
Closing balance	16 015	19 312

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

	(Euro thousand Jun 23	Dec 2022
Opening balance	9 312	11 810
Charge of the period	332	2 259
Reversal of the period	(540)	(2 742)
Utilization	(320)	(2 015)
Closing balance	8 784	9 312

36 Other subordinated debt

The characteristics of subordinated debt are analysed as follows:

(Euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest date	Jun 2023	Dec 2022
MONTEPIO EMTN SUB 2018/2028	Dec 2018	Dec 2028	50 000	8.0% the first 5 years and at EurSwap for 5y + 7.77% for the remaining years	52 027	50 044
MONTEPIO EMTN SUB 2019/2029	Apr 2019	Apr 2029	100 000	10.5% the first 5 years and at EurSwap for 5y + Fixing ICE (FFT 11:00 AM) + 10.514%	102 525	107 825
MONTEPIO EMTN SUB 2020/2030	Jun 2020	Jun 2030	50 000	10.5% the first 5 years and at EurSwap for 5y + Fixing ICE (FFT 11:00 AM) + 9.742%	50 277	52 705
FINIBANCO VALOR INVEST 2010	Feb 2010	-	15 000	7% for the first 4 coupon dates and Max[Euribor 6M + 2.75%; 5%] for the remaining years	6 472	6 455
					211 301	217 029

The movements in Other subordinated debt during the first half of 2023 and financial year 2022, were as follows:

(Euro thousand)

	Jun 2023		
	Balance at 1 January	Other movements (a)	Balance on 30 June
MONTEPIO EMTN SUB 2018/2028	50.044	1.983	52.027
MONTEPIO EMTN SUB 2019/2029	107.825	(5.300)	102.525
MONTEPIO EMTN SUB 2020/2030	52.705	(2.428)	50.277
FINIBANCO VALOR INVEST 2010	6.455	17	6.472
	217.029	(5.728)	211.301

(Euro thousand)

	Dec 2022		
	Balance at 1 January	Other movements (a)	Saldo em 31 de dezembro
MONTEPIO EMTN SUB 2018/2028	50.044	-	50.044
MONTEPIO EMTN SUB 2019/2029	107.825	-	107.825
MONTEPIO EMTN SUB 2020/2030	52.705	-	52.705
FINIBANCO VALOR INVEST 2010	6.691	(236)	6.455
	217.265	(236)	217.029

(a) Include accrued interest.

Regarding the Finibanco Valor Invest 2010 issue, the refund is made at nominal value and, 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.

37 Other liabilities

This caption is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Domestic and foreign operations pending settlement	134 779	133 408
Sundry creditors	39 483	36 108
Staff costs payable	34 298	29 922
Other expenses	20 104	22 288
Administrative public sector	11 084	10 958
Lease liabilities	5 567	6 526
Suppliers	7 641	6 180
Deferred income	312	327
	253 268	245 717

As at 30 June 2023, the caption Staff charges payable includes the amount of Euro 15,287 thousand (31 December 2022: Euro 14,416 thousand), related to holiday pay and subsidy. Additionally, as at 30 June 2023, this caption also includes the amount of Euro 2,025 thousand (31 December 2022: Euro 2,034 thousand) related to end-of-career awards, as per note 44, and the amount of Euro 8,657 thousand (31 December 2022: Euro 8,423 thousand) for the employee adjustment programme.

The caption Amounts payable corresponds, essentially, to actuarial deviations and the application of the accruals' principle to General and administrative expenses.

As at 30 June 2023, 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 2023	Dec 2022
Up to 1 year	2 301	4 299
1 to 5 years	3 266	2 227
	5 567	6 526

38 Share capital

As at 30 June 2023, Banco Montepio's share capital, which is fully realized, amounts to Euro 1,210,000 thousand (31 December 2022: Euro 2,420,000 thousand).

The Banco Montepio's General Meeting held on 10 February 2023 unanimously decided on the reformulation of the equity captions with the special purpose of reinforcing funds susceptible to regulatory qualification as distributable, aiming to cover negative retained earnings, by reducing share capital by Euro 1,210,000,000.00, without changing the number of existing shares and without changing the total value of the net equity, through the reduction of the nominal unit value of each share from Euro 1.00 to Euro 0.50 and the consequent change in no. 1 of article 4 of Banco Montepio's By-laws.

The shareholder structure of Banco Montepio's share capital as at 30 June 2023 and 31 December 2022 is as follows:

	Jun 2023		Dec 2022	
	Number of shares	Percentage	Number of shares	Percentage
Montepio Geral Associação Mutualista	2 419 830 580	99,9930%	2 419 830 580	99,9930%
Other shareholders	169 420	0,0070%	169 420	0,0070%
	2 420 000 000	100,0%	2 420 000 000	100,0%

39 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.

As at 30 June 2023, the legal reserve amounts to Euro 196,833 thousand (31 December 2022: Euro 193,266 thousand).

40 Fair value reserves, Other reserves and Retained earnings

This caption is presented as follows:

(Euro thousand)	Jun 2023	Dec 2022
Fair value reserve		
Fair value reserve		
Financial assets at fair value through other comprehensive income	6 673	5 720
	6 673	5 720
Taxes		
Financial assets at fair value through other comprehensive income	(2 035)	(1 745)
	(2 035)	(1 745)
Fair value reserve net of taxes	4 638	3 975
Other reserves and retained earnings		
Special regime applicable to deferred tax assets	4 887	5 076
Post-employment benefits	(145 526)	(127 828)
Other reserves and retained earnings	285 656	(962 500)
Realized gains on equity instruments	(33 421)	(33 421)
	111 596	(1 118 673)

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 movements in the fair value reserve related to financial assets at fair value through other comprehensive income are analysed as follows:

(Euro thousand)

	Jun 2023					
	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment variation	Balance on 30 June
Fixed income securities						
Bonds issued by Portuguese public entities	(2 599)	200	-	(8)	1	(2 406)
Bonds issued by foreign public entities	(765)	472	-	-	(7)	(300)
Bonds issued by other entities:						
Domestic	(496)	36	-	(96)	13	(543)
Foreign	(53)	16	-	9	1	(27)
Commercial Paper	19	-	-	(38)	19	-
	(3 894)	724	-	(133)	27	(3 276)
Variable income securities						
Shares						
Domestic	10 785	-	-	-	-	10 785
Foreign	(1 171)	-	335	-	-	(836)
	9 614	-	335	-	-	9 949
	5 720	724	335	(133)	27	6 673

(Euro thousand)

	Dec 2022					
	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment variation	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	198	(2 804)	-	-	7	(2 599)
Bonds issued by foreign public entities	314	(1 084)	-	-	5	(765)
Bonds issued by other entities:						
Domestic	387	(1 744)	-	(120)	981	(496)
Foreign	(13)	(34)	-	(6)	-	(53)
Commercial Paper	1 257	-	38	(2 514)	1 238	19
	2 143	(5 666)	38	(2 640)	2 231	(3 894)
Variable income securities						
Shares						
Domestic	9 985	800	-	-	-	10 785
Foreign	784	(1 955)	-	-	-	(1 171)
	10 769	(1 155)	-	-	-	9 614
	12 912	(6 821)	38	(2 640)	2 231	5 720

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Amortized cost of financial assets at fair value through other comprehensive income	75 192	87 876
Recognized accumulated impairment	(501)	(528)
Amortized cost of financial assets at fair value through other comprehensive income net of impairment	74 691	87 348
Market value of financial assets at fair value through other comprehensive income	81 364	93 068
Potential realized gains/(losses) recognized in the fair value reserve	6 673	5 720

As described in note 28, following the adhesion of Banco Montepio to the Special Regime applicable to Deferred Tax Assets approved by Law no. 61/2014, of 26 August, a Special reserve was constituted that reflects the conversion of eligible deferred tax assets into tax credits.

Considering that Banco Montepio recorded net losses in 2020 and 2021, and considering the eligible deferred tax assets at the reference date of the aforementioned periods, as a result of the application of the special regime applicable to deferred tax assets, Banco Montepio recorded a Special reserve corresponding to 110% of the amount of the tax credits calculated, which has the following breakdown:

(Euro thousan)

	Jun 2023	Dec 2022
Special reserve		
2021 (Negative net income of 2020)	4 509	4 750
2022 (Negative net income of 2021)	378	326
	4 887	5 076

As at 30 June 2023, Banco Montepio has a Special reserve in the amount of Euro 4,887 thousand (31 December 2022: Euro 5,076 thousand), to which corresponds a tax credit of Euro 4,443 thousand (31 December 2022: Euro 4,614 thousand), as described in note 28.

41 Distribution of dividends

In the first half of 2023 and financial year 2022, Banco Montepio did not distribute dividends.

The Annual General Meeting realized on 28 April 2023 approved the proposal for the appropriation of the Net Income for financial year 2022, in the positive amount of Euro 35,670 thousand, appropriating it to Legal reserves in Euro 3,567 thousand and to Retained earnings in Euro 32,103 thousand.

42 Guarantees and other commitments

This caption is presented as follows:

(Euro thousand

	Jun 2023	Dec 2022
Guarantees granted	511 266	465 782
Commitments to third parties	1 782 935	1 857 163
Deposit and custody of securities	7 046 383	8 157 023
	9 340 584	10 479 968

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

(Euro thousand)

	Jun 2023	Dec 2022
Guarantees granted		
Guarantees	445 301	430 563
Letters of credit	65 965	35 219
	511 266	465 782
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	900 346	945 074
Potential liability with the Investors Indemnity System	590	708
Term liability to the Guarantee Deposits Fund	22 768	22 768
Securities subscription	1 848	2 051
Revocable commitments		
Revocable credit facilities	857 383	886 562
	1 782 935	1 857 163

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. All credit concession commitments require, substantially, that Customers maintain 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 2023 and 31 December 2022, 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 2023, in the scope of the Deposits Guarantee Fund, Banco Montepio pledged treasury bonds (OT October 2030 and OT February 2030), recorded as Other financial assets at amortized cost, with a nominal value of Euro 29,000 thousand (31 December 2022: Euro 28,000 thousand), as described in note 24.

As at 30 June 2023 and 31 December 2022, 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.

43 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.

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:

c) Financial instruments shall be classified in level 2 if they are:

iii. valued based on models using observable market data (such as interest rate curves or exchange rates). Market interest rates are calculated 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

iv. valued using indicative third-party purchase prices, based on observable market data.

Level 3: Financial instruments are classified in level 3 whenever they do not meet the criteria to be classified in level 1 or level 2, or fair value is determined based on unobservable data in active markets, using techniques and assumptions that market participants would use to assess the same instruments, namely:

c) financial instruments not admitted to trading on a regulated market that are valued using valuation models and for which there is no generally accepted consensus on the criteria to be used, namely:

iv. valuation prepared in accordance with the Net Asset Value of non-harmonized funds, updated and disclosed by the respective management companies;

v. valuation prepared in accordance with indicative prices disclosed by the entities that participated in the issuance of certain financial instruments, without an active market; or

vi. valuation prepared in accordance with the realization of impairment tests, using the performance indicators of the underlying operations (e.g., degree of protection by subordination of the tranches held, delinquency rates of underlying assets, evolution of ratings, etc.);

b) financial instruments valued through indicative purchase prices based on theoretical valuation models disclosed by specialized third parties.

The following are the main methods and assumptions used in estimating the fair value of financial assets and liabilities.

Derivative financial instruments

Operations involving financial derivatives, in the form contracts in respect of exchange rate, interest rate, share or share indices, inflation or a combination of these are traded over the counter (OTC) and in organized markets (especially stock markets). For OTC derivative operations (swaps and options), their valuation is based on generally accepted methods, always favouring market values.

Level 1: This classification includes futures, options and other derivative financial instruments traded on a regulated market.

Level 2: This level includes derivative financial instruments traded on unregulated (OTC) markets that do not have an optional component.

The valuation of these derivatives is made by discounting the cash flows from operations, using as a discounting base the market interest rate curves deemed appropriate for the currency in force at the time of the calculation. Interest rates are obtained from Bloomberg or Reuters.

Market interest rates are calculated based on information disseminated by financial content providers - Bloomberg or Reuters - specifically those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. Interest rate curves are also used to project non-deterministic cash flows such as the 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 for 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 0.87% for live operations as at 30 June 2023 (31 December 2022: negative in 0.08%).

For the remaining funds from 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 2023, the average discount rate was 3.51% (as at 31 December 2022: 3.53%) for the remaining funds.

For Other loans and advances to credit institutions a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term operations was applied. Considering the short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

- *Other financial assets at 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 2023, the average discount rate was 4.16% for mortgage loans (31 December 2022: 4.24%), 6.62% for individuals' loans (31 December 2022: 8.31%) and 5.77% for the remaining loans (31 December 2022: 5.60%), 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 2023 was 2.03% (31 December 2022: a negative 1.18%).

- *Debt securities issued and Other subordinated debt*

For these financial instruments, the fair value was calculated for the components which fair value is not yet reflected in the balance sheet. For the fixed interest rate instruments in respect of which 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 2023		Dec 2022	
	CVA	DVA	CVA	DVA
Adjustment	**52**	**424**	**51**	**573**
Of which: Derivatives expiry	-	-	(15)	(260)

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 2023, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, namely 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:

	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese yen
1 day	3.450000	5.145000	5.090000	1.730000	-0.125000
7 days	3.393250	5.134688	5.045000	1.700000	-0.260000
1 month	3.411600	5.285000	5.095000	1.790000	-0.260000
2 months	3.523450	5.395000	5.315000	1.740000	-0.260000
3 months	3.588000	5.515000	5.495000	1.800000	-0.250000
6 months	3.735700	5.815000	5.995000	1.870000	-0.230000
9 months	3.811750	5.875000	6.350000	1.870000	-0.030000
1 year	3.836800	6.015000	6.445000	2.090000	-0.120000
2 years	3.615450	5.810989	6.344372	2.063500	-0.120002
3 years	3.350000	5.608646	6.344372	2.012500	-0.120002
5 years	3.007000	5.202848	6.344372	1.915500	-0.120002
7 years	2.863500	4.797051	6.344372	1.882500	-0.120002
10 years	2.799500	4.187798	6.344372	1.872500	-0.120002
15 years	2.794500	3.748629	6.344372	1.885000	-0.120002
20 years	2.699500	3.693000	6.344372	1.885000	-0.120002
30 years	2.464000	3.456000	6.344372	1.885000	-0.120002

As at 31 December 2022, the following table presents the interest rates adopted in the calculation of the interest rate curve of the major currencies, namely Euro, United States Dollar, Pound Sterling, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of Banco Montepio:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese yen
1 day	1.970000	4.285000	3.470000	0.950000	-0.075000
7 days	1.904000	4.444375	3.615000	0.910000	-0.200000
1 month	1.905000	4.420000	3.640000	0.920000	-0.200000
2 months	2.092000	4.630000	3.830000	1.000000	-0.200000
3 months	2.253000	4.770000	3.900000	0.970000	-0.200000
6 months	2.669000	5.150000	4.345000	1.160000	-0.150000
9 months	2.952000	5.235000	4.650000	1.430000	-0.100000
1 year	3.102000	5.345000	4.965000	1.660000	-0.100000
2 years	3.142000	5.204321	4.904856	1.711500	-0.100013
3 years	3.024000	5.065171	4.904856	1.797000	-0.100013
5 years	2.961000	4.786489	4.904856	1.941000	-0.100013
7 years	2.920000	4.507043	4.904856	2.068000	-0.100013
10 years	2.938000	4.088064	4.904856	2.191000	-0.100013
15 years	2.934000	3.777879	4.904856	2.276000	-0.100013
20 years	2.787000	3.726000	4.904856	2.276000	-0.100013
30 years	2.470000	3.472000	4.904856	2.276000	-0.100013

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 2023**	**Dec 2022**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.0866	1.0660	6.6750	6.6900	6.7500	6.7930	6.9000
EUR/GBP	0.8583	0.8869	5.9770	6.2250	6.5250	6.7000	6.8400
EUR/CHF	0.9788	0.9847	4.5150	4.8450	5.1300	5.2600	5.4000
EUR/JPY	157.1600	140.6600	10.2830	10.1450	10.1950	10.1600	10.0400
EUR/AOA	868.4690	516.0885	-	-	-	-	-

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 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

	Jun 2023				
	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	-	-	630 051	630 051	630 051
Loans and deposits to credit institutions payable on demand	-	-	110 211	110 211	110 211
Loans and advances to credit institutions	-	-	360 647	360 647	360 726
Loans and advances to customers	812	-	11 019 007	11 019 819	11 279 992
Financial assets held for trading	73 022	-	-	73 022	73 022
Financial assets at fair value through profit or loss	196 099	-	-	196 099	196 099
Financial assets at fair value through other comprehensive income	-	81 364	-	81 364	81 364
Other financial assets at amortized cost	-	-	4 588 001	4 588 001	4 140 979
	269 933	81 364	16 707 917	17 059 214	16 872 444
Financial liabilities					
Deposits from central banks	-	-	1 749 727	1 749 727	1 749 727
Deposits from other credit institutions	-	-	868 410	868 410	814 457
Deposits from customers	69 103	-	12 864 455	12 933 558	12 871 571
Debt securities issued	-	-	328 023	328 023	311 227
Financial liabilities related to transferred assets	-	-	558 947	558 947	582 518
Financial liabilities held for trading	13 553	-	-	13 553	13 553
Other subordinated debt	-	-	211 301	211 301	202 549
	82 656	-	16 580 863	16 663 519	16 545 602

(Euro thousand)

	Dec 2022				
	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	-	-	1 383 801	1 383 801	1 383 801
Loans and deposits to credit institutions payable on demand	-	-	83 372	83 372	83 372
Loans and advances to credit institutions	-	-	397 310	397 310	397 235
Loans and advances to customers	863	-	11 075 272	11 076 135	11 200 869
Financial assets held for trading	10 059	-	-	10 059	10 059
Financial assets at fair value through profit or loss	209 483	-	-	209 483	209 483
Financial assets at fair value through other comprehensive income	-	93 068	-	93 068	93 068
Other financial assets at amortized cost	-	-	4 615 731	4 615 731	4 096 324
	220 405	93 068	17 555 486	17 868 959	17 474 211
Financial liabilities					
Deposits from central banks	-	-	2 889 991	2 889 991	2 889 991
Deposits from other credit institutions	-	-	396 807	396 807	337 301
Deposits from customers	61 565	-	13 112 277	13 173 842	13 132 012
Debt securities issued	-	-	327 492	327 492	308 398
Financial liabilities related to transferred assets	-	-	611 159	611 159	634 416
Financial liabilities held for trading	17 697	-	-	17 697	17 697
Other subordinated debt	-	-	217 029	217 029	205 772
	79 262	-	17 554 755	17 634 017	17 525 587

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 2023:

(Euro thousand

	Jun 2023				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial assets					
Cash and deposits at central banks	630 051	-	-	-	630 051
Loans and deposits to credit institutions payable on demand	110 211	-	-	-	110 211
Other loans and advances to credit institutions	-	-	360 726	-	360 726
Loans and advances to customers	-	812	11 279 180	-	11 279 992
Financial assets held for trading	65 806	7 211	5	-	73 022
Financial assets at fair value through profit or loss	-	798	196 099	-	196 099
Financial assets at fair value through other comprehensive income	57 749	-	21 651	1 166	81 364
Other financial assets at amortized cost	3 667 476	473 503	-	-	4 140 979
	4 531 293	482 324	11 857 661	1 166	16 872 444
Financial liabilities	1 749 727	-	-	-	1 749 727
Deposits from central banks	-	-	814 457	-	814 457
Deposits from other credit institutions	-	69 103	12 802 468	-	12 871 571
Deposits from customers	-	-	311 227	-	311 227
Debt securities issued	-	-	582 518	-	582 518
Financial liabilities related to transferred assets	-	8 974	4 579	-	13 553
Financial liabilities held for trading	-	-	-	-	-
Other subordinated debt	-	-	202 549	-	202 549
	1 749 727	78 077	14 717 798	-	16 545 602

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 2022:

(Euro thousand)

	Dec 2022				
	Level 1	Level 2	Level 2	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 383 801	-	-	-	1 383 801
Loans and deposits to credit institutions payable on demand	83 372	-	-	-	83 372
Other loans and advances to credit institutions	-	-	397 235	-	397 235
Loans and advances to customers	-	863	11 200 006	-	11 200 869
Financial assets held for trading	3 242	6 817	-		10 059
Financial assets at fair value through profit or loss	-	-	209 483	-	209 483
Financial assets at fair value through other comprehensive income	57 510	2 068	32 396	1 094	93 068
Other financial assets at amortized cost	4 096 324		-	-	4 096 324
	5 624 249	9 748	11 839 120	1 094	17 474 211
Financial liabilities					
Deposits from central banks	2 889 991	-	-	-	2 889 991
Deposits from other credit institutions	-	-	337 301	-	337 301
Deposits from customers	-	61 565	13 070 447	-	13 132 012
Debt securities issued	-	-	308 398	-	308 398
Financial liabilities related to transferred assets			634 416	-	634 416
Financial liabilities held for trading	-	7 694	10 003	-	17 697
Other subordinated debt	-	-	205 772	-	205 772
	2 889 991	69 259	14 566 337	-	17 525 587

44 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 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 a pension calculated as per the preceding paragraph, proportional to the time of service rendered to Banco Montepio, to be paid by the Pension Fund.

