19 FEBRUARY 2021

2020 results and activity [1]

Banco Montepio reverses trend and increases loans to customers, leads in social economy, while pursuing an operational adjustment

The 2020 net income stood at -€80.7Mn, driven by the unfavourable impact of the **COVID-19 pandemic**, mainly materialised by the **reinforcement of credit risks impairment (€77.5Mn)**, as well as by the **non-recurring costs** related to the **adjustment plan in progress (€35.1Mn)**.

The main goal outlined in the adjustment plan in 2020 for optimising the branch network was achieved with the closure of 37 branches in the retail network. As a result of the voluntary redundancies and early retirements programme, as well as retirements related to age limit, the number of employees was reduced by 241.

Simultaneously, the digital transition processes were accelerated (launching of the virtual assistant M.A.R.I.A - Montepio's Automated Real-time Interaction Assistant, and strengthening of the digital platform), allowing the adjustment of the service model and a sustained increase in the efficiency of Banco Montepio Group.

In the context of COVID-19 and under the special aid scheme provided to families and companies, Banco Montepio Group, embracing its social commitment, granted 38 thousand moratoria totalling €3.2 billion as at 31 December 2020.

[1] The 2020 financial statements are unaudited.

Banco Montepio

Business performance made it possible to reverse the downward trend in **gross loans and advances to customers** accounted over the last decade, registering in 2020 a favourable evolution by **increasing to €12,357Mn**. This performance, which represents an **increase of €336Mn**, reflects Banco Montepio's **commitment to supporting families, companies and social economy entities, of which it should be highlighted the 75% market share in the specific government guaranteed credit lines to the latter segment**.

At the end of 2020, Banco Montepio's **total assets amounted to €17,941Mn**, which compares favourably with the amount of €17,740Mn as at 31 December 2019. The **increase in the loan portfolio** was simultaneously achieved with the **improvement in the asset quality indicators**, which benefited from the rigorous credit risk-taking policy, as well as from the measures that were approved and adopted in the credit monitoring and recovery areas.

Underpinning the effect of the above mentioned measures, the **quality of the loan portfolio**, assessed by the ratio of non-performing exposures (NPE) to total gross loans, **evolved favourably**, with the NPE ratio decreasing from 12.2% as at 31 December 2019 to 10.4% as at the end of 2020.

The **coverage of non-performing exposures by impairments**, reflecting the reinforcement of impairments carried out in 2020, particularly those resulting from the updating of macroeconomic scenarios due to the COVID-19 pandemic and to the increase of impairments in some individually significant exposures, recorded an improvement from 52.1% as at 31 December 2019 to 60.4% as at the end of 2020.

At a glance:

Net income

- 2020 consolidated net income was driven by the unfavourable impact of the COVID-19 pandemic and by the non-recurring costs related to the employees and branches adjustment plan, which amounted to €78.9Mn.

Core business

- Gross loans and advances to customers increased to €12,357Mn in 2020, reversing the downward trend seen in recent years, which reflects Banco Montepio's commitment to supporting families, companies and social economy entities;
- Granting of €367Mn in government guaranteed credit lines, being Banco Montepio's market share in the social economy segment on 31 December 2020 around 75% of the approved operations;
- Customer deposits amounted to €12,502Mn in 2020, maintaining the same level as in 2019, with the rise in demand deposits offsetting the performance of term deposits.

Operational adjustment

- The number of employees was reduced by 241 during 2020, as a result of the retirements related to age limit, and the early retirements and voluntary redundancies programme;
- Pursuing the branch network optimisation strategy, the 2020 objective was achieved, with the closure of 37 branches in the retail network.

Digital transition

- Acceleration of the digital transition processes, adjusting the service model and sustainably increasing the Group's efficiency;
- Launch of virtual assistant M.A.R.I.A - Montepio's Automated Real-time Interaction Assistant, enabling the improvement of customers' experience;
- Strengthening the digital platform with innovative features such as 100% online customer data update.

Moratoria

- In the context of COVID-19 and under the special aid scheme provided to families and companies, Banco Montepio Group, assuming its social commitment, granted 38 thousand moratoria totalling €3.2Bn as at 31 December 2020;
- Worthy of mention is the adhesion through an innovative process, 100% digital and through 4 steps only.

