REPORT AND ACCOUNTS

1ST HALF 2022

Banco Montepio

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2022

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This report is the English version of the document “Relatório e Contas 1º semestre 2022” delivered by Banco Montepio to the Portuguese Securities Market Commission (CMVM) in accordance with Portuguese Law. Should there be any doubt or contradiction between documents, the aforementioned Portuguese version prevails.

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PART I

MANAGEMENT REPORT

01
CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

GOVERNANCE MODEL

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter referred to as "CEMG" or "Banco Montepio") adopted a one-tier governance (Anglo-Saxon) model, as established in subparagraph b) of paragraph 1 of article 278, article 423-B and following of Section III and article 446-A and following of Section VII of the Commercial Companies Code, with a Board of Directors that includes the Audit Committee (elected at the General Meeting from among the non-executive members) and a Statutory Auditor.

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 the Bank of 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 2022, the composition of the Governing Bodies of Banco Montepio (elected for the 2018-2021 term of office) which remained in office under article 391 of the Commercial Companies Code, was as follows:

BOARD OF THE GENERAL MEETING

Chairman	António Tavares
Secretary	Cassiano Calvão

BOARD OF DIRECTORS

Chairman	Carlos Manuel Tavares da Silva
Directors	Manuel Ferreira Teixeira
	Amadeu Ferreira de Paiva
	Carlos Francisco Ferreira Alves
	José da Cunha Nunes Pereira
	Pedro Jorge Gouveia Alves
	Vítor Manuel do Carmo Martins
	Pedro Manuel Moreira Leitão
	Dulce Maria Pereira Cardoso Mota Jorge Jacinto
	Helena Catarina Gomes Soares de Moura Costa Pina
	Jorge Paulo Almeida e Silva Baião
	José Carlos Sequeira Mateus
	Leandro Rodrigues da Graça Silva
	Nuno Cardoso Correia da Mota Pinto
	Pedro Miguel Nunes Ventaneira

AUDIT COMMITTEE

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

STATUTORY AUDITOR

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

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

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

As at 30 June 2022, the composition of the Internal Committees of the Board of Directors of Banco Montepio was as follows:

RISK COMMITTEE

Chairman	Vítor Manuel do Carmo Martins
Vice-Chairman	Carlos Francisco Ferreira Alves
Members	Amadeu Ferreira de Paiva
	Manuel Ferreira Teixeira

REMUNERATIONS, NOMINATIONS AND ASSESSMENT COMMITTEE

Chairman	José da Cunha Nunes Pereira
Members	Amadeu Ferreira de Paiva
	Carlos Francisco Ferreira Alves
Alternate Members	Manuel Ferreira Teixeira

CORPORATE GOVERNANCE, ETHICS AND SUSTAINABILITY COMMITTEE

Chairman	Carlos Manuel Tavares da Silva
Members	Carlos Francisco Ferreira Alves
	José da Cunha Nunes Pereira
	Pedro Jorge Gouveia Alves

On 30 June 2022, the composition of the Executive Committee of Banco Montepio, to which the Board of Directors delegated the day-to-day management of the Bank, was as follows:

EXECUTIVE COMMITTEE

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

By resolution of the Board of Directors of the Bank of Portugal dated 19 July 2022, authorisation was granted for the members of the management and supervisory bodies elected for the 2022-2025 term of office to take up office, which commenced on 25 July 2022, with the following composition:

BOARD OF DIRECTORS

Chairman	Manuel Ferreira Teixeira
Directors	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

AUDIT COMMITTEE

Chairman	Clementina Maria Dâmaso de Jesus Silva Barroso
Members	Florbela dos Anjos Frescata Lima
	Maria Cândida de Carvalho Peixoto
	Maria Lúcia Ramos 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;
- Carlos José Figueiredo Rodrigues, enrolled at the Statutory Auditors Association (OROC) under number 1737 and at the Securities Market Commission (CMVM) under number 20161347.

At its meeting of 25 July 2022, the Board of Directors appointed the following Internal Committees, composed only of non-executive members, the majority of whom have independent status, including the respective Chairmen:

Risk Committee

Chairman	Florbela dos Anjos Frescata Lima
Members	Eugénio Luís Correia Martins Baptista
	Maria Lúcia Ramos Bica

Evaluation, Nominations, Ethics, Sustainability and Governance Committee

Chairman	Maria Cândida de Carvalho Peixoto
Members	Clementina Maria Dâmaso de Jesus Silva Barroso
	Eugénio Luís Correia Martins Baptista

Also, at the meeting of 25 July 2022, the Board of Directors delegated the day-to-day management of Banco Montepio to an Executive Committee, except for the powers relating to matters whose delegation is forbidden by law or those reserved to it under the terms of its Regulations, a body which assumed the following composition:

Executive Committee

Chairman	Pedro Manuel Moreira Leitão
Members	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