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 that ensure the coverage of liabilities assumed with old-age, disability and survival pensions, health benefits and death subsidy of its employees.

In December 2016, Banco Montepio signed a new Collective Labour Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the General Social Security System, and the attribution of an end-of-career award which replaced the extinguished seniority bonus.

As a result of the amendment to the ACT, the contributions to SAMS came to be made based on a fixed amount per employee and were, thus, no longer indexed to the remuneration.

The main actuarial assumptions used in calculating the present value of the liabilities are as follows:

	Assumptions	
	Jun 2023	**Dec 2022**
Financial assumptions		
Salary growth rate	2.5% in the first three years and 0.75% in the following years	2.5% in the first three years and 0.75% in the following years
Pension growth rate	2.0% in the first three years and 0.50% in the following years	2.0% in the first three years and 0,.0% in the following years
Rate of return of Fund	4%	4.2%
Discount rate	4%	4.2%
Revaluation rate		
Salary growth rate - Social Security	1.5%	1.5%
Pension growth rate	1.25%	1.25%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90 -1 year	TV 88/90 -1 year
Women	TV 99/01 -2 years	TV 99/01 -2 years
Actuarial valuation method	UCP	UCP

UCP - *Unit Credit* projected

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 2023, the average duration of the pension liabilities of the employees is 15.5 years (31 December 2022: 15.9 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	Jun 2023	Dec 2022
Active	2 648	2 740
Retirees and survivors	1 638	1 593
	4 286	4 333

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

(Euro thousand)

	Jun 2023	Dec 2022
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(363 263)	(339 694)
Active	(258 264)	(253 297)
	(621 527)	(592 991)
Liabilities with healthcare benefits		
Pensioners	(24 907)	(23 377)
Active	(23 558)	(22 581)
	(48 465)	(45 958)
Liabilities with death benefits		
Pensioners	(1 729)	(1 632)
Active	(1 007)	(957)
	(2 736)	(2 589)
Total liabilities	(672 728)	(641 538)
Coverages		
Pension Fund value	789 163	777 405
Net assets/(liabilities) in the balance sheet	116 435	135 867
Accumulated actuarial remeasurements recognized in other comprehensive income	145 526	127 828

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

(Euro thousand)

	Jun 2023				Dec 2022			
	Pension benefits	**Healthcare benefits**	**Death benefits**	**Total**	**Pension benefits**	**Healthcare benefits**	**Death benefits**	**Total**
Liabilities at the beginning of the financial period	592 991	45 958	2 589	641 538	778 363	64 680	3 906	846 949
Recognized in net income/(loss) (note 10)								
Current service cost	1 282	405	19	1 706	3 020	1 421	68	4 509
Interest cost	12 457	965	54	13 476	10 897	905	55	11 857
Early retirement, mutually agreed termination and others	4 055	-	-	4 055	7 112	-	-	7 112
Recognized in equities (note 42)								
Actuarial gains/(losses)								
- Changes in assumptions	18 068	1 502	106	19 676	(200 095)	(19 647)	(1 440)	(221 182)
- Not related to changes in assumptions	5 951	(365)	(32)	5 554	18 695	(1 401)		17 294
Other								
Pensions paid by the Fund	(13 256)	-	-	(13 256)	(25 573)	-	-	(25 573)
Pensions paid by Banco Montepio	(785)	-	-	(785)	(1 736)	-	-	(1 736)
Participant contributions	1 156	-	-	1 156	2 308	-	-	2 308
Others	(392)	-	-	(392)	-	-	-	-
Liabilities at the end of the financial period	621 527	48 465	2 736	672 728	592 991	45 958	2 589	641 538

The evolution of the Pension Fund's net asset value in the half year ended 30 June 2023 and financial year ended 31 December 2022 can be analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Value of the Fund at the beginning of the financial period	777 405	855 910
Recognized in net income/(loss) (note 10)		
Share of net interest	16 326	11 983
Recognized in equity (note 40)		
Financial deviations	7 532	(67 223)
Others		
Participant Contributions	1 156	2 308
Pensions paid by the Fund	(13 256)	(25 573)
Fund´s value at the end of the period	789 163	777 405

The amount of the payments made by the Pension Fund considers the effect of the application of Ordinance no. 141 of 2023.

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 2023 and 31 December 2022, Banco Montepio participates in 98.7% in the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A..

As at 30 June 2023 and 31 December 2022, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	Jun 2023				Dec 2022			
	Assets of the Fund	%	Quoted	Unquoted	Assets of the Fund	%	Quoted	Unquoted
Variable-income securities								
Shares	117 346	15%	117 346	-	97 201	13%	97 201	-
Shares investment funds	72 096	9%	19 403	52 693	57 284	7%	11 723	45 561
Bonds	507 477	64%	439 024	68 453	532 239	68%	460 897	71 342
Real Estate	4 815	1%	-	4 815	4 723	1%	-	4 723
Real Estate investment funds	44 783	6%	3 928	40 855	44 701	6%	3 854	40 847
Venture capital funds	3 272	0%	-	3 272	1 702	0%	-	1 702
Loans and advances in banks and other	39 374	5%	-	39 374	39 555	5%	9 791	29 764
	789 163	100%	579 701	209 462	777 405	100%	583 466	193 939

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 2023	Dec 2022
Loans and advances in banks and other	18 276	28 587
Real Estate	4 815	4 723
Bonds	374	370
	23 465	33 680

The evolution of the remeasurements in the balance sheet are analysed as follows:

(Euro thousand)	Jun 2023	Dec 2022
Actuarial gains/(losses) at the beginning of the financial period	127 828	264 493
Actuarial gains/(losses) in the financial period		
Changes in discount rate	17 951	(297 148)
Payroll update	-	21 215
Pensions growth rate update	-	33 655
Changes in mortality tables	-	12 216
Deviation of the Pension Fund return	(7,532)	67 223
Resulting from changes in plan conditions	1 725	8 880
Other changes	5 554	17 294
Actuarial gains/(losses) recognized in other comprehensive income	145 526	127 828

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

(Euro thousand)	Jun 2023	Jun 2022
Current service cost	1 706	2 277
Net interest income/(expense) on the liabilities coverage balance	(2 850)	(63)
Costs with early retirement, mutually agreed termination and other	4 055	5 956
Costs for the financial period	2 911	8 170

The evolution of net assets/(liabilities) in the balance sheet, in the period ended 30 June 2023 and financial year 2022, is analysed as follows:

(Euro thousand)	Jun 2023	Dec 2022
At the beginning of the financial period	135 867	8 961
Current service cost	(1 706)	(4 509)
Net interest income/(expense) on the liabilities coverage balance	2 850	126
Actuarial gains/(losses)	(25 230)	203 888
Financial gains/(losses)	7 532	(67 223)
Pensions paid by Banco Montepio	785	1 736
Early retirement, mutually agreed termination and other	(4 055)	(7 112)
At the end of the financial period	116 435	135 867

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 2023		Dec 2022	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(21 051)	22 212	(20 336)	21 456
Salary growth rate (0.25% change)	12 527	(11 585)	12 305	(11 462)
Pension growth rate (0.25% change)	20 075	(19 224)	18 943	(18 165)
SAMS contribution (0.25% change)	2 291	(2 291)	2 465	(2 465)
Future mortality (1 year change)	(15 379)	15 126	(14 347)	14 073

As at 30 June 2023, the cost associated with the end-of-career awards amounted to Euro 2,025 thousand (31 December 2022: Euro 2,034 thousand), in accordance with the accounting policy described in note 1 r) and as per note 37.

45 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 2023 and 31 December 2022, the amount of the funds for which Banco Montepio acts as depository bank is analysed as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Securities investment funds	197 898	180 913
Real Estate investment funds	744 336	721 149
Pension funds	285 472	284 930
Bank and insurance	26 638	28 807
	1 254 344	1 215 799

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

46 Related parties

As defined in IAS 24, the Companies detailed in note 52, the Pension Fund, the members of the Corporate, Management and Supervisory Bodies and the key management personnel are considered related parties of Banco Montepio. 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. First-line managers are considered Other key management personnel.

In operations carried out between Banco Montepio entities that are in a situation of special relationships, terms and conditions are contracted, accepted and practiced substantially identical to those that would normally be contracted, accepted and practiced between independent entities in comparable operations, that is, at market prices.

On this basis, with reference to 30 June 2023, the list of related parties considered by Banco Montepio is presented as follows:

Majority shareholder
Montepio Geral Associação Mutualista

Board of Directors (after July 25, 2022)
Chairman of the Board of directors
Manuel Ferreira Teixeira
Non-executive members
Clementina Barroso
Eugénio Luís Baptista
Florbela Lima
Maria Cândida Peixoto
Maria Lúcia Bica
Executive Committee
Chief Executive Officer
Pedro Leitão
Executive members
Ângela Barros
Helena Soares de Moura
Isabel Silva
Jorge Baião
José Carlos Mateus
Audit comittee
Chairman of the Audit Commitee
Clementina Barroso
Members
Florbela Lima
Maria Cândida Peixoto
Maria Lúcia Bica

Board of Directors of Other Related Parties
Alice Pinto
Alípio Dias
Amândio Coelho
Ana Sá Couto
António Gouveia
Carlos Beato
Dalila Teixeira
Edite Cheira
Fernando Amaro
Fernando Santo
Fernão Thomaz
Francisco Simões
Idália Serrão
Isabel Cidrais Guimarães
João Almeida Gouveia
João Carvalho das Neves
João Costa Pinto
Jorge Oliveira
José António Gonçalves
José Luís Leitão
José Mendes Alfaia
Laura Duarte
Luís Antunes
Luís Filipe Costa
Luís Franco
Luís Manuel Paixão
Manuel Baptista
Manuel Carlos Silva
Margarida Andrade
Margarida Duarte
Maria Clemente
Nuno Coelho
Nuno Marques da Silva
Nuno Mendes
Nuno Mota Pinto
Nuno Van Zeller
Paulo Jorge Rodrigues
Paulo Jorge Silva
Paulo Magalhães
Pedro Alves
Pedro Crespo
Pedro Ribeiro
Ricardo Carvalho
Rui Heitor
Virgílio Lima
Vitor Filipe

Other key management personnel

Alexandra Ponciano
Alexandra Quirino Silva
Alexandra Rolo
António Carlos Machado
António Coelho
António Figueiredo Lopes
António Longo
Armando Cardoso
Bruno Magalhães
Carla Sousa
Carlos Figueiral Azevedo
Conceição Barbosa
Daniel Caçador
Fabienne Lehuédé
Fernanda Correia
Fernando Alexandre
Fernando Teixeira
Filipa Costa
Filipe Guimarães Cizeron
Frederico Tomáz
Helder Reis
Inês Dargan
Jaquelina Rodrigues
Joana Correia
Jorge Barros Luís
Jorge Dourado
Luis Melo
Luís Sena
Manuel Castanho
Maria Eduarda Osório
Miguel Gomes da Silva
Miguel Oliveira
Mónica Araújo
Nuno Cavilhas
Nuno Soares
Patrícia Medeiros
Paula Pinheiro
Paula Viegas
Paulo Amorim
Paulo Trindade
Pedro Araújo
Pedro Pires
Ricardo Domingos Chorão
Ricardo Silva Ribeiro
Rita Santos
Rui Gama
Rui Jorge Santos
Rui Magalhães Moura
Sandra Brito Pereira
Sandra Martins Colaço
Sanguini Shirish
Sara Candeias
Susana Pinheiro
Tânia Madeira
Tiago Teixeira
Vania Fernandes
Vítor Ventura

Other related parties

Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto
CESource, A.C.E.
Clínica CUF Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior, S.A.
Finibanco Angola, S.A. (*)
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
GreenVolt - Energias Renováveis, S.A.
HTA – Hotéis, Turismo e Animação dos Açores, S.A.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique, Companhia de Seguros, S.A.
Montepio Crédito - Instituição Financeira de Crédito, S.A.
Montepio Gestão de Activos - Sociedade Gestora de Organismos de Investimento Coletivo, S.A.
Montepio Gestão de Activos Imobiliários, A.C.E.
Montepio Holding, S.G.P.S., S.A.
Montepio Investimento, S.A.
Montepio Residências para Estudantes, S.A.
Montepio Serviços, A.C.E.
NovaCâmbios - Instituição de Pagamento, S.A.
Polaris - Fundo de Investimento Imobiliário Fechado
Portugal Estates Fund - Fundo de Investimento Imobiliário Fechado
Residências Montepio, Serviços de Saúde, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado

(*) Following the sale in June 2023, Banco Montepio no longer has significant influence, the 29.22 per cent stake is therefore not consolidated.

As at 30 June 2023, the assets held by Banco Montepio in respect of related parties, represented or not by securities, included in the captions 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 2023								
Company	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	Provisions for guarantees and commitments assumed	Total
Board of Directors	-	122	-	-	-	-	-	-	122
Other related parties Board of Directors	-	1 998	2	-	-	-	-	-	1 996
Other key management personnel	-	2 772	2	-	-	-	-	-	2 770
Bolsimo - Gestão de Activos, S.A.	-	-	-	-	-	45	-	-	45
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-	15	-	-	15
CESource, A.C.E.	-	-	-	-	-	35	-	-	35
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	1	-	-	-	591	-	-	592
GreenVolt - Energias Renováveis, S.A.	-	25 574	24	-	-	-	-	-	25 550
Lusitania, Companhia de Seguros, S.A.	-	1	-	1 957	382	-	46	-	1 622
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	380	-	-	-	-	380
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	365 504	2 218	-	-	128	79 900	-	443 314
Montepio Geral Associação Mutualista	-	1	1	-	-	3 613	120	-	3 733
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	-	1	-	57	-	-	58
Montepio Gestão de Ativos Imobiliários, A.C.E.	-	-	-	-	-	2 257	-	-	2 257
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	107 161	-	-	107 161
Montepio Investimento, S.A.	246 200	-	-	-	-	278	173 981	1	420 458
NovaCâmbios - Instituição de Pagamento, S.A.	-	409	22	-	-	-	1 185	1	1 571
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	150	1	149
Residências Montepio, Serviços de Saúde, S.A.	-	1 309	5	-	-	21	750	1	2 074
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	-	-	-	-	22	-	-	22
	246 200	397 691	2 274	2 338	382	114 223	256 132	4	1 013 924

As at 31 December 2022, assets held by Banco Montepio in respect of related parties, represented or not by securities, included in the captions Deposits in other credit institutions, 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 2022									
Company	Deposits in other credit institutions	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	Provisions for guarantees and other commitments assumed	Total
Board of Directors (after July 25, 2022)	-	-	163	-	-	-	-	-	-	163
Board of Directors (until July 25, 2022)	-	-	476	-	-	-	-	-	-	476
Other related parties Board of Directors	-	-	2 084	3	-	-	-	-	-	2 081
Other key management personnel	-	-	2 521	1	-	-	-	-	-	2 520
Bolsimo - Gestão de Activos, S.A.	-	-	2 643	22	-	-	22	4 400	-	7 043
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-	-	18	-	-	18
CESource, A.C.E.	-	-	-	-	-	-	76	-	-	76
Finibanco Angola, S.A.	31 287	-	-	-	-	-	-	3 884	4	35 167
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	-	13	-	-	14
GreenVolt - Energias Renováveis, S.A.	-	-	15 125	14					-	15 111
Lusitania, Companhia de Seguros, S.A.	-	-	1	-	1 935	369	-	46	-	1 613
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	250	-	-	-	-	250
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	-	335 410	4 633	-	-	197	152 650	-	483 624
Montepio Geral Associação Mutualista	-	-	3	1	-	-	4 329	120	-	4 451
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	-	-	1	-	50	-	-	51
Montepio Gestão de Ativos Imobiliários, A.C.E.	-	-	-	-	-	-	1 160	-	-	1 160
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	-	107 161	-	-	107 161
Montepio Investimento, S.A.	-	333 100	-	-	-	-	66	87 081	1	420 246
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	530	15	-	-	-	1 388	-	1 903
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	150	-	150
Residências Montepio, Serviços de Saúde, S.A.	-	-	1 828	6	-	-	42	300	-	2 164
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	-	-	-	-	-	11	-	-	11
	31 287	333 100	360 785	4 695	2 186	369	113 145	250 019	5	1 085 453