Asset quality

- Cost of credit risk stood at 1.5%, reflecting the reinforcement of impairments driven by the COVID-19 pandemic;
- NPE ratio(2) decreased to 10.4%, comparing favourably with the 2019 ratio;
- NPE ratio(2), net of impairments for credit risk, stood at 4.1%;
- Increase of the NPE coverage by impairments to 60.4%, and to 93.0% if the associated collaterals are considered

[2] Non-performing exposures divided by total gross loans.

Capital and liquidity

- Total capital ratio of 13.8%, benefiting from the decrease in risk-weighted assets and the €50Mn subordinated debt issue, despite the negative effects of COVID-19;
- Comfortable liquidity ratios above the required regulatory levels.

Under the deliberations taken by the Top Management and the Board of Directors, the subsidiaries Montepio Valor and Banco Montepio Geral Cabo Verde began to be classified in the 2020 financial statements as Non-current assets held for sale - discontinued operations, in accordance with the IFRS 5 provisions, with Finibanco Angola no longer meeting the conditions required by this standard. In this context, periods prior to December 2020 have been restated in order to be comparable.

Net Income

The 2020 **consolidated net income** was influenced by the unfavourable impact induced by the COVID-19 pandemic, which materialised, with particular emphasis, in the reinforcement of impairment for credit risks, as well as in the non-recurring costs related to the staff adjustment plan and the resizing of the branch network.

Regarding the reinforcement of impairments related to the increased credit risk arising from the pandemic, a total of €77.5Mn of impairments was recorded, representing a relevant component in the amount of loan impairments recorded by Banco Montepio in 2020 which amounted to €185.1Mn.

As regards the plan to adjust the number of employees and the number of branches, in line with the strategic goal of improving efficiency and profitability in a sustained manner, an aggregate amount of €35.1Mn of costs and impairments was recorded, which include costs with early retirement and voluntary redundancies programmes and branches closures.

Core operating income, measured by the aggregate of net interest income and commissions, and excluding the impact of subordinated debt issued, amounted to €375.6Mn in 2020, compared to €390.6Mn in 2019, reflecting the exogenous impact of the pandemic on economic activity levels.

Net interest income amounted to €242.8Mn in 2020, compared to €254.2Mn in 2019, reflecting the adverse effects caused by the COVID-19 pandemic on economic agents by triggering a decrease in activity levels of both households and companies.

The evolution of **net interest income** from 2019 to 2020 also incorporates the positive effects resulting from the decreases in interest from customer deposits, senior debt and wholesale funding, which, however, were not enough to offset the negative effects of the reduction in interest from loans and advances to customers, due to the volume and rate effects, the decrease in interest from the own portfolio and also the increase in interest from subordinated debt issues. The cost of customer deposits in 2020 decreased gradually and sustainably as a reflection of the careful pricing management that has been implemented.

Net commissions recorded in 2020 amounted to €115.3Mn, compared to €122.6Mn in 2019, reflecting the lower level of commissions associated with means of payment due to the lower transactionality brought about by the pandemic, and the decrease in commissions on credit operations, considering the reduction in the activity levels of economic agents and the effect of moratoria on the origination of new credit operations.

Results from financial operations totalled €17.9Mn in 2020, compared to €64.4Mn in 2019, the evolution of which was determined by higher gains on the sale of securities in 2019 and, to a lesser extent, by the reduction in foreign exchange and derivative financial instruments' results in 2020.

Other operating income amounted to €14.7Mn in 2020, compared to €11.5Mn in 2019, with gains from the sale of securities accounted at amortised cost in an amount of €29.6Mn in 2020 against €9.7Mn in 2019. The 2019 figures also include gains on non-performing loans' sales in an amount of €11.9Mn and losses on real estate sales in an amount of €5.4Mn.

Operating costs totalled €291.4Mn in 2020, compared to the €264.0Mn recorded in 2019, mainly reflecting the impact of the staff adjustment plan in an amount of €28.3Mn, recorded under Staff costs, and, to a lesser extent, the closure of branches in an amount of €1.2Mn, recorded under General administrative costs. The staff costs amount includes the costs recorded with the early retirement and voluntary redundancies programme, and considers the costs with the Pension Fund, indemnities and health care.

Excluding these effects, operating costs in 2020 would have recorded a reduction of €2.1Mn compared to the 2019 amount, due to the performance of personnel costs and general administrative expenses, in this case driven by the synergies arising from the renegotiation of some contracts that have been occurring.