As at 30 June 2023, 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 2023				
Company	Deposits from other credit institutions	Deposits from customers	Debt securities issued and Other subordinated debt	Other liabilities	Total
Board of Directors	-	699	-	-	699
Other related parties Board of Directors	-	2 703	-	-	2 703
Other key management personnel	-	2 422	-	-	2 422
Bolsimo - Gestão de Activos, S.A.	-	1 257	-	-	1 257
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	5 992	-	-	5 992
Clínica CUF Belém, S.A.	-	23	-	-	23
Empresa Gestora de Imóveis da Rua do Prior S.A	-	224	-	-	224
Fundação Montepio Geral	-	2 676	-	-	2 676
Fundo de Pensões - Montepio Geral	-	14 472	400	-	14 872
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	2 608	-	-	2 608
GreenVolt - Energias Renováveis, S.A.	-	6 296	-	-	6 296
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	144	-	-	144
Lusitania Vida, Companhia de Seguros, S.A.	-	9 284	-	-	9 284
Lusitania, Companhia de Seguros, S.A.	-	2 686	-	-	2 686
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	412	-	-	412
Montepio Geral Associação Mutualista	-	100 681	197 342	-	298 023
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	6 715	-	-	6 715
Montepio Gestão de Activos Imobiliários, A.C.E.	-	3 145	-	-	3 145
Montepio Holding, S.G.P.S., S.A.	-	21 911	-	-	21 911
Montepio Investimento, S.A.	8 523	-	-	914	9 437
Montepio Residências para Estudantes, S.A.	-	648	-	-	648
NovaCâmbios - Instituição de Pagamento, S.A.	-	518	-	-	518
PEF - Fundo de Investimento Imobiliário Fechado	-	222	-	-	222
Polaris-Fundo de Investimento Imobiliário Fechado	-	293	-	-	293
Residências Montepio, Serviços de Saúde, S.A.	-	677	-	-	677
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	3 152	-	-	3 152
Sociedade Portuguesa de Administrações, S.A.	-	568	-	-	568
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	37 707	-	-	37 707
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	485	-	-	485
	8 523	228 620	197 742	914	435 799

As at 31 December 2022, 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)

	Dez 2022				
Company	Deposits from other credit institutions	Deposits from customers	Debt securities issued and Other subordinated debt	Other liabilities	Total
Board of Directors (after July 25, 2022)	-	639	-	-	639
Board of Directors (until July 25, 2022)	-	1 258	-	-	1 258
Other related parties Board of Directors	-	2 952	-	-	2 952
Other key management personnel	-	2 985	-	-	2 985
Bolsimo - Gestão de Activos, S.A.	-	122	-	-	122
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	11 676	-	-	11 676
Clínica CUF Belém, S.A.	-	28	-	-	28
Empresa Gestora de Imóveis da Rua do Prior S.A	-	255	-	-	255
Finibanco Angola, S.A.	37 252	-	-	-	37 252
Fundação Montepio Geral	-	2 079	-	-	2 079
Fundo de Pensões - Montepio Geral	-	29 328	401	-	29 729
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	1 500	-	-	1 500
GreenVolt - Energias Renováveis, S.A.	-	10 058	-	-	10 058
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	61	-	-	61
Lusitania Vida, Companhia de Seguros, S.A.	-	27 406	-	-	27 406
Lusitania, Companhia de Seguros, S.A.	-	2 633	-	-	2 633
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	1 518	-	-	1 518
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	2 171	-	-	2 171
Montepio Geral Associação Mutualista	-	102 130	201 077	-	303 207
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	2 510	-	-	2 510
Montepio Gestão de Activos Imobiliários, A.C.E.	-	2 221	-	-	2 221
Montepio Holding, S.G.P.S., S.A.	-	6 272	-	-	6 272
Montepio Investimento, S.A.	17 963	-	-	953	18 916
Montepio Residências para Estudantes, S.A.	-	466	-	-	466
NovaCâmbios - Instituição de Pagamento, S.A.	-	558	-	-	558
PEF - Fundo de Investimento Imobiliário Fechado	-	223	-	-	223
Polaris-Fundo de Investimento Imobiliário Fechado	-	343	-	-	343
Residências Montepio, Serviços de Saúde, S.A.	-	240	-	-	240
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	3 371	-	-	3 371
Sociedade Portuguesa de Administrações, S.A.	-	346	-	-	346
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	36 274	-	-	36 274
	55 215	251 623	201 478	953	509 269

As at 30 June 2023, 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 2023						
Company	**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**	**General and administrative expenses**
Board of Directors	1	-	-	-	-	-	-
Other related parties Board of Directors	25	4	3	-	-	-	-
Other key management personnel	33	5	2	-	-	-	-
Bolsimo - Gestão de Ativos, S.A.	40	-	-	-	-	(134)	150
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	32	-	447	-	-
CESource, A.C.E.	-	-	-	-	-	(216)	-
Finibanco Angola, S.A.	-	-	-	-	-	-	-
Fundação Montepio Geral	-	-	1	-	-	-	-
Fundo de Pensões - Montepio Geral	-	-	-	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 416	-	-	-	-
GreenVolt - Energias Renovàveis, S.A.	574	17	-	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	1	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	-	2 841	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	2 739	3	-	-	-
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	6 676	2 197	27	150	-	(214)	20
Montepio Geral Associação Mutualista	-	9 278	1 556	281	-	(4 757)	981
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	31	609	8	-	(376)	-
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	(1 410)	-	(1 097)	-
Montepio Hording, S.G.P.S., S.A.	-	-	-	-	-	-	-
Montepio Investimento, S.A.	4 460	-	32	211	-	(360)	-
Montepio Residências para Estudantes, S.A.	-	1	-	-	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	18	-	27	4	-	-	-
PEF - Fundo de Investimento Imobiliário Fechado	-	-	6	-	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	2	-	2	-	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	57	-	26	-	-	(61)	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	21	-	-	-	-	-
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.	-	-	-	18	-	-	-
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	-	10	1	-	-	-
	11 886	11 554	9 330	(734)	447	(7 215)	1 151

As at 30 June 2022, 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 2022						
Empresas	**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**	**General and administrative expenses**
Other related parties Board of Directors	5	1	2	-	-	-	-
Other key management personnel	4	1	2	-	-	-	-
Bolsimo - Gestão de Ativos, S.A.	35	-	-	-	-	(132)	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	43	-	347		-
CESource, A.C.E.	-	-	-	-		(234)	-
Fundo de Pensões - Montepio Geral	-	8	-	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 435	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	1	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1 807	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	2 212	4	-	-	-
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	-	23	1	-	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	784	-	17	177	-	(161)	-
Montepio Geral Associação Mutualista	1	9 089	1 555	-	-	(5 052)	961
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	1	558	8	-	-	-
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	(1 356)	-	(1 091)	-
Montepio Hording, S.G.P.S., S.A.	-	-	-	-	-	-	-
Montepio Investimento, S.A.	565	-	11	211	-	(436)	-
Montepio Seguros, S.G.P.S., S.A.	-	-	15	-	-	-	-
Montepio Valor - S.G.O.I.C., S.A.	-	-	-	-	-	(274)	-
NovaCâmbios - Instituição de Pagamento, S.A.	29	-	28	4	-	-	-
PEF - Fundo de Investimento Imobiliário Fechado		-	6	-	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	2	-	2	-	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	34	-	24	-	-	(56)	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	1	-	-	-	-	-
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.	-	-	-	18	-	-	-
	1 459	9 101	7 741	(933)	347	(7 436)	961

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 10.

In the first half of 2023 and financial year 2022, there were no transactions with Banco Montepio's Pension Fund.

47 Securitization of assets

As at 30 June 2023, there are four securitization operations, three of which originated in Banco Montepio and one realized jointly by Banco Montepio and Montepio Crédito.

We present next some additional details of the live securitization operations as at 30 June 2023.

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.

On 6 December 2021, Banco Montepio and Montepio Crédito signed contracts with Ares Lusitani – STC, S.A. leading to the securitization of a consumer loan portfolio. The securitization operation, with the name Pelican Finance no. 2, has a legal maturity of 13 years (25 January 2035), with the associated obligations having a Weighted Average Life of 2.76 years (assuming a CPR of 7.5%). The outstanding capital of the securitized loans (Aggregate Principal Amount Outstanding) was, on the reference date of 31 October 2021 (Portfolio Determinative Date), Euro 356,774 thousand, this being a static portfolio, without revolving mechanisms. The sale was carried out using a syndicated public placement model, with class A being placed above par (100.606%) and the rest at par.

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 Finance no. 2 and Aqua Mortgages no. 1).

Banco Montepio does not hold any direct or indirect shareholding in the Companies Tagus and Sagres.

The loans covered by the securitization operations referred above were not derecognized from the balance sheet as the Bank retained most of the risks and rewards associated with the securitized loans. If the Bank substantially transfers the risks and rewards associated with their holding, the securitization operations are derecognized.

As at 30 June 2023, the securitization operations realized by Banco Montepio are presented as follows:

(Euro thousand)

				Loan and advances		Securities issued		
Issue	Settlement date	Currency	Asset transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount*
Pelican Mortgages No. 3	March 2007	euro	Mortgage loans	762 375	90 648	762 375	95 137	24 070
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	341 943	1 028 600	372 897	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	54 290	236 500	56 807	-
*Pelican Finance No. 2 ***	December 2021	euro	Mortgage loans	360 301	75 299	360 301	210 525	210 525
				2 387 776	562 180	2 387 776	735 366	234 595

* Includes nominal value, accrued interest and other adjustments.

** The figures shown correspond to the total issue (Banco Montepio and Montepio Crédito together).

Additionally, the detail of the securitized loans not derecognized, by securitization operation and contract nature, as at 30 June 2023, 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 Finance n.º 2*	Total
Domestic loans and advances					
Retail					
Mortgage	90 552	341 698	54 058	-	486 308
Consumer loans and other	-	-	-	75 140	75 140
	90 552	341 698	54 058	75 140	561 448
Credit and overdue interest					
Less than 90 days	5	135	13	1	154
More than 90 days	91	110	219	158	578
	96	245	232	159	732
	90 648	341 943	54 290	75 299	562 180

As at 31 December 2022, the securitization operations realized by Banco Montepio are presented as follows:

(Euro thousand)

				Loans and advances		Securities issued		
Issue	Settlement date	Currency	Assets transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages No. 3	March 2007	euro	Mortgage loans	762 375	98 235	762 375	103 061	26 165
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	362 466	1 028 600	394 155	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	59 222	236 500	61 644	-
*Pelican Finance No. 2 ** *	December 2021	euro	Mortgage loans	360 301	94 797	360 301	252 994	252 994
				2 387 776	614 720	2 387 776	811 854	279 159

* Includes nominal value, accrued interest and other adjustments.

** The figures shown correspond to the total issue (Banco Montepio and Montepio Crédito together).

Additionally, the detail of the securitized loans not derecognized, by securitization operation and contract nature, as at 31 December 2022, 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 Finance n.º 2*	Total
Domestic loans and advances					
Retail					
Mortgage	98 099	361 634	58 890	-	518 623
Consumer loans and other	-	-	-	94 513	94 513
	98 099	361 634	58 890	94 513	613 136
Credit and overdue interest					
Less than 90 days	57	566	181	3	807
More than 90 days	79	266	151	281	777
	136	832	332	284	1 584
	98 235	362 466	59 222	94 797	614 720

As a form of financing, the securitization vehicles created (Pelican Mortgages no. 3, Pelican Mortgages no. 4, Pelican Finance no. 2 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, and partially, in the case of Pelican Mortgages no. 3 and Pelican Finance no.2.

In the case of the more senior notes, these are recorded as Other financial assets at amortized cost (note 24), while in the case of the residual notes these are recorded in the caption Financial assets at fair value through profit or loss (note 22), and, as at 30 June 2023, these are analysed as follows:

Issue	Bonds	Initial nominal amount	Current nominal amount	CEMG interest held (nominal amount)	Maturity date	*Rating* (initial)				*Rating* (current)			
		euro	euro	euro		*Fitch*	Moodys	S&P	DBRS	*Fitch*	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	85 932 811	61 863 119	2054	AAA	Aaa	AAA	n.a.	AA+	Aa2	AA+	n.a.
	Class B	14 250 000	2 218 663	2 218 663	2054	AA-	Aa2	AA-	n.a.	A+	Baa2	A+	n.a.
	Class C	12 000 000	1 868 348	1 868 348	2054	A	A3	A	n.a.	A-	Ba1	BBB+	n.a.
	Class D	6 375 000	992 560	992 560	2054	BBB	Baa3	BBB	n.a.	BBB+	Ba3	BB+	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	271 535 232	271 535 232	2056	AAA	n.a.	n.a.	AAA	AA+	n.a.	n.a.	AAA
	Class B	55 500 000	24 037 316	24 037 316	2056	AA	n.a.	n.a.	A+	AA	n.a.	n.a.	n.a.
	Class C	60 000 000	25 986 287	25 986 287	2056	A-	n.a.	n.a.	BBB	A-	n.a.	n.a.	n.a.
	Class D	25 000 000	10 827 620	10 827 620	2056	BBB	n.a.	n.a.	B+	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	11 910 382	11 910 382	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 Finance No 2	Class A	285 400 000	166 760 553	-	2035	AA-	n.a.	n.a.	AA	AA-	n.a.	n.a.	AA
	Class B	20 700 000	12 095 107	-	2035	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class C	17 500 000	10 225 332	-	2035	BBB+	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	BBB
	Class D	19 300 000	11 277 080	-	2035	BB+	n.a.	n.a.	BH	BB+	n.a.	n.a.	BH
	Class E	17 400 000	10 166 901	-	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class X	1 000	1	1	2035	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	37 473 655	37 473 655	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	15 832 834	15 832 834	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.

As at 31 December 2022, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount	Current nominal amount	CEMG interest held (nominal amount)	Maturity date	*Rating* (initial)				*Rating* (current)			
		euro	euro	euro		*Fitch*	Moodys	S&P	DBRS	*Fitch*	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	100 888 702	72 629 880	2054	AAA	Aaa	AAA	n.a.	AA-	A1	AA+	n.a.
	Class B	14 250 000	2 604 803	2 604 803	2054	AA-	Aa2	AA-	n.a.	A-	Baa3	BBB	n.a.
	Class C	12 000 000	2 193 519	2 193 519	2054	A	A3	A	n.a.	BBB	Ba2	BB	n.a.
	Class D	6 375 000	1 165 307	1 165 307	2054	BBB	Baa3	BBB	n.a.	BBB-	B1	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	305 093 797	305 093 797	2056	AAA	n.a.	n.a.	AAA	AA+	n.a.	n.a.	AAA
	Class B	55 500 000	27 008 046	27 008 046	2056	AA	n.a.	n.a.	A+	AA-	n.a.	n.a.	n.a.
	Class C	60 000 000	29 197 887	29 197 887	2056	A-	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	n.a.
	Class D	25 000 000	12 165 786	12 165 786	2056	BBB	n.a.	n.a.	B+	B-	n.a.	n.a.	n.a.
	Class E	27 500 000	13 382 365	13 382 365	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 Finance No 2	Class A	285 400 000	237 925 805	-	2035	AA-	n.a.	n.a.	AA	AA-	n.a.	n.a.	AA
	Class B	20 700 000	17 256 707	-	2035	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class C	17 500 000	14 589 003	-	2035	BBB+	n.a.	n.a.	BBB	BBB+	n.a.	n.a.	BBB
	Class D	19 300 000	16 089 587	-	2035	BB+	n.a.	n.a.	BH	BB+	n.a.	n.a.	BH
	Class E	17 400 000	14 505 638	-	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class X	1 000	1	1	2035	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	45 315 966	45 315 966	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.	A+	AAA
	Class B	29 824 000	17 202 461	17 202 461	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.

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.

48 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, reputational, information and communication technologies, strategy and business risks as well as other emerging risks, namely Environmental, Social and Governance (ESG) risks of which the climatic risks stand out. Depending on the nature and relevance of the risk, plans, programmes 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 exposure to potential losses and increase the robustness and resilience of 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 Directorate, the unit responsible for the risk management function of Banco Montepio, which regularly informs the Management (elsewhere also "Board of Directors") and Supervisory bodies 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 a 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 Committee in these areas.

The Board of Directors with the support of the Audit Committee (a supervisory body of Banco Montepio) must ensure that the Institution has sufficient capital to meet regulatory requirements and to cover potential losses resulting from the activity, with an optimized balance sheet structure that maintains a stable and safe funding capacity and liquidity profile, allowing it to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

Banco Montepio has clear and well-defined objectives in its strategic plan, namely as regards capital ratios, transformation of deposits into credit, liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with its risk appetite.

To this end, the definition of risk appetite is based on certain principles - namely solidity, sustainability and profitability – being prepared in function of the strategic plan and the intended market positioning, as well as the risks faced in its activity that are materially relevant. For these, objectives are set according to the desired level of return and the business strategy, tolerance levels, that is, risk variation intervals that can lead to discussions and decisions about corrective measures and limits that, if exceeded, lead to immediate corrective measures.

In defining risk appetite, the Board of Directors ensures its alignment with the other organizational components (business strategy and the global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and that can affect risk exposure and it's monitoring.

Banco Montepio's risk management policy is designed to ensure an adequate relationship, at all times, between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, assuming particular importance in this scope the monitoring and control of the main types of financial and non-financial risks – credit, market, liquidity, real estate and operating – to which Banco Montepio's business is subject.

Credit risk

Credit Risk is the probability of negative impacts on results or capital, due to the inability of a counterparty to meet its financial commitments to the institution, including possible restrictions on the transfer of payments from abroad. Credit risk exists mainly in loan exposures (including secured), credit lines, guarantees and derivatives.

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 (loss given default) and in the estimation of the regulatory and economic capital requirements (non-expected 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.

Sole traders ("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 18 classes, of which the first 15 correspond to performing risk classes, classes 16 and 17 to those recording arrears, and class 18 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 Credit Analysis Directorate, a body independent of the commercial structure. The Risk Directorate 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 profile deterioration of a certain counterpart (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.

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 one percentage point: impact of 1.97% of total impairment of the loan portfolio;
2. Macroeconomic projection improvement scenario of one percentage point: impact of -1.98% 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 7.08% of total impairment of the loan portfolio;
2. Parameter improvement scenario of 5%: impact of -6.77% of total impairment of the loan portfolio.

Regarding the process of incorporating macroeconomic projections into the parameters for estimating impairment, 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:

	2022	2023	2024	2025
Unemployment Rate (2)				
Base Scenario	6.30%	6.40%	5.83%	5.40%
Worst-case Scenario	6.30%	7.59%	8.04%	6.90%
Best-case Scenario	6.30%	6.14%	5.44%	5.09%
GDP Growth Rate (2)				
Base Scenario	3.16%	2.52%	2.04%	1.96%
Worst-case Scenario	3.16%	-0.64%	-1.28%	3.62%
Best-case Scenario	3.16%	3.90%	2.59%	1.71%
3-Month Euribor Interest Rate (1)				
Base Scenario	1.77%	3.78%	2.86%	1.82%
Worst-case Scenario	1.77%	4.15%	0.77%	0.74%
Best-case Scenario	1.77%	4.03%	3.11%	1.82%
Housing Price Index Growth Rate (2)				
Base Scenario	4.66%	-1.48%	-2.74%	1.19%
Worst-case Scenario	4.66%	-3.37%	-12.06%	1.12%
Best-case Scenario	4.66%	-0.88%	-0.66%	1.44%
Growth Rate of Disposable Income Per Capita (1)				
Base Scenario	2.36%	0.67%	1.90%	2.14%
Worst-case Scenario	2.36%	-1.56%	-0.14%	1.51%
Best-case Scenario	2.36%	3.54%	2.22%	1.87%
Growth Rate of Exports of Goods and Services (2)				
Base Scenario	7.69%	5.76%	1.26%	2.05%
Worst-case Scenario	7.69%	2.85%	-1.70%	2.91%
Best-case Scenario	7.69%	7.73%	3.36%	2.39%
Growth Rate of Family Comsumption (2)				
Base Scenario	2.81%	1.16%	1.32%	1.21%
Worst-case Scenario	2.81%	-2.06%	-2.17%	3.99%
Best-case Scenario	2.81%	1.95%	2.23%	0.71%

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

(2) Source: National Institute of Statistics; Projections: Moody's Analytics

Regarding the potential direct impact of the conflict, the credit exposure to Ukraine and Russia is not significant, namely in Individuals (the exposure linked to citizens residing in one of the two countries is Euro 42 thousand with reference to 30 June 2023 (31 December 2022: Euro 589 thousand)).

Although the credit exposure directly impacted by the conflict is not significant, there are sectors of activity that are more exposed to the indirect impact of the war, namely through the significant increases that have been observed in energy and commodity prices, as well as disruptions in various supply chains. In this way, the Bank carried out an analysis that made it possible to identify the sectors of activity in which the indirect impact of the war is expected to be more significant, the exposure of Customers in the identified sectors of activity is Euro 3,473,731 thousand as at 30 June 2023 (31 December 2022: Euro 3,495,560 thousand). Based on this analysis and given the fact that the annual review of Customer ratings is more concentrated at the end of each year, the Bank recognized an overlay, based on a top-down approach, which consisted of deteriorating the credit ratings of Customers in the identified sectors of activity. The deteriorating of credit ratings has an impact on the analysis of the significant increase in credit risk and on the attribution of the PD to each Customer (see b.10.3 and b.10.5 of the accounting policy, respectively).

Banco Montepio's credit risk exposure can be analysed as follows:

		(Euro thousand)
	Jun 2023	**Dec 2022**
Loans and deposits at credit institutions repayable on demand	110 211	83 372
Loans and advances to credit institutions	360 647	397 310
Loans and advances to customers	11 019 819	11 076 135
Financial assets held for trading	66 202	8 686
Financial assets at fair value through profit or loss	33 071	34 184
Financial assets at fair value through other compensative income	60 122	72 103
Other financial assets at amortized cost	4 588 001	4 615 731
Other assets	159 565	140 228
Guarantees granted	511 266	465 782
Irrevocable credit lines	900 346	945 074
Revocable credit lines	16 015	886 562
	17 825 265	18 725 167

The analysis of the main credit risk exposures by sector of activity, as at 30 June 2023, can be analysed as follows:

(Euro thousand)

Activity	Jun 2023													
	Loans and deposits at others credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatory at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Other financial assets at amortised cost		Guarantees granted	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	Gross value	Impairment	Off-balance sheet value		Provisions
Corporate														
Agriculture, forestry, and fishing				131 588	3 658	-	-	-	-	4 005	23	1 078	4 726	52
Extractive industries				15 017	446	-	-	-	-			1 383	2 469	14
Manufacturing industries				1 035 983	63 969	-	132	-	-	4 738	16	38 174	112 270	1 293
Electricity generation and distribution, gas steam and air conditioning				81 637	4 430	-	-	-	-	399	-	259	19 664	26
Water supply				49 444	693	-	-	-	-	-	-	1 944	4 620	37
Construction				384 000	32 131	-	57	-	-	-	-	134 843	106 485	6 320
Wholesale and retail trade				820 887	33 416	-	40	-	-	-	-	53 711	129 544	1 757
Transport and storage				272 011	8 639	-	-	-	-			5 284	19 775	283
Accommodation and catering activities				545 679	13 988	-	-	-	-	-	-	12 894	22 482	173
Information and Communication				47 616	1 413	-	-	-	-	-	-	2 082	22 227	186
Financial and insurance activities	110 211	361 664	1 017	680 986	42 192	7 216	-	1 957	382			194 024	276 345	602
Real estate activities				517 043	31 647	-	68	-	-	-	-	17 571	97 080	2 397
Consulting, scientific, technical and similar				248 244	6 005	-	-	-	-	-	-	25 199	28 111	235
Administrative and supporting service activities				106 921	2 031	-	-	-	-	-	-	5 787	13 914	131
Public administration and defence, compulsory social security				25 970	584	58 986	-	57 868	119	4 103 056	7 196	48	589	8
Education				62 840	1 326	-	-	-	-	-	-	191	5 562	34
Human Health Services and Social action activities				312 466	6 322	-	-	-	-	-	-	1 920	16 461	408
Artistic activities, shows and recreational				51 536	2 331	-	-	-	-	-	-	7 577	5 997	58
Other services				63 106	1 382	-	17	-	-	-	-	5 066	12 025	86
Retail														
Mortgage Loans				5 502 016	32 466	-	32 757	798	-	465 293	-	-	-	-
Others				367 554	13 656	-	-	-	-	17 775	30	2 231	-	1 915
	110 211	**361 664**	**1 017**	**11 322 544**	**302 725**	**66 202**	**33 071**	**60 623**	**501**	**4 595 266**	**7 265**	**511 266**	**900 346**	**16 015**

The analysis of the mains credit risk exposures by sector of activity, as at 31 December 2022, can be analysed as follows:

(Euro thousand)

Activity	Loans and deposits at others credit institutions repayable on demand	Loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatory at fair value	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Guarantees granted	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Dec 2022														
	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	-	-	-	105 209	4 886	-	-	-	-		-	-	1 137	5 994	146
Extractive industries	-	-	-	17 387	404	-	-	-	-		5 004	1	1 255	2 458	20
Manufacturing industries	-	-	-	1 049 921	71 477	-	211	-	-		-	-	31 768	116 402	1 852
Electricity generation and distribution, gas steam and air conditioning	-	-	-	75 403	8 063	-	-	-	-		10 837	643	548	24 751	308
Water supply	-	-	-	51 732	614	-	-	-	-		-	-	1 944	4 308	44
Construction	-	-	-	385 717	43 682	-	65	-	-		-	-	114 329	114 505	8 214
Wholesale and retail trade	-	-	-	843 276	34 853	-	45	-	-		-	-	46 624	146 015	1 712
Transport and storage	-	-	-	290 814	11 350	-	-	-	-		3 152	1	5 246	21 832	321
Accommodation and catering activities	-	-	-	547 919	17 232	-	-	-	-		-	-	10 941	26 958	634
Information and Communication	-	-	-	48 930	1 653	-	-	-	-		-	-	2 956	24 186	137
Financial and insurance activities	83 372	398 666	1 356	636 728	52 370	6 817	-	8 443	388		3 210	2	196 893	260 182	637
Real estate activities	-	-		543 332	21 883	-	71	-	-		-	-	14 814	110 820	2 539
Consulting, scientific, technical and similar	-	-	-	215 866	4 933	-	-	-	-		-	-	14 813	27 666	321
Administrative and supporting service activities	-	-	-	108 054	2 192	-	-	-	-		-	-	5 581	23 985	175
Public administration and defence, compulsory social security	-	-	-	27 831	174	1 869	-	58 627	113		4 093 362	6 043	104	444	10
Education	-	-	-	65 800	1 092		-	-	-		-	-	191	4 033	48
Human Health Services and Social action activities	-	-	-	312 475	5 791	-	-	-	-		-	-	2 072	18 699	578
Artistic activities, shows and recreational	-	-	-	55 233	2 694	-	-	-	-		-	-	8 657	4 980	110
Other services	-	-	-	73 438	4 067	-	23	-	-		-	-	3 273	6 856	107
Retail															
Mortgage Loans	-	-	-	5 577 562	32 815	-	33 769	1 065	2		497 054	-	-	-	-
Others	-	-	-	385 557	19 824	-	-	4 496	25		9 804	2	2 636	-	1 399
	83 372	**398 666**	**1 356**	**11 418 184**	**342 049**	**8 686**	**34 184**	**72 631**	**528**	**-**	**4 622 423**	**6 692**	**465 782**	**945 074**	**19 312**

As regards credit risk, the portfolio of financial assets at amortized cost 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 511,085 thousand (31 December 2022: Euro 465,601 thousand), the irrevocable credit facilities amounting to Euro 726,546 thousand (31 December 2022: Euro 858,174 thousand) and the revocable credit facilities in the amount of Euro 857,344 thousand (31 December 2022: Euro 886,489 thousand), broken down between collective and individual analysis, is presented as follows:

(Euro thousand)

Stage impacts	Jun 2023 Gross value	Jun 2023 Impairment	Jun 2023 Net value	Dec 2022 Gross value	Dec 2022 Impairment	Dec 2022 Net value
Collective analysis	**9 977 272**	**127 224**	**9 850 048**	**10 168 972**	**150 037**	**10 018 935**
Stage 1	8 180 830	20 921	8 159 909	8 138 760	16 933	8 121 827
Stage 2	1 641 680	46 141	1 595 539	1 846 427	54 487	1 791 940
Stage 3	154 762	60 162	94 600	183 785	78 617	105 168
Collective analysis	**3 440 247**	**191 516**	**3 248 731**	**3 459 476**	**211 324**	**3 248 152**
Stage 1	2 546 107	12 301	2 533 806	2 420 894	13 242	2 407 652
Stage 2	482 948	16 166	466 782	545 186	14 917	530 269
Stage 3	411 192	163 049	248 143	493 396	183 165	310 231
	13 417 519	**318 740**	**13 098 779**	**13 628 448**	**361 361**	**13 267 087**

As at 30 June 2023 and 31 December 2022, the detail of the application of Stages to other financial assets is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
Stage impacts	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Amortized cost (AC)	**4 595 266**	**7 265**	**4 588 001**	**4 622 423**	**6 692**	**4 615 731**
Stage 1	4 592 245	7 247	4 584 998	4 616 632	6 050	4 610 582
Stage 2	3 021	18	3 003	5 791	642	5 149
Fair value (FVOIC)	**60 623**	**501**	**60 122**	**72 631**	**528**	**72 103**
Stage 1	58 666	119	58 547	70 347	157	70 190
Stage 2	1 957	382	1 575	2 284	371	1 913
Loans and advances to ot	**361 664**	**1 017**	**360 647**	**398 666**	**1 356**	**397 310**
Stage 1	361 212	1 004	360 208	398 649	1 356	397 293
Stage 2	452	13	439	17	-	17
	5 017 553	**8 783**	**5 008 770**	**5 093 720**	**8 576**	**5 085 144**

As at 30 June 2023 and 31 December 2022, the transfer between Stages, related to other financial assets at amortized cost is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
	Gross value					
	Stage 1	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**
Gross value at 31 Jan	4 616 632	5 791	4 622 423	3 535 188	-	3 535 188
Exposure of new net derecognition credits, refunds and other variations	(24 387)	(2 770)	(27 157)	1 081 444	5 791	1 087 235
Gross value at 30 Jun 2023	4 592 245	3 021	4 595 266	4 616 632	5 791	4 622 423

(milhares de euros)

	Jun 2023			Dec 2022		
	Impairment losses					
	Stage 1	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**
Gross value at 31 Jan	6 050	642	6 692	4 619	-	4 619
Exposure of new net derecognition credits, refunds and other variations	1 197	(624)	573	1 431	642	2 073
Gross value at 30 Jun 2023	7 247	18	7 265	6 050	642	6 692

As at 30 June 2023 and 31 December 2022, the transfer between Stages, related to other loans and advances to credit institutions is presented as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
	Gross value					
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Gross value at 31 Jan	398 649	17	398 666	390 553	-	390 553
Transfer to stage 2	17	(17)	-	(17)	17	-
Exposure of new net derecognition credits, refunds and other variations	(37 454)	452	(37 002)	8 113	-	8 113
Gross value at 30 Jun 2023	361 212	452	361 664	398 649	17	398 666

(Euro thousand)

	Jun 2023			Dec 2022		
	Impairment losses					
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Gross value at 31 Jan	1 356	-	1 356	2 094	-	2 094
Exposure of new net derecognition credits, refunds and other variations	(352)	13	(339)	(738)	-	(738)
Gross value at 30 Jun 2023	1 004	13	1 017	1 356	-	1 356

As at 30 June 2023 and 31 December 2022, the detail of the loans and advances subject to collective analysis, structured by segment and by Stage, is as follows:

(Euro thousand)

	Jun 2023			Dec 2022		
Segment	Book value	Impairment	Net value	Book value	Impairment	Net value
Retail	**6 263 596**	**47 449**	**6 216 147**	**6 362 646**	**52 355**	**6 310 291**
Mortgage loans	5 593 461	32 018	5 561 443	5 677 557	32 302	5 645 255
Stage 1	4 590 640	1 242	4 589 398	4 763 964	1 192	4 762 772
Stage 2	960 728	17 300	943 428	872 090	15 354	856 736
Stage 3	42 093	13 476	28 617	41 503	15 756	25 747
Consumer credit	407 865	13 129	394 736	424 061	17 866	406 195
Stage 1	349 125	2 285	346 840	361 039	2 063	358 976
Stage 2	47 866	3 894	43 972	44 675	3 448	41 227
Stage 3	10 874	6 950	3 924	18 347	12 355	5 992
Credit cards	262 270	2 302	259 968	261 028	2 187	258 841
Stage 1	242 017	1 211	240 806	243 894	916	242 978
Stage 2	18 524	524	18 000	14 255	275	13 980
Stage 3	1 729	567	1 162	2 879	996	1 883
Corporate	**3 713 676**	**79 775**	**3 633 901**	**3 806 326**	**97 682**	**3 708 644**
Non Construction	3 340 986	70 825	3 270 161	3 429 446	86 945	3 342 501
Stage 1	2 716 594	14 755	2 701 839	2 520 345	11 766	2 508 579
Stage 2	550 820	22 046	528 774	818 073	32 305	785 768
Stage 3	73 572	34 024	39 548	91 028	42 874	48 154
Construction	372 690	8 950	363 740	376 880	10 737	366 143
Stage 1	282 454	1 427	281 027	249 517	996	248 521
Stage 2	63 742	2 378	61 364	97 334	3 105	94 229
Stage 3	26 494	5 145	21 349	30 029	6 636	23 393
	9 977 272	**127 224**	**9 850 048**	**10 168 972**	**150 037**	**10 018 935**

As at 30 June 2023 and 31 December 2022, impairment is detailed as follows:

(Euro thousand)

	Jun 2023						
	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	3 435 848	190 928	3 713 677	79 775	7 149 525	270 703	6 878 822
Mortgage loans	3 926	486	5 593 460	32 018	5 597 386	32 504	5 564 882
Other loans	473	102	670 135	15 431	670 608	15 533	655 075
	3 440 247	191 516	9 977 272	127 224	13 417 519	318 740	13 098 779

(Euro thousand)

	Dec 2022						
	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	3 451 622	209 642	3 806 326	97 682	7 257 948	307 324	6 950 624
Mortgage loans	4 105	551	5 677 557	32 302	5 681 662	32 853	5 648 809
Other loans	3 749	1 131	685 089	20 053	688 838	21 184	667 654
	3 459 476	211 324	10 168 972	150 037	13 628 448	361 361	13 267 087

As at 30 June 2023, the transfer between Stages, related to loans and advances to customers (gross loans and advances and impairment) is presented as follows:

(Euro thousand)

	Jun 2023			
	Stage 1	Stage 2	Stage 3	Total
Gross value at 01 of January	10 558 514	2 392 752	677 182	13 628 448
Transfer to stage 1	710 834	(707 904)	(2 930)	-
Transfer to stage 2	(559 543)	573 595	(14 052)	-
Transfer to stage 3	(19 646)	(53 271)	72 917	-
Write-Offs	(2)	(585)	(37 885)	(38 472)
Exposure of new net derecognition credits, refunds and other variations	35 640	(78 820)	(129 277)	(172 457)
Gross value at the 30 Jun 2023	10 725 797	2 125 767	565 955	13 417 519

(Euro thousand)

	Jun 2023			
	Stage 1	Stage 2	Stage 3	Total
Impairment losses at 01 of January	30 175	69 404	261 782	361 361
Transfer to stage 1	5 185	(5 170)	(15)	-
Transfer to stage 2	(18 430)	19 107	(677)	-
Transfer to stage 3	(6 035)	(17 067)	23 102	-
Write-Offs	(2)	(585)	(37 885)	(38 472)
Exposure of new net derecognition credits, refunds and other variations	22 329	(3 382)	(23 096)	(4 149)
Impairment losses at 30 of June	33 222	62 307	223 211	318 740

As at 31 December 2022, the transfer between Stages, related to loans and advances to customers (gross loans and advances and impairment) is presented as follows:

(Euro thousand)

	Dec 2022			
	Stage 1	Stage 2	Stage 3	Total
Gross value at 01 of January	10 349 833	2 288 385	1 006 192	13 644 410
Transfer to stage 1	607 815	(599 647)	(8 168)	-
Transfer to stage 2	(863 223)	914 518	(51 295)	-
Transfer to stage 3	(34 176)	(56 534)	90 710	-
Write-Offs	(3 955)	(1 666)	(198 499)	(204 120)
Exposure of new net derecognition credits, refunds and other variations	502 220	(152 304)	(161 758)	188 158
Gross value at the 31 Dec 2022	10 558 514	2 392 752	677 182	13 628 448

(Euro thousand)

	Dec 2022			
	Stage 1	Stage 2	Stage 3	Total
Impairment losses at 01 of January	33 363	65 766	416 418	515 547
Transfer to stage 1	2 327	(2 248)	(79)	-
Transfer to stage 2	(23 873)	25 942	(2 069)	-
Transfer to stage 3	(13 416)	(18 373)	31 789	-
Write-Offs	(3 955)	(1 666)	(198 499)	(204 120)
Exposure of new net derecognition credits, refunds and other variations	35 729	(17)	14 222	49 934
Impairment losses at 31 Dec 2022	30 175	69 404	261 782	361 361

As at 30 June 2023 and 31 December 2022, the fair value analysis of collaterals associated with Banco Montepio's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collaterals	Jun 2023	Dec 2022
Individual analysis		
Securities and other financial assets	200 825	218 174
Real estate - Mortgage loans	6 610	10 330
Real estate - Construction and CRE	1 690 943	1 775 423
Other real estate	1 480 506	1 656 721
Other guarantees	408 751	365 251
Collective analysis - Stage 1		
Securities and other financial assets	834 769	785 094
Real estate - Mortgage loans	10 460 434	10 714 551
Real estate - Construction and CRE	420 845	490 830
Other real estate	911 366	823 092
Other guarantees	128 405	101 936
Collective analysis - Stage 2		
Securities and other financial assets	105 539	209 106
Real estate - Mortgage loans	2 012 695	1 899 396
Real estate - Construction and CRE	121 152	177 524
Other real estate	292 543	436 548
Other guarantees	18 935	26 912
Collective analysis - Stage 3		
Securities and other financial assets	13 802	7 961
Real estate - Mortgage loans	84 190	96 427
Real estate - Construction and CRE	30 784	27 078
Other real estate	45 492	49 109
Other guarantees	2 975	1 559
	19 271 561	**19 873 022**

Banco Montepio uses real and financial collaterals as instruments to mitigate credit risk. The real collaterals correspond mainly to mortgages on residential properties in the scope of housing loans and mortgages on other types of properties in the scope of other types of loans. To reflect the market value of these, they are reviewed regularly based on valuations conducted by certified independent appraiser entities or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are revaluated based on the market values of the respective assets, when available, with certain depreciation coefficients being applied to reflect their volatility. Most of the real collaterals are revalued at least once a year.