Loan impairments in 2020 totalled €185.1Mn, an increase of €70.2Mn compared to the amount recorded in 2019, which was due to the increase in credit risk caused by the COVID-19 pandemic, estimated at €77.5Mn, and also caused by the strengthening of impairment levels in some credit exposures that were in default or which showed an increase in the impairment signs.

The aggregate of **other impairments and provisions**, related to other financial assets, other assets and provisions, amounted to €35.7Mn in 2020, compared to €28.4Mn in 2019, mainly reflecting the impact of the impairments charges for closed branches, the effects of the evolution of credit risk in terms of debt instruments and the process of updating the real estate valuations.

The **current and deferred taxes** in 2020 and 2019 considers the realities that contributed to the income formation and the respective tax framework, particularly with regards to the constitution and reversal of temporary differences and the identification of permanent differences, with emphasis on the banking sector contribution since it is not considered as taxable income.

The amount recorded under **discontinued operations** in 2020 was -€1.9Mn, compared to -€3.5Mn in 2019, due to the contribution to the consolidated accounts of the subsidiaries Montepio Valor and Banco Montepio Geral Cabo Verde.

Balance Sheet

At the end of 2020, **total assets** amounted to €17,941Mn, which compares favourably with the amount of €17,740Mn as at 31 December 2019.

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Gross loans to customers in 2020 evolved favourably, rising to €12,357Mn, while reversing the downward trend observed in previous years, notwithstanding the fact that write-offs were carried out. This performance is supported in the corporate segment, which, reflecting the strategic focus on growth in SMEs and the middle market, showed an increase of €336Mn.

The increase in the loan portfolio, as previously mentioned, was achieved together with the improvement in the asset quality indicators, which benefited from a rigorous credit risk taking policy as well as from the measures that were approved and adopted in the credit monitoring and recovery areas.

Reflecting the effect of the aforementioned measures, the **quality of the loan portfolio**, measured by the proportion of non-performing exposures (NPE) to total gross loans, evolved favourably, with the NPE ratio decreasing from 12.2% as at 31 December 2019 to 10.4% as at the end of 2020.

The **coverage of NPE by impairments**, reflecting the reinforcement of impairments achieved in the 2020 financial year, with emphasis on those resulting from the updating of the macroeconomic scenarios due to the pandemic determined by COVID-19 and the increase of impairments in some exposures, recorded an improvement from 52.1% as at 31 December 2019 to 60.4% as at the end of 2020.

Regarding the **NPE coverage** by impairments and associated financial collateral and guarantees, the ratio reached 93.0% as at 31 December 2020.

Customer deposits as at 31 December 2020 totalled €12,502Mn, maintaining the same level as at the end of 2019. Notwithstanding the fact that market interest rate benchmarks were historically low and, in some maturities, negative, it was carried out a systematic management of the price component which, together with the increase in the proportion of demand deposits, contributed positively to the performance of net interest income in 2020.

Shareholders' equity in 2020 also suffered the adverse effect of exogenous factors, particularly those related to the evolution of the foreign exchange reserves, mainly through the Angolan Kwanza, and to the fair value reserves, the latter incorporating the effect of the accounting of capital gains from the sale of securities, which together determined a total reduction of €44.2Mn in shareholders' equity in 2020.

Consequently, on 31 December 2020, shareholders' equity totalled €1,327Mn, reflecting, in addition to the aforementioned exogenous adverse impacts, the accounting recognition of the 2020 negative net income in the amount of €81Mn, and, to a lesser extent, the effects from the calculation of an actuarial deviation in the Pension Fund and the reclassification to liabilities of a perpetual subordinated debt issue.

Capital

The total capital ratio as at 31 December 2020 stood at 13.8%, benefiting from the positive effect of a subordinated debt issue in the amount of €50Mn in the first half of 2020, from the entry into force of Regulation (EU) 2020/873 of the European Parliament and of the Council, of 24 June 2020 and from the implementation of a set of measures to reduce risk-weighted assets (RWA), namely in the fourth quarter of the year, which enabled to reduce the impact of the reduction of net income due to the extraordinary factors coming from the COVID-19 pandemic crisis and by the employees and branches adjustment plan.

RWA decreased by €722Mn at the end of 2020, compared to 31 December 2019, as a result of the change in the balance sheet structure that has been implemented, the issue of a synthetic securitisation and also due to the entry into force of the abovementioned Regulation, namely in what regards the level of the adjustment factor relating to exposures to small and medium-sized companies.