Banco Montepio's total loans and advances portfolio, by segment, and respective impairment, constituted as at 30 June 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

Segment	Jun 2023 Total exposure	Jun 2023 Total impairment	Dec 2022 Total exposure	Dec 2022 Total impairment
Corporate	5 774 781	197 671	5 865 449	230 480
Construction and CRE	1 374 744	73 032	1 392 499	76 844
Retail mortgage loans	5 597 386	32 504	5 681 662	32 853
Retail other loans	670 608	15 533	688 838	21 184
	13 417 519	318 740	13 628 448	361 361

The loans and advances portfolio, by segment and by production year, as at 30 June 2023, is presented as follows:

(Euro thousand)

Production year	*Corporate* No. Of operations	*Corporate* Amount	*Corporate* Impairment	Construction and CRE No. Of operations	Construction and CRE Amount	Construction and CRE Impairment	Mortgage loans No. Of operations	Mortgage loans Amount	Mortgage loans Impairment	Other loans No. Of operations	Other loans Amount	Other loans Impairment
2004 and previous	356	24 135	2 242	543	34 283	8 772	33 118	868 149	6 374	17 743	14 818	334
2005	84	9 819	356	128	6 278	1 071	8 706	384 074	3 155	4 658	4 623	94
2006	118	17 286	1 491	121	11 150	3 567	10 568	479 887	4 014	12 526	10 336	200
2007	235	9 391	888	145	15 100	3 574	10 786	487 490	4 091	33 466	36 063	548
2008	937	26 820	439	300	13 638	2 043	5 641	257 044	2 723	53 132	68 801	782
2009	1 452	42 184	1 515	345	17 194	3 539	3 080	153 891	1 087	41 727	44 704	941
2010	1 293	53 586	1 243	238	18 635	4 746	3 113	180 234	1 421	30 143	20 290	545
2011	1 890	68 760	1 402	307	12 590	2 718	1 146	62 812	367	24 186	21 511	524
2012	2 068	58 473	4 421	406	16 517	4 212	689	38 700	331	17 049	10 386	209
2013	2 885	121 033	6 049	242	11 561	672	886	48 455	307	16 172	12 845	503
2014	3 893	261 452	20 923	1 215	49 595	725	1 061	61 014	303	18 198	19 336	1 010
2015	3 951	165 180	28 456	445	18 785	914	1 238	71 469	374	15 277	18 990	1 528
2016	5 008	360 482	9 017	812	42 833	5 133	1 786	122 497	921	24 817	24 994	636
2017	6 427	261 237	8 129	605	148 583	10 565	2 457	178 208	951	17 292	19 990	507
2018	7 497	224 416	17 808	990	66 193	3 676	2 580	198 314	1 161	27 192	40 280	935
2019	7 821	353 941	32 504	1 146	85 795	3 373	3 179	253 893	986	20 942	43 412	933
2020	10 640	998 820	16 963	1 416	143 887	6 083	3 480	313 889	935	17 257	45 709	1 124
2021	12 346	587 104	15 776	2 116	159 341	2 751	6 213	615 235	1 667	24 554	78 384	1 897
2022	15 558	1 330 849	19 536	2 278	324 042	3 444	5 201	547 883	1 179	21 105	81 073	1 642
2023	8 861	799 813	8 513	897	178 744	1 454	2 675	274 248	157	13 340	54 063	641
	93 320	5 774 781	197 671	14 695	1 374 744	73 032	107 603	5 597 386	32 504	450 776	670 608	15 533

The loans and advances portfolio, by segment and by production year, as at 31 December 2022, is presented as follows:

(Euro thousand)

Production year	*Corporate* No. Of operations	*Corporate* Amount	*Corporate* Impairment	Construction and CRE No. Of operations	Construction and CRE Amount	Construction and CRE Impairment	Mortgage loans No. Of operations	Mortgage loans Amount	Mortgage loans Impairment	Other loans No. Of operations	Other loans Amount	Other loans Impairment
2004 and previous	381	26 726	2 214	550	40 772	14 475	35 136	947 166	7 180	18 465	15 506	279
2005	93	10 007	260	132	6 551	1 195	9 088	407 551	3 610	4 834	4 851	138
2006	133	18 918	1 528	120	13 693	5 440	11 034	508 242	3 857	12 935	17 366	1 918
2007	269	10 124	820	149	25 239	5 740	11 238	516 430	4 463	34 804	38 108	803
2008	1 000	29 538	1 423	317	14 600	2 761	5 961	272 663	2 660	55 325	71 978	755
2009	1 595	52 549	1 371	365	19 101	3 886	3 229	164 860	1 267	43 476	46 825	1 236
2010	1 376	59 147	1 419	251	21 143	5 035	3 259	190 682	1 292	31 394	21 250	622
2011	2 024	71 313	1 626	329	13 035	1 940	1 206	67 292	350	25 274	22 600	630
2012	1 927	61 540	3 909	220	19 268	6 711	725	41 458	235	17 846	11 197	334
2013	3 282	128 597	7 361	266	13 323	1 174	937	52 329	292	17 089	14 086	460
2014	4 270	263 976	22 697	1 224	52 356	958	1 123	65 968	338	19 326	21 516	1 121
2015	4 291	189 592	37 123	496	20 237	1 142	1 298	77 106	356	16 573	21 577	1 646
2016	5 497	385 480	12 947	774	54 850	3 762	1 868	131 820	848	26 492	29 325	1 093
2017	7 471	304 582	13 222	671	165 965	4 304	2 571	191 214	827	18 583	23 731	1 023
2018	8 125	334 310	35 311	1 315	69 142	2 558	2 725	213 734	908	29 245	45 983	1 517
2019	8 884	432 524	26 147	1 388	101 427	3 605	3 331	273 014	1 118	22 541	50 997	1 861
2020	11 251	1 067 361	23 141	1 496	181 799	4 707	3 639	335 221	949	18 628	54 711	2 158
2021	12 841	674 529	17 532	2 009	186 634	3 478	6 446	653 665	1 444	26 069	90 822	2 659
2022	18 485	1 744 636	20 429	2 394	373 364	3 973	5 313	571 247	859	21 500	86 409	931
	93 195	5 865 449	230 480	14 466	1 392 499	76 844	110 127	5 681 662	32 853	460 399	688 838	21 184

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 30 June 2023 and 31 December 2022, is analysed as follows:

(Euro thousand)

	Jun 2023									
	Corporate		Construction and CRE		Retail mortgage loans		Retail other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 669 952	133 570	765 896	57 358	3 926	486	473	102	3 440 247	191 516
Collective	3 104 829	64 101	608 848	15 674	5 593 460	32 018	670 135	15 431	9 977 272	127 224
	5 774 781	197 671	1 374 744	73 032	5 597 386	32 504	670 608	15 533	13 417 519	318 740

(Euro thousand)

	Dec 2022									
	Corporate		Construction and CRE		Retail mortgage loans		Retail other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 676 677	150 831	774 945	58 812	4 105	551	3 749	1 132	3 459 476	211 326
Collective	3 188 772	79 649	617 554	18 032	5 677 557	32 302	685 089	20 052	10 168 972	150 035
	5 865 449	230 480	1 392 499	76 844	5 681 662	32 853	688 838	21 184	13 628 448	361 361

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for Companies, as at 30 June 2023 and 31 December 2022, is analysed as follows:

(Euro thousand)

	Jun 2023											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	351 746	30 008	443 050	47 200	175 861	14 749	414 151	27 350	2 051 041	71 621	3 435 849	190 928
Collective	372 690	8 951	859 930	18 525	901 204	20 432	236 158	6 723	1 343 694	25 144	3 713 676	79 775
	724 436	38 959	1 302 980	65 725	1 077 065	35 181	650 309	34 073	3 394 735	96 765	7 149 525	270 703

(Euro thousand)

	Dec 2022											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	331 487	41 658	438 399	51 224	179 313	10 883	443 458	17 154	2 058 965	88 724	3 451 622	209 643
Collective	376 881	10 737	878 847	22 545	934 504	25 691	240 673	7 295	1 375 421	31 413	3 806 326	97 681
	708 368	52 395	1 317 246	73 769	1 113 817	36 574	684 131	24 449	3 434 386	120 137	7 257 948	307 324

The amount of restructured loans and advances by stage and by segment, as at 30 June 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

	Jun 2023									
	Corporate		**Construction and CRE**		**Retail - Mortgage loans**		**Retail - Others**		**Total**	
Restructured	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**
Stage 1	-	-	-	-	-	-	-	-	-	-
Stage 2	51 359	2 092	7 807	564	31 906	462	5 557	608	96 629	3 726
Stage 3	223 844	105 570	81 395	30 666	18 270	6 042	3 901	2 864	327 410	145 142
	275 203	107 662	89 202	31 230	50 176	6 504	9 458	3 472	424 039	148 868

	Dec 2022									
	Corporate		**Construction and CRE**		**Retail - Mortgage loans**		**Retail - Others**		**Total**	
Restructured	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**
Stage 1	468	-	-	-	-	-	-	-	468	-
Stage 2	72 513	3 043	8 562	530	34 543	422	6 116	530	121 734	4 525
Stage 3	255 080	111 801	107 452	33 009	16 918	7 593	11 559	5 465	391 009	157 868
	328 061	114 844	116 014	33 539	51 461	8 015	17 675	5 995	513 211	162 393

The gross exposure of performing and non-performing loans and advances, as at 30 June 2023 and 31 December 2022, is analysed as follows:

(Euro thousand)

	Jun 2023												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due >30 days and <= 90 days	Of which performing loans	Of which non-performing				on performing exposure		on non-performing exposure		on non-performing exposure	of which forborne
					of which in default	of which impairment	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	5 086 171	-	-	-	-	-	-	10 189	-	-	-	-	-
Other balance sheet credit exposures (b)	11 879 817	31 053	96 528	497 786	497 786	497 695	327 270	85 831	3 725	215 487	145 143	234 236	231 608
Off-balance sheet exposures (c)	2 268 996	700	111	67 540	67 540	67 540	226	8 879	1	7 136	-	-	-

(a) Includes debt instruments of the financial asset available for sale and commercial paper and bonds recognised under loans and advances to customers.
(b) Includes loans and advances to customers, cash and deposits at central banks and other loans and advances to credit institutions and foreign exchange operations to be settled.

(Euro thousand)

	Dec 2022												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due >30 days and <= 90 days	Of which performing loans	Of which non-performing				on performing exposure		on non-performing exposure		on non-performing exposure	of which forborne
					of which in default	of which impairment	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	5 059 097	-	-	33 000	33 000	33 000	-	8 315	-	14 272	-	-	-
Other balance sheet credit exposures (b)	12 804 276	28 095	122 238	565 868	565 868	565 735	390 773	89 965	4 525	238 073	157 868	267 876	296 756
Off-balance sheet exposures (c)	2 297 418	1 813	47	77 755	77 755	77 755	360	10 461	1	8 852	-	-	-

(a) Includes debt instruments of the financial asset available for sale and commercial paper and bonds recognised under loans and advances to customers.
(b) Includes loans and advances to customers, cash and deposits at central banks and other loans and advances to credit institutions and foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, guarantees and documentary credit provided.

The fair value of the collateral underlying the loans and advances portfolio of the Corporate, Construction and Commercial Real Estate ("CRE"), and Mortgage segments, as at 30 June 2023, 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€	3 590	486 550	9 607	727 756	85 333	12 010 794	202	6 094
>= 0.5 M€ and <1M€	426	298 782	310	204 191	697	433 106	1	500
>= 1 M€ and <5M€	446	997 775	182	300 065	71	112 471	-	-
>= 5 M€ and <10M€	63	423 512	14	98 081	1	7 558	-	-
>= 10 M€ and <20M€	40	562 446	10	126 747	-	-	-	-
>= 20 M€ and <50M€	16	463 374	2	76 000	-	-	-	-
>= 50M€	11	1 641 477	2	133 343	-	-	-	-
	4 592	4 873 916	10 127	1 666 183	86 102	12 563 929	203	6 594

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 2022, 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€	4 792	625 484	6 063	390 010	91 219	12 233 154	250	6 749
>= 0.5 M€ and <1M€	499	348 414	155	98 906	528	327 626	1	500
>= 1 M€ and <5M€	533	1 155 548	106	197 327	60	88 696	-	-
>= 5 M€ and <10M€	66	466 117	10	72 622	2	12 816	-	-
>= 10 M€ and <20M€	46	627 572	2	28 578	-	-	-	-
>= 20 M€ and <50M€	16	493 070	3	116 000	-	-	-	-
>= 50M€	14	1 671 872	3	201 080	-	-	-	-
	5 966	5 388 077	6 342	1 104 523	91 809	12 662 292	251	7 249

The LTV (loan-to-value) ratio of the Corporate, Construction and CRE, and Mortgage segments, as at 30 June 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

Segment/Ratio	Jun 2023 No. Of real estate	Jun 2023 Total exposure	Jun 2023 Impairment	Dec 2022 No. Of real estate	Dec 2022 Total exposure	Dec 2022 Impairment
Corporate						
With out real estate (*)	-	4 544 813	97 481	-	4 604 947	132 098
< 60%	1 964	536 288	35 175	2 166	619 835	51 977
>= 60% and < 80%	502	223 628	14 652	601	253 545	15 451
>= 80% and < 100%	596	407 993	26 831	770	352 300	28 596
>= 100%	9	62 058	23 532	9	34 822	2 359
Construction and CRE						
With out real estate (*)		647 867	17 432	-	619 024	21 761
< 60%	773	323 331	14 984	920	410 181	18 946
>= 60% and < 80%	211	192 036	10 285	330	238 649	12 503
>= 80% and < 100%	445	186 692	25 091	419	93 255	12 499
>= 100%	92	24 817	5 240	62	31 390	11 135
Mortgage						
With out real estate (*)		25 140	822	-	29 115	1 424
< 60%	60 335	2 702 445	12 244	61 330	2 706 933	12 660
>= 60% and < 80%	20 085	1 805 690	8 778	21 136	1 879 839	8 695
>= 80% and < 100%	5 514	1 044 293	9 675	6 002	1 041 109	8 951
>= 100%	168	19 819	985	211	24 666	1 123

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

The fair value and the net value of real estate received in recovery of credit, by asset type, as at 30 June 2023 and 31 December 2022, are presented as follows:

(Euro thousand)

Assets	Jun 2023 Number of properties	Jun 2023 Fair value assets	Jun 2023 Book value
Land	**962**	**139 409**	**127 152**
Urban	785	105 182	95 983
Rural	177	34 227	31 169
Buildings under construction	**263**	**29 649**	**35 048**
Commercial	49	5 345	5 093
Housing	172	23 872	29 537
Other	42	432	418
Constructed buildings	**850**	**101 043**	**86 776**
Commercial	370	53 921	47 961
Housing	244	42 443	34 487
Other	236	4 679	4 328
	2 075	270 101	248 976

(Euro thousand)

Assets	Dec 2022		
	Number of properties	Fair value assets	Book value
Land	**1 093**	**174 629**	**161 520**
Urban	857	132 743	122 644
Rural	236	41 886	38 876
Buildings under construction	**341**	**47 425**	**42 854**
Commercial	51	5 943	5 683
Housing	192	40 866	36 568
Other	98	616	603
Constructed buildings	**969**	**113 683**	**99 647**
Commercial	415	59 123	52 622
Housing	273	49 430	42 247
Other	281	5 130	4 778
	2 403	335 737	304 021

The time elapsed since the receipt in recovery/execution of real estate received in recovery of credit, as at 30 June 2023 and 31 December 2022, is presented as follows:

(Euro thousand)

Elapsed time since recovery/execution	Jun 2023				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**771**	**2 140**	**11 060**	**113 181**	**127 152**
Urban	-	497	9 939	85 547	95 983
Rural	771	1 643	1 121	27 634	31 169
Buildings under construction	**60**	**432**	**8 456**	**26 100**	**35 048**
Commercial	60	169	462	4 402	*5 093*
Housing	-	263	7 799	21 475	*29 537*
Other	-	-	195	223	*418*
Constructed buildings	**2 801**	**12 394**	**11 811**	**59 770**	**86 776**
Commercial	1 759	7 857	6 137	32 208	47 961
Housing	1 035	4 151	3 867	25 434	34 487
Other	7	386	1 807	2 128	4 328
	3 632	14 966	31 327	199 051	248 976

(Euro thousand)

Elapsed time since recovery/execution	Dec 2022				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**884**	**4 280**	**13 578**	**142 778**	**161 520**
Urban	24	2 873	11 194	108 553	122 644
Rural	860	1 407	2 384	34 225	38 876
Buildings under construction	**-**	**261**	**13 614**	**28 979**	**42 854**
Commercial	-	166	1 824	3 693	*5 683*
Housing	-	95	11 623	24 850	*36 568*
Other	-	-	167	436	*603*
Constructed buildings	**3 220**	**19 704**	**13 612**	**63 111**	**99 647**
Commercial	1 678	9 927	7 262	33 755	52 622
Housing	1 535	9 272	4 494	26 946	42 247
Other	7	505	1 856	2 410	4 778
	4 104	24 245	40 804	234 868	304 021

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. 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.

The concentration risk management is carried out in a centralized manner, with regular monitoring of the concentration indices by the Risk Directorate. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the level of individual concentration and the degree of diversification of the quality of the Corporate portfolio are regularly monitored by the Risk Directorate. 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 (these portfolios are not material to the Bank’s total assets), 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 in debt instruments, and as at 30 June 2023 this represented 95.7% (31 December 2022: 97.0%) of the total portfolio, (excluding notes held of own securitizations not derecognized) with the dominant position being held by bonds of sovereign issuers of the Eurozone.

Regarding credit derivatives, Banco Montepio held no position in these instruments as at 30 June 2023 and 31 December 2022.

In terms of the credit quality of debt securities, circa 99.2% of the bond portfolio is investment grade (31 December 2022: 99.4%). Of note are the Spanish, Portuguese and Italian sovereign bonds with ratings of BBB+, BBB and BBB-, respectively, and that represent 91.9% (31 December 2022: 92.4%) of the bond portfolio. Regarding the composition of the portfolio, no significant changes were observed.

The distribution of the bond portfolio, recognized in the captions Financial assets held for trading, Financial assets at fair value through other comprehensive income (excluding notes of own securitizations held) and Other financial assets at amortized cost, is presented as follows:

(Euro thousand)

Rating	**Jun 2023**		**Dec 2022**		**Change**	
	Amount	***%***	**Amount**	***%***	**Amount**	***%***
AAA	112 461	2.7	110 523	2.6	1 938	1.8
AA+	9 128	0.2	5 177	0.1	3 951	76.3
AA	5 170	0.1	34 187	0.8	(29 017)	(84.9)
AA-	151 514	3.6	15 395	0.4	136 119	884.2
A+	7 011	0.2	107 113	2.6	(100 102)	(93.5)
A	501	-	-	-	501	-
A-	3 640	0.1	-	-	3 640	-
BBB+	1 209 674	28.5	1 202 557	28.7	7 117	0.6
BBB	1 080 380	25.5	1 091 561	26.1	(11 181)	(1.0)
BBB-	1 613 880	38.0	1 593 861	38.1	20 019	1.3
BB-	14 101	0.3	14 550	0.3	(449)	(3.1)
BB	-	-	-	-	-	-
NR	34 357	0.8	11 235	0.3	23 122	205.8
Total	4 241 817	100	4 186 159	100	55 658	1.3

Note: excludes securities resulting from own securitisations 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 60,122 thousand (31 December 2022: Euro 65,614 thousand), the position in Other financial assets at amortized cost stood at Euro 4,122,709 thousand (31 December 2022: Euro 4,118,676 thousand) and the position in Financial assets held for trading stood at Euro 58,986 thousand (31 December 2022: Euro 1,869 thousand).

Regarding the trading portfolio, as at 30 June 2023 and 31 December 2022, the main VaR indicators are as follows:

(Euro thousand)

	Jun 2023	Average	Minimum	Maximum	Dec 2022
Market VaR	900	659	192	1 303	272
Interest rate risk	678	364	114	465	266
Exchange risk	320	244	71	60	66
Price risk	497	254	307	664	83
Spread risk	88	108	66	133	70
Diversification effect	*(683)*	*(311)*	*(366)*	*(19)*	*(213)*

The value of the VaR of the trading portfolio increased from 31 December 2022 to 30 June 2023. It should be noted that the VaR of the trading portfolio remained at moderate levels during the half year, in a period marked by the progressive easing of the high levels of risk associated with the exogenous shocks of the war in Ukraine and the generalized increase in prices.

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 2023 and 31 December 2022:

(Euro thousand)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
30 June 2023					
Assets					
Debt securities	191 120	106 934	811 814	1 472 251	1 627 843
Loans and advances	6 541 584	2 991 040	1 190 807	783 905	520 411
Others	411 213	-	-	-	-
Off-balance sheet	3 886	-	18 322	51 688	-
Total	7 147 803	3 097 974	2 020 943	2 307 844	2 148 254
Liabilities					
Debt securities issued	80 828	634	150 012	550 635	3 781
Term deposits	1 908 509	1 130 676	1 588 734	2 039 142	-
Others	694 514	-	1 541 973	170 738	187 992
Off-balance sheet	32 670	-	13	100	925
Total	2 716 521	1 131 310	3 280 732	2 760 615	192 698
GAP (Assets - Liabilities)	4 431 282	1 966 664	(1 259 789)	(452 771)	1 955 556
31 December 2022					
Assets					
Debt securities	29 606	2 726	282 386	2 144 391	1 757 383
Loans and advances	6 079 060	3 053 366	1 331 628	598 746	324 738
Others	1 153 782	-	-	-	43 577
Off-balance sheet	6 903	16 036	3 010	38 888	-
Total	7 269 351	3 072 128	1 617 024	2 782 025	2 125 698
Liabilities					
Debt securities issued	247 100	-	50 659	650 635	12 218
Term deposits	1 862 491	1 139 127	1 433 923	1 900 954	-
Others	288 074	890 900	189 571	1 688 673	230 997
Off-balance sheet	29 251	16 036	13	106	997
Total	2 426 916	2 046 063	1 674 166	4 240 368	244 212
GAP (Assets - Liabilities)	4 842 435	1 026 065	(57 142)	(1 458 343)	1 881 486

The following table present the interest rate gaps, in the first half of 2023 and financial year 2022:

(Euro thousand)

	Jun 2023				Dec 2022			
	June	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate GAP	6 640 945	6 450 272	6 640 945	6 259 599	6 259 599	4 689 134	6 259 599	3 118 670

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 2023, 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 positive amount of Euro 38,986 thousand (31 December 2022: positive amount of Euro 50,800 thousand).

The following table presents the average interest rates, in relation to Banco Montepio's major asset and liability categories for the first half of 2023 and financial year 2022, as well as the respective average balances and the interest for the financial year:

(Euro thousand)

	Jun 2023			Dec 2022		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest assets generators						
Deposits at central banks and other credit institu	684 847	2.26	7 779	1 679 870	1.06	18 094
Loans and advances to credit institutions	369 596	2.79	5 191	641 740	0.97	6 302
Loans and advances to customers	11 381 037	4.01	229 359	11 572 158	1.98	231 736
Securities portfolio	4 775 990	0.75	18 070	4 394 198	0.37	16 580
Other assets at fair value	346	3.45	6	1 182	0.58	7
Other (Includes derivatives)			10	-	-	5 212
	17 211 816	**3.01**	**260 415**	**18 289 148**	**1.50**	**277 931**
Interest liabilities generators						
Deposits from ECB	2 408 541	2.54	30 707	2 889 908	0.27	7 929
Deposits from other credit institutions	499 925	0.63	1 590	414 121	0.02	70
Deposits from customers	12 839 404	0.34	22 207	12 916 747	0.05	7 045
Senior debt	912 205	2.73	12 517	1 693 802	1.16	19 958
Subordinated debt	216 589	8.89	9 684	216 428	8.81	19 334
Other (includes derivatives)			3 481	-	-	7 352
	16 876 664	**0.95**	**80 186**	**18 131 006**	**0.34**	**61 688**
Net interest income		**2.08**	**180 229**		**1.17**	**216 243**

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 2023 and 31 December 2022, is analysed as follows:

(Euro thousand)

	Jun 2023						
	Euro	US Dollar	Sterling Pound	Canadian dollar	Swiss Franc	Other foreign currencies	Total
Assets by currency							
Cash and deposits at central banks	611 627	14 023	1 577	990	1 461	373	630 051
Loans and advances to credit institutions payable on demand	39 364	65 672	1 315	1 194	1 841	825	110 211
Loans and advances to credit institutions	331 934	28 690	7	-	16	-	360 647
Loans and advances to customers	11 000 318	19 501	-	-	-	-	11 019 819
Financial assets held for trading	60 896	1 451	10 675	-	-	-	73 022
Other financial assets at fair value through profit or loss	196 099	-	-	-	-	-	196 099
Other financial assets at fair value through other comprehensive income	81 364	-	-	-	-	-	81 364
Other financial assets at amortized cost	4 510 035	76 803	1 163	-	-	-	4 588 001
Investments in associated companies	286 068	-	-	-	-	-	286 068
Non-current assets held for sale	-	-	-	-	-	-	-
Other tangible assets	174 881	-	-	-	-	-	174 881
Intangible assets	49 247	-	-	-	-	-	49 247
Current tax assets	1 692	-	-	-	-	-	1 692
Deferred tax assets	388 956	-	-	-	-	-	388 956
Other assets	535 194	2 918	2	-	-	1	538 115
Total assets	**18 267 675**	**209 058**	**14 739**	**2 184**	**3 318**	**1 199**	**18 498 173**
Liabilities by currency							
Deposits from central banks	1 749 727	-	-	-	-	-	1 749 727
Deposits from other credit institutions	828 970	39 294	102	28	-	16	868 410
Deposits from customers	12 749 322	133 092	18 625	25 136	2 845	4 538	12 933 558
Debt securities issued	328 023	-	-	-	-	-	328 023
Financial liabilities related to transferred assets	558 947	-	-	-	-	-	558 947
Financial liabilities held for trading	13 553	-	-	-	-	-	13 553
Provisions	24 799	-	-	-	-	-	24 799
Current tax liabilities	244	-	-	-	-	-	244
Deferred tax liabilities	211 301	-	-	-	-	-	211 301
Other liabilities	246 138	195	201	2 578	383	3 773	253 268
Total liabilities	**16 711 024**	**172 581**	**18 928**	**27 742**	**3 228**	**8 327**	**16 941 830**
Exchange forward transactions		(40361)	3 029	26 361	-	10 914	
Exchange gap		(3884)	(1160)	803	90	3 786	
Stress Test		777	232	(161)	(18)	(757)	

(Euro thousand)

	Dec 2022						
	Euro	US Dollar	Sterling Pound	Canadian dollar	Swiss Franc	Other foreign currencies	Total
Assets by currency							
Cash and deposits at central banks	1 372 614	7 508	1 062	460	1 771	386	1 383 801
Loans and advances to credit institutions payable on demand	36 864	35 021	3 863	270	6 237	1 117	83 372
Loans and advances to credit institutions	391 715	5 579	-	-	16	-	397 310
Loans and advances to customers	11 055 212	20 857	-	-	-	66	11 076 135
Financial assets held for trading	9 838	221	-	-	-	-	10 059
Other financial assets at fair value through profit or loss	209 483	-	-	-	-	-	209 483
Other financial assets at fair value through other comprehensive income	93 068	-	-	-	-	-	93 068
Hedging derivatives	-	-	-	-	-	-	-
Other financial assets at amortized cost	4 534 540	74 474	6 717	-	-	-	4 615 731
Investments in associated companies	324 981	-	-	-	-	-	324 981
Non-current assets held for sale	-	-	-	-	-	-	-
Other tangible assets	175 005	-	-	-	-	-	175 005
Intangible assets	46 942	-	-	-	-	-	46 942
Current tax assets	5 722	-	-	-	-	-	5 722
Deferred tax assets	417 557	-	-	-	-	-	417 557
Other assets	599 085	4 751	2	-	-	16	603 854
Total assets	19 272 626	148 411	11 644	730	8 024	1 585	19 443 020
Liabilities by currency							
Deposits from central banks	2 889 991	-	-	-	-	-	2 889 991
Deposits from other credit institutions	359 920	36 681	75	13	104	14	396 807
Deposits from customers	13 019 030	107 779	16 770	23 731	2 305	4 227	13 173 842
Debt securities issued	327 492	-	-	-	-	-	327 492
Financial liabilities related to transferred assets	611 159	-	-	-	-	-	611 159
Financial liabilities held for trading	17 697	-	-	-	-	-	17 697
Hedging derivatives	-	-	-	-	-	-	-
Provisions	28 623	1	-	-	-	-	28 624
Current tax liabilities	424	-	-	-	-	-	424
Deferred tax liabilities	217 029	-	-	-	-	-	217 029
Other liabilities	241 626	718	77	2 631	665	-	245 717
Total liabilities	17 712 991	145 179	16 922	26 375	3 074	4 241	17 908 782
Exchange forward transactions		(6 290)	4 928	25 485	(4 909)	3 031	
Exchange gap		(3 058)	(350)	(160)	41	375	
Stress Test		612	70	32	(8)	(75)	

The result of the stress test performed corresponds to the estimated impact (before tax) on equity, including non-controlling 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 and NSFR prudential ratios is performed monthly.

As at 30 June 2023, the LCR value was 240.2% (31 December 2022: 246.1%).

As at 30 June 2023, the net stable funding ratio, designated NSFR, stood at 121.9% (31 December 2022: 122.7%).

As at 30 June 2023, Banco Montepio's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Up 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 749 727	-	189 486	-	-	1,560,241
Deposits from other credit institutions	868 410	-	357 731	204 746	5 926	300 007
Deposits from customers	12 933 558	-	7 922 753	1 097 940	1 541 122	2 371 743
Debt securities issued	328 023	-	-	257	-	327 766
Financial liabilities associated with transferred assets	558 947	-	-	-	-	558 947
Financial liabilities held for trading	13 553	-	74	324	548	12 607
Other subordinated debt	211 301	-	2 802	149	2 027	206 323
Other liabilities	253 268	253 268	-	-	-	-
Total funding	**16 916 787**	**253 268**	**8 472 846**	**1 303 416**	**1 549 623**	**5 337 634**

As at 31 December 2022, Banco Montepio's financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Up 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 889 991	-	1 162 557	-	-	1,727,434
Deposits from other credit institutions	396 807	-	95 799	1 001	-	300 007
Deposits from customers	13 173 842	-	8 350 943	1 129 470	1 390 581	2 302 848
Debt securities issued	327 492	-	-		53	327 439
Financial liabilities associated with transferred assets	611 159	-	-	-	-	611 159
Financial liabilities held for trading	17 697	-	72	215	507	16 903
Other subordinated debt	217 029	-	-	-	10 706	206 323
Other liabilities	245 717	245 717	-	-	-	-
Total funding	**17 879 734**	**245 717**	**9 609 371**	**1 130 686**	**1 401 847**	**5 492 113**

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 2023 and 31 December 2022, on the assets and related collaterals:

(Euro thousand)

Assets	Jun 2023			
	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	4 007 364	-	14 490 809	-
Equity instruments	-	-	191 090	190 538
Debt securities	721 610	335 686	4 413 357	3 968 752
Other assets	-	-	1 593 617	-

(Euro thousand)

Assets	Dec 2022			
	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	5 085 775	-	14 357 245	-
Equity instruments	-	-	197 636	200 289
Debt securities	1 105 221	947 696	3 933 159	3 328 571
Other assets	-	-	1 730 767	-

(Euro thousand)

Encumbered assets, encumbered collateral received and associated liabilities	**Jun 2023**	**Dec 2022**
	Carrying amount of selected financial liabilities	
Associated liabilities, contingent liabilities and securities borrowed	2 556 018	3 207 695
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	3 992 987	5 008 350

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 programmes 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 2023 and 31 December 2022 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 2023, to Euro 3,055,614 thousand (31 December 2022: Euro 2,554,700 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB), as at 30 June 2023, amounts to Euro 4,852,508 thousand (31 December 2022: Euro 5,537,174 thousand) with a usage of Euro 1,837,807 thousand (31 December 2022: Euro 2,999,306 thousand):

(Euro thousand)

	Jun 2023	Dec 2022
Total eligible collateral	**5 672 951**	**5 930 344**
Total collateral in the pool	4 852 508	5 537 174
Collateral outside the pool	820 443	393 170
Used collateral	**2 617 337**	**3 375 644**
Collateral used for ECB	1 837 807	2 999 306
Collateral committed to other financing operations	779 530	376 338
Collateral available for ECB	**3 014 701**	**2 537 868**
Total available collateral	**3 055 614**	**2 554 700**

Note: collateral amount considers the applied haircut

As at 30 June 2023, the undiscounted contractual cash outflows of financial liabilities, including interest flows, present the following structure:

(Euro thousand)

	Jun 2023							
Liabilities	**Total**	**Cash [(1)]**	**Up 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**> 5 years**
Deposits from central banks	1 791 205	-	190 994	-	1 541 973	58 238	-	-
Deposits from other credit institutions	873 764	64 716	294 017	208 645	6 101	57	112 639	187 589
Deposits from customers	13 000 013	6 218 438	1 828 117	1 173 167	1 555 249	1 225 939	999 103	-
Debt securities issued	329 422	-	-	411	-	329 011	-	-
Financial liabilities associated with transferred assets	219 466	81	10 354	10 268	19 782	35 311	67 188	76 482
Financial liabilities held for trading	13 553	13 553	-	-	-	-	-	-
Other subordinated debt	362 274	-	182	4 000	15 466	24 190	76 677	241 759
Other liabilities	278 310	-	278 310	-	-	-	-	-
Total funding	**16 868 007**	**6 296 788**	**2 601 974**	**1 396 491**	**3 138 571**	**1 672 746**	**1 255 607**	**505 830**

[(1)] Includes trading liabilities, including derivatives, considered at fair value.

As at 31 December 2022, the undiscounted contractual cash outflows of financial liabilities, including interest flows, present the following structure:

(Euro thousand)

	Dec 2022							
Liabilities	**Total**	**Cash [(1)]**	**Up 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**> 5 years**
Deposits from central banks	2 937 041	-	280 396	890 900	189 571	1 576 174	-	-
Deposits from other credit institutions	397 176	95 798	-	1 036	28	57	112 650	187 607
Deposits from customers	13 188 976	6 697 559	1 655 564	1 125 271	1 413 582	1 252 560	1 022 520	21 920
Debt securities issued	329 421	-	-	-	410	329 011	-	-
Financial liabilities associated with transferred assets	254 072	87	11 337	11 441	22 289	40 483	82 389	86 046
Financial liabilities held for trading	17 698	17 698	-	-	-	-	-	-
Other subordinated debt	375 130	-	162	15 250	4 182	20 957	73 967	260 612
Other liabilities	274 766	-	274 766	-	-	-	-	-
Total funding	**17 774 280**	**6 811 142**	**2 222 225**	**2 043 898**	**1 630 062**	**3 219 242**	**1 291 526**	**556 185**

[(1)] Includes trading liabilities, including derivatives, considered at fair value.