The capital ratios as at 31 December 2020 also incorporate the exogenous adverse effects brought about by the COVID-19 pandemic by determining unfavourable impacts at the level of the Angolan kwanza devaluation, the reinforcement of impairments and also the negative effect coming from the evolution of deferred tax assets.

Pension Fund

As at 31 December 2020, the liabilities with post-employment and long-term employee benefits were fully funded, with the coverage ratio standing at 100%, considering the value of the Pension Fund at the end of the year, the provisions recorded in the balance sheet and a payment made by Banco Montepio to the Pension Fund in early 2021.

Liabilities with post-employment and long-term employee benefits amounted to €874.3Mn as at the end of 2020, showing an increase of €23.4Mn when compared to the amount as at 31 December 2019, determined by the impact of the early retirement and voluntary redundancy programmes promoted in 2020 and by actuarial deviations, including those resulting from the change in assumptions.

Taking into consideration the payment made by Banco Montepio in early 2021, on 31 December 2020 the value of the Pension Fund totalled €864.9Mn and the Pension Fund rate of return reached 3.6%, thus comparing favourably with the actuarial assumption.

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

Banco Montepio

Key Indicators

	Dec-19 restated	Dec-20	Change YoY
ACTIVITY AND RESULTS (€ million)			
Total assets	17,740	17,941	1.1%
Gross Loans to customers	12,289	12,357	0.6%
Customers' deposits	12,642	12,502	(1.1%)
Net income	22.0	(80.7)	(<100%)
SOLVENCY (a)			
Common Equity Tier 1 ratio	12.4%	11.6%	(0.8 p.p.)
Total Capital ratio	13.9%	13.8%	(0.1 p.p.)
Risk weighted assets (€ million)	10,299	9,577	(7.0%)
LIQUIDITY RATIOS			
Loans to customers (net) / Customers' deposits (b)	91.0%	92.6%	1.6 p.p.
Loans to customers (net) / On-balance sheet customers' resources (c)	82.0%	83.9%	1.9 p.p.
ASSET QUALITY			
Cost of credit risk	0.9%	1.5%	0.6 p.p.
Non-performing exposures (NPE) (d) / Gross Loans to customers	12.2%	10.4%	(1.8 p.p.)
NPE (d) coverage by credit risk Impairments	52.1%	60.4%	8.3 p.p.
NPE (d) coverage by credit risk Impairments and associated collaterals and financial guarantees	93.4%	93.0%	(0.4 p.p.)
PROFITABILITY AND EFFICIENCY			
Total operating income / Average total assets (b)	2.5%	2.2%	(0.3 p.p.)
Net income before income tax / Average total assets (b)	0.3%	(0.7%)	(1.0 p.p.)
Net income before income tax / Average total equity (b)	3.1%	(8.8%)	(11.9 p.p.)
Cost-to-income (Operating costs / Total operating income) (b)(g)	57.3%	66.5%	9.2 p.p.
Cost-to-Income, excluding specific impacts (e)(g)	68.7%	72.5%	3.8 p.p.
Staff costs / Total operating income (b)	35.3%	48.1%	12.8 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)			
Employees			
Banco Montepio Group (h)	3,962	3,721	(241)
Banco Montepio (h)	3,563	3,326	(237)
Branches			
Domestic network - Banco Montepio	332	298	(34)
International Network (f)	24	24	0
Representation Offices - Banco Montepio	5	5	0

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

(b) Pursuant to Banco de Portugal Instruction No. 16/2004, as amended.

(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued as disclosed in the Financial Statements.

(d) EBA definition.

(e) Excludes results from financial operations and other operating results (net gains arising from the sale of other financial assets and other operating income).

(f) Includes corporate centres.

(g) The amount related to the increase in Staff Costs generated by the adjustment programme (29.5M€) in 4Q2020 was not considered in the computation of this ratio.

(h) the number of employees on 31Dec2020 considers the departure of 25 who agreed to leave Banco Montepio in 2020 and whose departure took place in early Jan2021.