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 2023 and 31 December 2022, excluding the real estate included in the Gerês operation, the exposure to real estate and investment units in real estate funds presented the following values:

(Euro thousand)

	Jun 2023	Dec 2022
Real estate received in recovery of credit	248 976	304 021
Investment units in real estate funds	123 920	136 942
	372 896	440 963
Stress test	(37 290)	(44 096)

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 Directorate 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 as at 30 June 2023, 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 Directorate.

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 Crisis Management Office, which is responsible for the management of the crisis, for the management and execution of the Operational Continuity Plans and for the coordination of the business recovery teams remained in operation, overseeing the operational continuity and monitoring of the recovery of the business.

Banco Montepio had always followed a conservative strategy that had as its main principle the safeguarding of 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 Directorate ensures the production of monthly reports with the evolution of the market value of the Pension Fund's portfolio and the associated risk indicators.

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 year. 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.

Within the scope of emerging risks, among which ESG risks stand out, the Bank is implementing its own framework for the management of these risks, ensuring their interconnection with credit, market, liquidity, operational and real estate risks, among others. Within the scope of this framework, the Management and Supervisory bodies will monitor the current and prospective evolution of the institution's risk profile to these risks. It should be noted that, within the scope of the review of the Bank's risk appetite for the year 2022, KRI's have already been included to regulate the exposure at risk to ESG risks (namely, climatic risks).

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 capital monitoring and management process at Banco Montepio has as its objective to ensure the accuracy of the determination and assessment of the level of regulatory and economic capital, taking into account the risk profile determined by the Board of Directors and the Bank of Portugal add-on in the scope of the SREP, as well as assess the potential effects, on the Group's financial conditions, resulting from changes in risk factors due to exceptional but plausible events (stress tests).

The process of monitoring the evolution of regulatory capital adequacy is carried out monthly, while economic capital adequacy is monitored on a quarterly basis. The global monitoring of the risk profile and the respective capital adequacy are an integral part of the regular reports to the Risk Committee, Executive Committee, Audit Committee and Board of Directors, as well as the Bank's Risk Appetite framework. This process has a governance structure and procedures to monitor the evolution of capital (within the objective and risk tolerance limits defined by the Board of Directors), including the definition of roles and responsibilities for escalating and resolving breaches of the defined limits. The responsibility for identifying breaches of the risk limits defined at the Bank level, as well as of the entities that assume the risk management function, lies with the Risk Directorate. Whenever a situation of non-compliance with the aforementioned limits is identified, the Risk Directorate carries out an analysis of this situation including the following elements:

- Identification of the limit breached;
- Identification of the risk factors that justify said breach;
- Information on the likely future evolution of these risk factors;
- Proposal of risk reduction, assumption, mitigation or transfer measures, as applicable;
- Proposal of reallocation of risk limits, if applicable.

The responsibility for defining action plans to remedy the breaches of the limits verified lies with the Risk Directorate, together with the first-line organic units.

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. 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 focused on the following general 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, if these exist, by 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, if same exists, other intangible assets (not associated with software), as well as the gap, if positive, between the assets and liabilities of the Pension Fund, is deducted. The deduction of the amount of the prudent valuation calculated in accordance with articles no. 34 and 105 of the CRR is also considered, as are the deferred tax assets related to tax losses. The amount of the equity tranches is also deducted in accordance with article 36 paragraph k) of the CRR, resulting from the synthetic and traditional securitizations made between 2021 and 2022. 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, only the transitory plan applicable to deferred tax assets that do not depend on future profitability, in the balance sheet as at 1 January 2014, being maintained. This plan permits a gradual recognition of the amount subject to deduction determined, with same amounting to 90% in 2023. 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. Additionally, BM defined in its own internal regulations a plan to reduce the prudential value of properties received as payment. This prudential reduction is carried out through a prudential deduction that results from the application of a gradual haircut plan to be applied to properties according to their age on the balance sheet. Regarding property portfolios received as payment and investment properties, the Bank considered, in June 2023, a specific prudential deduction of - Euro 28,171 thousand (with an impact of 35 basis points on CET1). This impact resulted from the update of the internal haircut policy, applied to the balance sheet value of the portfolios mentioned above, considering the age of the respective properties in the Bank's assets. Bearing in mind the plan defined in its own internal regulations, an additional - Euro 44,482 thousand of impact is estimated in the first month of 2024 (ceteris paribus in the Banco Montepio portfolio in June 2023).

- 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% 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 entry into force of Regulation 2020/873 of the European Parliament and Council, an additional transitional plan was introduced regarding the impacts of IFRS9 impairment increases occurring after 1 January 2020 in Stages 1 and 2. These increases are subject to a transitional recognition plan of 50% in 2023, 75% in 2024 and 100% in 2025.

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). For 30 June 2023, the Bank of Portugal defined a Counter-Cyclical Reserve of 0% for exposures to Portuguese non-financial Companies. However, taking into account the geographic dispersion of its exposures and capital requirements, BM, as at 30 June 2023, had a Counter-cyclical Reserve of 0.0147%. Regarding the Conservation Reserve, its value is 2.5%. Pursuant to these provisions, as at 30 June 2023 and 31 December 2022, the Common Equity Tier 1, Tier 1 and Total regulatory ratios were 7.01%, 8.51% and 10.51%, respectively.

The summary of the calculation of Banco Montepio's capital requirements as at 30 June 2023 and 31 December 2022, under phase-in, is presented as follows:

(Euro thousand)

	Jun 2023	Dec 2022
Capital Common Equity Tier 1		
Realized share capital	1 210 000	2 420 000
Net income/(loss), reserves and retained earnings	346 343	(885 762)
Other regulatory adjustments	(400 655)	(372 635)
	1 155 688	1 161 603
Capital *Tier 1*	1 155 688	1 161 603
Capital *Tier 2*		
Subordinated loans	206 323	206 323
	206 323	206 323
Total own funds	1 362 011	1 367 926
Own funds requirements		
Credit risk	499 520	513 972
Market risk	7 054	4 048
Operating risk	42 283	42 283
Other requirements	29 996	35 542
	578 853	595 845
Prudential Ratios		
Common Equity Tier 1 Ratio	15.97%	15.60%
Tier 1 Ratio	15.97%	15.60%
Total Capital Ratio	18.82%	18.37%

It should be noted that the ratios, as at 30 June 2023 and 31 December 2022, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 28.

If the transitional plan was not applied to the initial impacts of the adoption of IFRS 9, 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 2023 and 31 December 2022, would be:

(Euro thousand)

	Jun 2023	Dec 2022
Capital Common Equity Tier 1	1 145 974	1 143 667
Capital Tier 1	1 145 974	1 143 667
Total own funds	1 352 297	1 349 990
Own funds requirements	578 220	594 677
Prudential ratios		
Common Equity Tier 1 Ratio	15.86%	15.39%
Tier 1 Ratio	15.86%	15.39%
Total Capital Ratio	18.71%	18.16%

49 Recently issued accounting policies

IFRS Disclosures – New standards as at 30 June 2023, for annual periods beginning on or after 1 January 2023:

1. The impact of the adoption of the new standards and amendments to standards that became effective as of 1 January 2023 is as follows:

a) **IAS 1** (amendment), 'Disclosure of accounting policies'. 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.

b) **IAS 8** (amendment), 'Disclosure of accounting estimates". This amendment introduces the definition 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).

c) **IFRS 17** (new and amendment), 'Insurance contracts'. This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts or investment contracts with discretionary participation in profit or loss if the entity issues insurance contracts. Under IFRS 17, insurers need to assess if a policy holder can benefit from a particular service as part of a claim or if the service is independent of the claim/risk event and do the unbundling of the non-insurance component. Under IFRS 17, the entities will need to identify portfolios of insurance contracts at initial recognition and divide them into a minimum of the following groups: i) contracts that are onerous at inception; ii) contracts that have no significant possibility of becoming onerous subsequently; and iii) remaining contracts in the portfolio. IFRS 17 requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. IFRS 17 requires a company to recognize profits as it delivers insurance services (rather than when it receives premiums), and to provide information about insurance contract profits the company expects to recognize in the future. IFRS 17 provides three measurement approaches for the accounting of different types of insurance contracts: i) General Measurement Model (GMM); ii) the Premium Allocation Approach (PAA), and iii) the Variable Fee Approach (VFA). IFRS 17 is applied retrospectively with some exemptions as at the transition date.

d) **IFRS 17** (amendment), 'Initial Application of IFRS 17 and IFRS 9 – Comparative Information'. This amendment relates only to insurers' transitioning to IFRS 17 and allows the adoption of a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. This amendment seeks to avoid temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented, when applying IFRS 17 for the first time, providing for (i) the application on a financial asset-by-financial asset basis; (ii) the presentation of comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but without requiring an entity to apply the impairment requirements of IFRS 9; and (iii) the obligation to use reasonable and supported information available at the transition date, to determine how the entity expects that financial asset to be classified in accordance with IFRS 9.

e) **IAS 12** (amendment), 'Deferred tax related to assets and liabilities arising from a single transaction'. 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. This 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 not in the scope of the initial recognition exemption for deferred taxes. This amendment is applied retrospectively.

Banco Montepio does not expect any significant impact of the application of these changes on its financial statements.

2. Standards (new and amendments) that have been published and are mandatory for the annual periods beginning on or after 1 January 2024, but are not yet endorsed by the EU:

a) **IAS 1** (amendment), 'Classification of liabilities as Non-current and Current' and 'Non-current liabilities with covenants' (effective for annual periods beginning on or after 1 January 2024). This amendment is still subject to endorsement by the European Union. These amendments clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its settlement for at least 12 months after the reporting date. They clarify also that the covenants that an entity is required to comply with, on or before the reporting date, affect the classification of a liability as current or non-current, even if the covenants are only assessed after the entity's reporting date. When an entity classifies liabilities arising from loan arrangements as non-current and those liabilities are subject to covenants, it is required to disclose information that enables investors to assess the risk that the liabilities could become repayable within 12 months, such as: a) the carrying amount of the liabilities; b) the nature of the covenants and the compliance dates; and c) the facts and circumstances that indicate that the entity may have difficulty complying with covenants when it is required to do so. These amendments are applied retrospectively.

b) **IAS 7** (amendment) and **IFRS 7** (amendment), 'Supplier finance arrangements' (effective for annual periods beginning on or after 1 January 2024). These amendments are still subject to endorsement by the European Union. These amendments require an entity to provide additional disclosures about its supplier finance arrangements to enable: i) the assessment of how supplier finance arrangements affect an entity's liabilities and cash flows; and ii) the understanding of the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available. The additional requirements complement presentation and disclosure requirements already in IFRS as set out in the IFRS IC's Agenda decision of December 2020.

c) **IAS 12** (amendment), 'International tax reform – Pillar two model rules' (effective immediately or for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. Following the implementation of the OECD's Global Anti-Base Erosion ("GloBE") rules, there may be significant impacts on the calculation of deferred taxes of the entities impacted which, at this date, are difficult to estimate. This amendment to IAS 12 introduces: i) a temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and ii) targeted disclosure requirements for affected entities (entities belonging to multinational groups that have consolidated revenues of 750 m€ in at least two out of the last four years), such as: the fact that the exception was applied, the current tax expense related to Pillar Two rules, and the reasonable estimate of the impact of Pilar Two rules between the date the legislation becomes enacted and the date it becomes effective.

d) **IFRS 16** (amendment), 'Lease liability in a sale and leaseback' (effective for annual periods beginning on or after 1 January 2024). This amendment is still subject to endorsement by the European Union. The amendment introduces guidance for the subsequent measurement of lease liabilities, in the scope of sale and leaseback transactions that qualify as "sales" under IFRS 15, with higher impact when some or all the lease payments are variable lease payments that do not depend on an index or rate. Whilst subsequently measuring lease liabilities, seller-lessees determine "lease payments" and "revised lease payments" in a way that does not result in the seller-lessees recognizing any gains/(losses) relating with the right of use that they retain. This amendment is applied retrospectively.

Banco Montepio does not expect any significant impact of the application of these changes on its financial statements.

Description	Changes	Effective date
1. Standards (new and amendments) effective as at 1 January 2023		
IAS 1 – Disclosure of accounting policies	Disclosure requirement for "material" accounting policies, rather than "significant" accounting policies.	
IAS 8 – Disclosure of accounting estimates	Definition of accounting estimate. Clarification as to the distinction between changes to accounting policies and changes to accounting estimates.	
IFRS 17 – Insurance contracts	New accounting for insurance contracts, reinsurance contracts and investment contracts with discretionary participating features in profit or loss, in terms of aggregation, recognition, measurement, presentation and disclosure.	
IFRS 17 –Initial Application of IFRS 17 and IFRS 9 – Comparative Information	This amendment allows to avoid temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented, when first applying IFRS 17. This amendment allows the application of a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information.	1 January 2023
IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction	Requirement to recognize deferred tax on the recognition of assets under right of use / lease liability and provisions for decommissioning / related asset, when their initial recognition gives rise to equal amounts of taxable temporary differences and deductible temporary differences, due to not being relevant for tax purposes.	
2. Standards (new and amendments) that will become effective, on or after 1 January 2024, not yet endorsed by the EU		
IAS 1 – Classification of liabilities as non-current and current and Non-current liabilities with covenants	Classification of a liability as current or non-current, depending on an entity's right to defer its settlement for at least 12 months after the reporting date, when subject to covenants.	1 January 2024
IAS 7 and IFRS 7 – Supplier finance arrangements	Requirement to provide additional disclosures about supplier finance arrangements, the impact in liabilities and cash flows, as well as the impact in liquidity risk analysis, and how the entity would be impacted if these arrangements were no longer available.	
IAS 12 – International Tax Reform – Pillar two model rules	Introduction of a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. Requirement of targeted disclosure for affected entities (entities belonging to multinational groups that have consolidated revenues of €750m in at least two out of the last four years).	Immediately and 1 January 2023
IFRS 16 – Lease liability in a sale and leaseback	Criteria to account for sale and leaseback transactions after the date of the transaction, when some or all the lease payments are variable.	1 January 2024

50 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 credit. 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; and
- 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 2023			Dec 2022		
	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 2023 and 31 December 2022, the assets received under these operations are as follows:

(Euro thousand)

	Jun 2023	Dec 2022
	Senior securities	
Fundo Vega, FCR	22 559	22 196
Fundo de Reestruturação Empresarial, FCR	4 112	4 634
	26 671	26 830

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).

51 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 2023, the periodic contribution made by Banco Montepio amounted to Euro 2,131 thousand (30 June 2022: Euro 4,707 thousand), based on a contribution rate of 0.029%.

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 made a payment to Novo Banco of Euro 317 million, referring 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 purpose of the payment to Novo Banco was Euro 429 million.

On 23 December 2021, the Resolution Fund made the payment of Euro 112 million, after having obtained all analyses from a financial, economic and legal point of view, which was pending verification in June 2021 and was already provided against.

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 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.

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 was subject to appeal to the Court of Competition, Regulation and Supervision by all parties concerned, including Banco Montepio. The lodging of an appeal would determine the suspension of the obligation to pay the fine until the decision had become final provided the request was lodged for the suspension of the obligation to provide a guarantee, in an amount to be set by the court, which decision is awaited.

In like manner to various other institutions charged and that have publicly announced this intention, Banco Montepio challenged this Decision judicially on 21 October 2019.

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 the suspension of the obligation to pay the fine immediately, with Banco Montepio having placed such deposit with that court, that decided to accept same, and the consequent suspension of the obligation referred to above.

The discussion and judgment hearing began in October 2021. At the conclusion of the hearing, and as requested by Banco Montepio and other defendants, the Court of Competition, Regulation and Supervision (TCRS) decided to suspend the proceedings and refer two preliminary questions to the Court of Justice of the European Union (CJEU), under article 267 of the Treaty on the Functioning of the European Union (TFEU). A decision is awaited from the CJEU, after which the TCRS will issue a sentence in accordance with such decision.

Considering all the relevant circumstances, arising from the appeal lodged by Banco Montepio as well as by the other defendant banks, it is considered that there is a serious and significant probability that the fine applied to Banco Montepio will likely be annulled.

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 that might be brought against Banco Montepio based on the Decision would be reduced.

Bank of Portugal

As at 30 June 2023, the Bank has been the subject of several administrative offense processes instituted by the Bank of Portugal, for alleged practices and infractions in supervisory matters that are applicable to the Bank, in an amount of possible fines of approximately Euro 1.7 million.

The evolution of these processes is regularly monitored by the Banco Montepio's Board of Directors, with technical-legal intervention under the responsibility of its Legal Directorate and, in certain cases, by law firms, which services are contracted on a case-by-case basis.

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, regarding 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 2023.

52 Subsidiaries and associates

As at 30 June 2023, the companies directly or indirectly held by Banco Montepio are as follows:

Subsidiary	Head office	Share capital	Currency	Activity	% of control	% of effective part	% of direct part
Montepio Holding, S.G.P.S., S.A.	Oporto	175 000 000	euro	Managements of shareholding	100.00%	100.00%	100.00%

(euros)

Subsidiary	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	S. Miguel Island	10 000 000	Accommodation, 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%
Montepio Serviços A.C.E.	Lisbon		Business support services	85.00%

As at 31 December 2022, the companies directly or indirectly held by Banco Montepio are as follows:

Subsidiary	Head office	Share capital	Currency	Activity	% of control	% of effective part	% of direct part
Montepio Holding, S.G.P.S., S.A.	Oporto	175 000 000	euro	Managements of shareholding	100.00%	100.00%	100.00%

(euros)

Subsidiary	Head office	Share capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	S. Miguel Island	10,000,000	Accommodation, 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 2023 and 31 December 2022, Banco Montepio held investment units in investment funds as follows:

Subsidiary	Establishment year	Acquisition year	Head office	% of controlling interest	Consolidation method
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

53 NPL Disclosures

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non-Performing Loans) ratio greater than 5% must publish a set of information related to NPE (Non-Performing Exposures), restructured loans and assets received as payment in kind, according to a standardized format, as at 30 June 2023, as follows:

Credit quality of restructured exposures

(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 restructed exposures	
	About productive restructured exhibitions	About non-productive restructured exhibitions	Das quais, em incumprimento	Das quais, em situações de imparidade	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	**96 528**	**327 270**	**327 270**	**327 270**	**(3,725)**	**(145,144)**	**231 608**	**155 999**
Central administrations	-	2 357	2 357	2 357	-	(250)	-	-
Other financial companies	14	59 886	59 886	59 886	(1)	(37,823)	14 935	14 935
Non-financial corporations	55 074	220 174	220 174	220 174	(2,575)	(92,761)	149 851	111 154
Households	41 440	44 853	44 853	44 853	(1,149)	(14,310)	66 822	29 910
Loans commitments given	111	8	8	8	(1)	-	-	-

Banco Montepio

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		Reduce 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	**11 382 030**	**11 350 978**	**31 053**	**497 786**	**299 126**	**23 102**	**22 664**	**48 607**	**28 129**	**5 190**	**70 967**	**497 786**
Central banks	560 924	560 924	-	-	-	-	-	-	-	-	-	-
Central administrations	97 221	97 221	-	2 357	-	-	-	-	2 357	-	-	2 357
Credit institutions	393 559	393 559	-	-	-	-	-	-	-	-	-	-
Other financial companies	455 448	455 422	27	62 066	18 744	-	145	35 076	7 283	526	290	62 066
Non-financial corporations	3 748 893	3 740 666	8 227	351 698	221 447	16 431	17 136	8 669	17 087	3 072	67 857	351 698
Of which SME s	3 250 184	3 241 957	8 227	327 288	200 704	13 330	16 586	8 669	17 070	3 072	67 857	327 288
Households	6 125 985	6 103 186	22 799	81 665	58 935	6 671	5 383	4 862	1 402	1 592	2 820	81 665
Debt securities	**5 086 171**	**5 086 171**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central administrations	4 114 677	4 114 677	-	-	-	-	-	-	-	-	-	-
Other financial companies	555 683	555 683	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	415 811	415 811	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	**2 201 456**	**-**	**-**	**67 539**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central administrations	6 040	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	367 583	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	108 381	-	-	9	-	-	-	-	-	-	-	-
Non-financial corporations	1 252 343	-	-	65 307	-	-	-	-	-	-	-	-
Households	467 109	-	-	2 223	-	-	-	-	-	-	-	-
	18 669 657	**16 437 149**	**31 053**	**565 325**	**299 126**	**23 102**	**22 664**	**48 607**	**28 129**	**5 190**	**70 967**	**497 786**

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	**11 382 030**	**9 674 875**	**1 706 933**	**497 786**	**497 696**	**(85 830)**	**(28 489)**	**(57 342)**	**(215 488)**	**(215 488)**	**(134 842)**	**8 184 189**	**234 236**
Central banks	560 924	560 924	-	-	-	-	-	-	-	-	-	-	-
Central administrations	97 221	94 226	2 996	2 357	2 357	(713)	(156)	(557)	(250)	(250)	(250)	5 309	-
Credit institutions	393 559	393 107	452	-	-	(1 017)	(1 004)	(13)	-	-	-	-	-
Other financial companies	455 448	452 947	2 502	62 066	62 066	(2 712)	(2 577)	(136)	(38 635)	(38 635)	(600)	68 167	15 728
Non-financial corporations	3 748 893	3 100 018	648 651	351 698	351 608	(54 303)	(20 850)	(33 453)	(148 700)	(148 700)	(133 992)	2 367 940	168 050
Of which SME s	3 250 184	2 663 224	586 735	327 288	327 198	(50 094)	(17 925)	(32 169)	(138 735)	(138 735)	(105 890)	2 173 877	162 055
Households	6 125 985	5 073 653	1 052 332	81 665	81 665	(27 085)	(3 902)	(23 183)	(27 903)	(27 903)	-	5 742 773	50 458
Debt securities	**5 086 171**	**4 961 558**	**91 856**	**-**	**-**	**(10 189)**	**(8 714)**	**(1 475)**	**-**	**-**	**-**	**18 228**	**-**
Central administrations	4 114 677	4 114 677	-	-	-	(7 294)	(7 294)	-	-	-	-	-	-
Other financial companies	555 683	510 788	12 138	-	-	(539)	(104)	(435)	-	-	-	-	-
Non-financial corporations	415 811	336 093	79 718	-	-	(2 356)	(1 316)	(1 040)	-	-	-	18 228	-
Off-balance sheet exposures	**2 201 457**	**1 869 414**	**332 042**	**67 539**	**67 539**	**(8 879)**	**(4 945)**	**(3 933)**	**(7 136)**	**(7 136)**	**-**	**-**	**-**
Central administrations	6 040	6 040	1	-	-	(16)	(16)	-	-	-	-	-	-
Credit institutions	367 583	233 308	134 275	-	-	(538)	(4)	(534)	-	-	-	-	-
Other financial companies	108 381	100 459	7 921	9	9	(55)	(9)	(46)	-	-	-	-	-
Non-financial corporations	1 252 343	1 091 949	160 394	65 307	65 307	(6 038)	(3 103)	(2 935)	(7 130)	(7 130)	-	-	-
Households	467 110	437 658	29 451	2 223	2 223	(2 232)	(1 813)	(418)	(6)	(6)	-	-	-
	18 669 658	**16 505 847**	**2 130 831**	**565 325**	**565 235**	**(104 898)**	**(42 148)**	**(62 750)**	**(222 624)**	**(222 624)**	**(134 842)**	**8 202 417**	**234 236**

This caption, as at 31 December 2022, is presented as follows:

Credit quality of restructured exposures

(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 restructed 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	**122 238**	**390 774**	**390 774**	**390 774**	**(4 524)**	**(157 869)**	**296 756**	**197 578**
Central administrations	-	2 356	2 356	2 356	-	(250)	-	-
Other financial companies	38	65 295	65 295	65 295	(2)	(32 027)	26 680	26 659
Non-financial corporations	77 382	270 647	270 647	270 647	(3 473)	(106 778)	198 471	139 803
Households	44 818	52 476	52 476	52 476	(1 049)	(18 814)	71 605	31 116
Loans commitments given	47	326	326	326	(1)	-	-	-
	122 285	**391 100**	**391 100**	**391 100**	**(4 525)**	**(157 869)**	**296 756**	**197 578**

PART I 1 CORPORATE GOVERNANCE

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		Reduce 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	**12 238 408**	**12 210 313**	**28 094**	**565 868**	**326 428**	**16 492**	**26 251**	**54 401**	**42 035**	**12 248**	**88 013**	**565 868**
Central banks	1 285 033	1 285 033	-	-	-	-	-	-	-	-	-	-
Central administrations	101 432	101 432	-	2 356	-	-	-	2 356	-	-	-	2 356
Credit institutions	430 918	430 918	-	-	-	-	-	-	-	-	-	-
Other financial companies	421 507	421 507	-	67 043	19 334	144	1 331	34 028	11 842	-	364	67 043
Non-financial corporations	3 788 828	3 779 361	9 466	399 263	236 621	11 955	17 585	11 460	27 081	10 541	84 020	399 263
Of which SME s	3 302 059	3 292 593	9 466	380 638	218 182	11 780	17 585	11 449	27 081	10 541	84 020	380 638
Households	6 210 690	6 192 062	18 628	97 206	70 473	4 393	7 335	6 557	3 112	1 707	3 629	97 206
Debt securities	**5 026 097**	**5 026 097**	**-**	**33 000**	**-**	**-**	**-**	**-**	**33 000**	**-**	**-**	**33 000**
Central administrations	4 131 267	4 131 267	-	-	-	-	-	-	-	-	-	-
Other financial companies	555 836	555 836	-	33 000	-	-	-	-	33 000	-	-	33 000
Non-financial corporations	338 994	338 994	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	**2 219 664**	**-**	**-**	**77 755**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central administrations	5 760	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	281 985	-	-		-	-	-	-	-	-	-	-
Other financial companies	175 343	-	-	10	-	-	-	-	-	-	-	-
Non-financial corporations	1 273 628	-	-	74 667	-	-	-	-	-	-	-	-
Households	482 948	-	-	3 078	-	-	-	-	-	-	-	-
	19 484 169	**17 236 410**	**28 094**	**676 623**	**326 428**	**16 492**	**26 251**	**54 401**	**75 035**	**12 248**	**88 013**	**598 868**

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 1	Of which, stage 2		Of which, stage 3			
Loans and advances	**12 238 408**	**10 219 185**	**2 018 939**	**565 868**	**565 735**	**(89,965)**	**(26,466)**	**(63,500)**	**(238,074)**	**(238,074)**	**(128,448)**	**8 463 822**	**267 875**
Central banks	1 285 033	1 285 033	-	-	-	-	-	-	-	-	-	-	-
Central administrations	101 432	99 400	2 031	2 356	2 356	(231)	(115)	(116)	(250)	(250)	(250)	6 564	-
Credit institutions	430 918	430 901	17	-	-	(1,356)	(1,356)	-	-	-	-	-	-
Other financial companies	421 507	419 735	1 772	67 043	67 043	(5,129)	(5,049)	(81)	(32,531)	(32,531)	(600)	75 551	27 724
Non-financial corporations	3 788 828	2 783 333	1 005 212	399 263	399 130	(58,306)	(16,342)	(41,964)	(166,610)	(166,610)	(127,598)	2 546 342	189 209
Of which SME s	3 302 059	2 444 227	857 549	380 638	380 505	(52,516)	(14,453)	(38,062)	(159,074)	(159,074)	(99,598)	2 335 750	187 509
Households	6 210 690	5 200 783	1 009 907	97 206	97 206	(24,943)	(3,604)	(21,339)	(38,683)	(38,683)	-	5 835 365	50 942
Debt securities	**5 026 097**	**4 984 221**	**8 106**	**33 000**	**33 000**	**(8,314)**	**(7,302)**	**(1,013)**	**(14,272)**	**(14,272)**	**-**	**3 699**	**-**
Central administrations	4 131 267	4 131 267	-	-	-	(6,143)	(6,143)	-	-	-	-	-	-
Other financial companies	555 836	519 802	2 265	33 000	33 000	(455)	(85)	(371)	(14,272)	(14,272)	-	-	-
Non-financial corporations	338 994	333 152	5 841	-	-	(1,716)	(1,074)	(642)	-	-	-	3 699	-
Off-balance sheet exposures	**2 219 665**	**1 846 950**	**372 714**	**77 755**	**77 755**	**(10,461)**	**(4,558)**	**(5,901)**	**(8,852)**	**(8,852)**	**-**	**-**	**-**
Central administrations	5 760	5 735	25	-	-	(11)	(10)	-	-	-	-	-	-
Credit institutions	281 985	148 736	133 249	-	-	(564)	(12)	(552)	-	-	-	-	-
Other financial companies	175 343	168 117	7 226	10	10	(43)	(6)	(37)	-	-	-	-	-
Non-financial corporations	1 273 628	1 070 263	203 365	74 667	74 667	(7,880)	(3,123)	(4,756)	(8,847)	(8,847)	-	-	-
Households	482 949	454 099	28 849	3 078	3 078	(1,963)	(1,407)	(556)	(5)	(5)	-	-	-
	19 484 170	**17 050 356**	**2 399 759**	**676 623**	**676 490**	**(108,740)**	**(38,326)**	**(70,414)**	**(261,198)**	**(261,198)**	**(128,448)**	**8 467 521**	**267 875**

54 Relevant facts

Election of Corporate Bodies

The General Assembly of Banco Montepio, in its annual session of 29 April 2022, proceeded to elect new members of the corporate bodies for the term of office 2022-2025.

Following the final endorsement granted by the Bank of Portugal, the composition of the corporate bodies of Banco Montepio was changed, namely the Presiding Board of the General Meeting, the Board of Directors and the Audit Committee, taking office on 25 July 2022.

55 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.

Montepio Investimento, S.A.

Montepio Holding, SGPS, S.A. (Montepio Holding) agreed to sell the 100% stake held in the share capital of Montepio Investimento, S.A., a bank with the commercial name BEM - Banco Empresas Montepio (BEM), to RAUVA Enterprises, S.A., a growing fintech, with registered office in Portugal.

The agreement was formalized with the signing of a share purchase and sale agreement (SPA – Share Purchase Agreement), which is subject, in particular, to the verification of certain precedent conditions necessary for the closing of the transaction, including approval by the supervisory and regulatory authorities.

Before the completion of the transaction, the transfer to Banco Montepio of all assets, liabilities and operations of BEM will be carried out. This transfer falls within the scope of the process of integrating BEM's activity in Banco Montepio, which will allow capturing synergies and, simultaneously, preserving and enhancing the integrated value proposition of commercial banking and investment banking, successfully developed by the institution, with the purpose of better serving customers at all times.

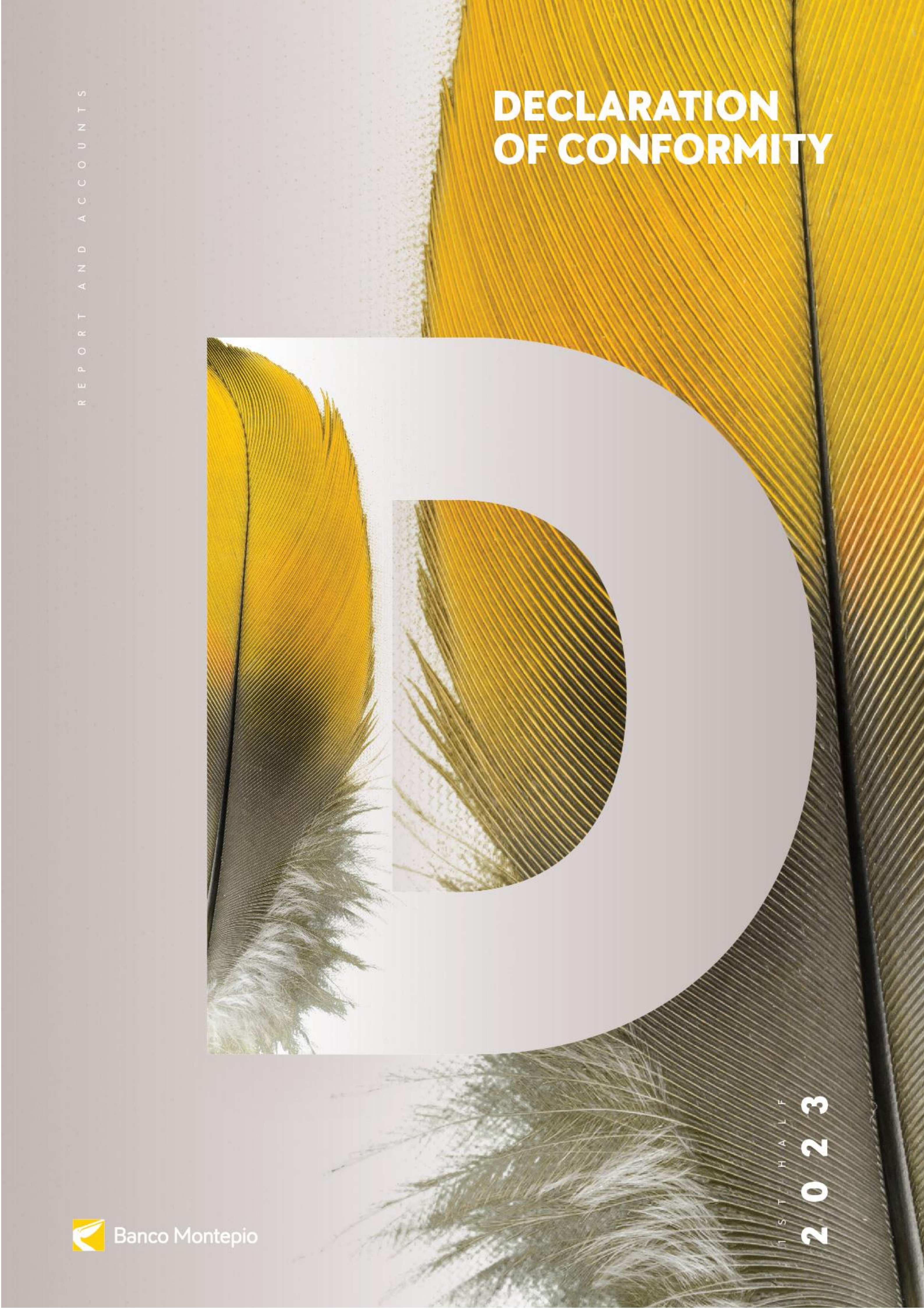
The sale value will be based on a multiple of between 1.15x and 1.18x of the equity of BEM at the date of completion of the transaction. According to the information available to date, it is not possible to accurately estimate the value of the positive impact on the results of Banco Montepio.

Continuing the simplification of the corporate structure and improvement of the Group's operating model, with the finalization of this agreement, Banco Montepio takes another important step in the implementation of the commitments assumed in the Adjustment Program.

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.

Banco Montepio


REPORT AND ACCOUNTS
DECLARATION OF CONFORMITY
1ST HALF
2023
Banco Montepio

DECLARATION OF CONFORMITY

This declaration is issued under the terms of paragraph c) of no. 1 of article 29º-J of the Securities Code approved by Decree-Law no. 486/99, of 13 November, in the wording introduced by Law No. 99-A/2021, of 31 December.

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 2023, 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	Manuel Ferreira Teixeira
Members	Clementina Maria Dâmaso de Jesus Silva Barroso
	Eugénio Luís Correia Martins Baptista
	Florbela dos Anjos Frescata Lima
	Maria Cândida de Carvalho Peixoto
	Maria Lúcia Ramos Bica
	Pedro Manuel Moreira Leitão
	Ângela Isabel Sancho Barros
	Helena Catarina Gomes Soares de Moura Costa Pina
	Isabel Cristina dos Santos Pereira da Silva
	Jorge Paulo Almeida e Silva Baião
	José Carlos Sequeira Mateus

Lisbon, 29 September 2023

REPORT AND ACCOUNTS . 1ST HALF 2023

Banco Montepio

REPORT AND ACCOUNTS

EXTERNAL AUDITOR REPORTS

1ST HALF 2023

Banco Montepio

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., which comprise the interim condensed consolidated balance sheet as at 30 June 2023 (which shows total assets of Euros 18,093,738 thousand and total shareholder's equity of Euros 1,540,867 thousand and a consolidated net profit attributable to shareholders negative of Euros 48,250 thousand), the interim condensed consolidated income statement, 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.

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
Receção: Palácio Sottomayor, Avenida Fontes Pereira de Melo, nº16, 1050-121 Lisboa, Portugal
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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that accompanying interim condensed consolidated financial statements of Caixa Económica Montepio Geral, caixa económica bancária, S.A. as at 30 June 2023 are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

29 September 2023

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

[Original in Portuguese signed by]

Aurélio Adriano Rangel Amado, ROC no. 1074
Registered with the Portuguese Securities Market Commission under no. 20160686

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., which comprise the interim condensed balance sheet as at 30 June 2023 (which shows total assets of Euros 18,498,173 thousands and total shareholder's equity of Euros 1,556,343 thousands, including a positive net profit of Euros 33,276 thousand), the interim condensed individual income statement, 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.

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Conclusion

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29 September 2023

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

[Original in Portuguese signed by]

Aurélio Adriano Rangel Amado, ROC no. 1074
Registered with the Portuguese Securities Market Commission under no. 20160686

Banco Montepio

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