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Banco Montepio

Consolidated Income Statement

(million euro)	Dec-19 Restated	Dec-20	Change YoY (€Mn)	Change %
Interest and similar income	336.2	303.7	-32.5	-9.7%
Interest and similar expense	82.0	60.9	-21.1	-25.7%
NET INTEREST INCOME	**254.2**	**242.8**	**-11.4**	**-4.5%**
Dividends from equity instruments	7.6	3.0	-4.6	-60.5%
Net fee and commission income	122.6	115.3	-7.3	-6.0%
Net gains/(losses) from financial operations	64.5	17.9	-46.6	-72.2%
Other operating results	11.5	14.7	3.2	27.8%
TOTAL OPERATING INCOME	**460.4**	**393.7**	**-66.7**	**-14.5%**
Staff Costs	162.4	189.3	26.9	16.6%
General and administrative expenses	68.1	67.0	-1.1	-1.6%
Depreciation and amortization	33.5	35.1	1.6	4.8%
OPERATING COSTS	**264.0**	**291.4**	**27.4**	**10.4%**
Loan impairments	114.9	185.1	70.2	61.1%
Other financial assets impairments	10.7	12.2	1.5	14.0%
Other assets impairments	11.7	19.4	7.7	65.8%
Provisions net of reversals and annulments	6.0	4.1	-1.9	-31.7%
Share of profit of associates under the equity method	0.2	-0.6	-0.8	<-100%
EARNINGS BEFORE TAX AND NON-CONTROLLING INTERESTS	**53.3**	**-119.1**	**-172.4**	**<-100%**
Tax	25.6	-42.2	-67.8	<-100%
Non-controlling interests	2.5	1.9	-0.6	-24.0%
Profit/(loss) from discontinuing operations	-3.5	-1.9	1.6	45.7%
NET INCOME	**21.7**	**-80.7**	**-102.4**	**<-100%**

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Banco Montepio

Consolidated Balance Sheet

(million euro)	Dec-19 Restated	Dec-20	Change YTD (€M)	Change YTD (%)
Cash and deposits at central banks	1,042	1,466	425	40.8%
Loans and advances to credit institutions repayable on demand	30	34	4	12.8%
Other loans and advances to credit institutions	281	293	12	4.2%
Loans and advances to customers	11,507	11,578	71	0.6%
Financial assets held for trading	36	17	-19	-52.9%
Financial assets at fair value through profit or loss (FVPL)	385	347	-38	-9.8%
Financial assets at fair value through other comprehensive income (FVOCI)	1,860	287	-1,573	-84.6%
Hedging derivatives	11	11	0	-4.1%
Other financial assets at amortised cost	987	2,363	1,375	>100%
Investments in associates	4	4	-1	-12.0%
Non-current assets held for sale	2	5	4	>100%
Non-current assets held for sale - Discontinuing operations		1	1	>100%
Investment properties	145	126	-19	-13.1%
Property and equipment	283	259	-24	-8.4%
Intangible assets	35	36	1	3.0%
Current tax assets	16	4	-12	-76.9%
Deferred tax assets	435	496	62	14.2%
Other Assets	683	615	-68	-9.9%
TOTAL NET ASSETS	**17,740**	**17,941**	**201**	**1.1%**
Deposits from central banks	1,291	1,383	92	7.1%
Deposits from other financial institutions	523	821	298	57.0%
Deposits from customers	12,642	12,502	-140	-1.1%
Debt securities issued	1,390	1,299	-91	-6.5%
Financial liabilities held for trading	13	14	0	1.7%
Hedging derivatives	1	0	0	-27.4%
Non-current liabilities held for sale – Discontinuing operations	0	110	110	>100%
Provisions	39	39	0	-0.9%
Current tax liabilities	4	4	0	2.2%
Other subordinated debt	158	217	59	37.4%
Other liabilities	227	226	-1	-0.5%
TOTAL LIABILITIES	**16,288**	**16,614**	**326**	**2.0%**
Share Capital	2,420	2,420	0	0.0%
Other equity instruments	6	0	-6	-100.0%
Other reserves and retained earnings	-1,008	-1,021	-14	-1.4%
Consolidated net profit/ (loss) for the period attributable to the shareholders	22	-81	-102	<-100%
Total equity attributable to the shareholders	1,441	1,318	-123	-8.6%
Non-controlling interests	12	9	-2	-19.5%
TOTAL EQUITY	**1,452**	**1,327**	**-125**	**-8.6%**
TOTAL LIABILITIES AND EQUITY	**17,740**	**17,941**	**201**	**1.1%**

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Disclaimer

The financial information contained in this document was prepared in accordance with the national and international financial reporting standards ("IFRS") of Banco Montepio, as part of the preparation of the consolidated financial statements. The information contained in this document is merely informative and should be read in conjunction with all other information Banco Montepio has made public. The figures presented do not constitute any kind of commitment on the part of Banco Montepio with regard to future results.

The figures and financial information now disclosed are unaudited.

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