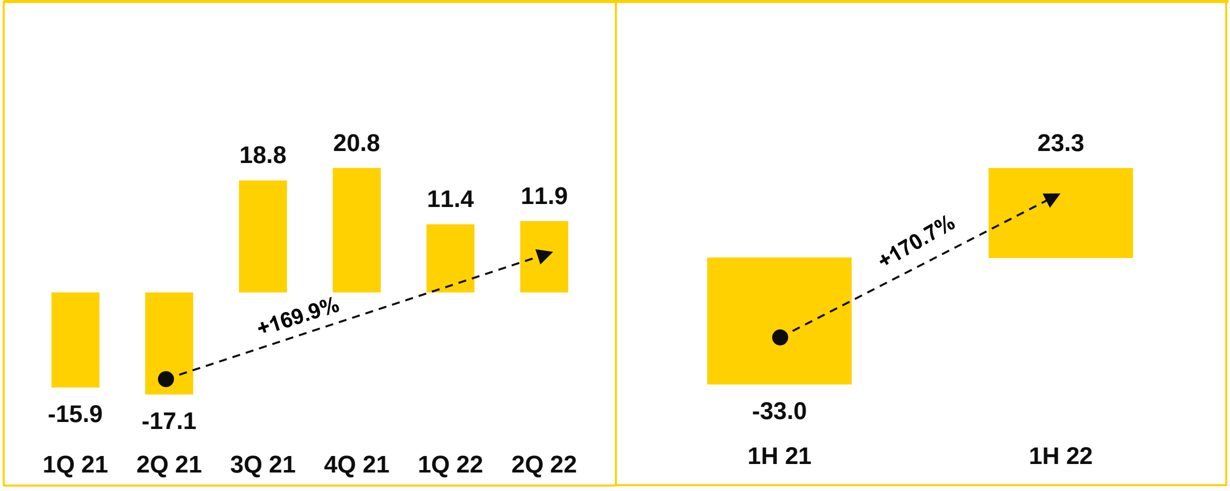
02

1ST HALF OF 2022 IN SUMMARY

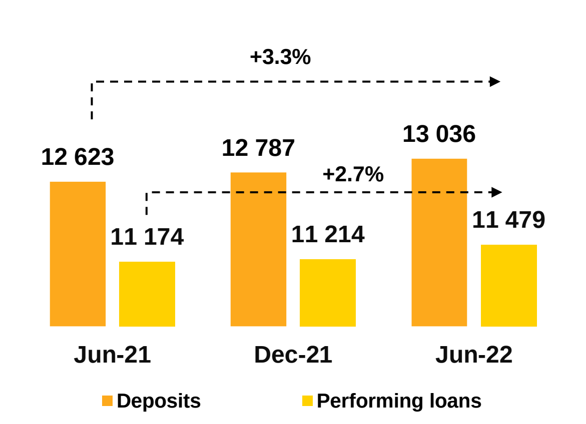
1ST HALF OF 2022 IN SUMMARY

HIGHLIGHTS

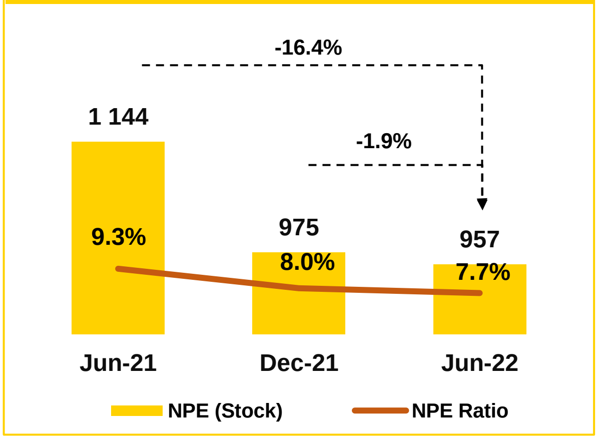
Net income (€Mn)



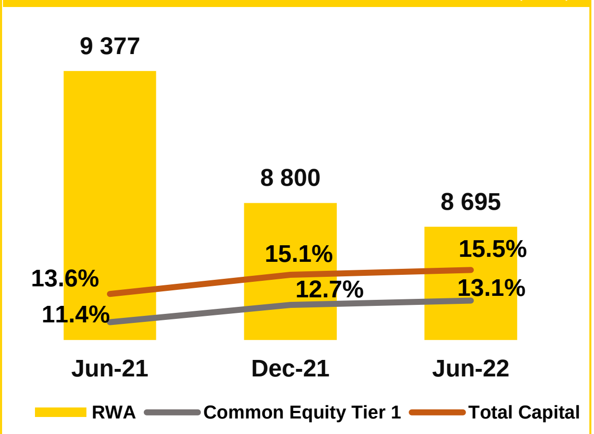
Activity (€Mn)



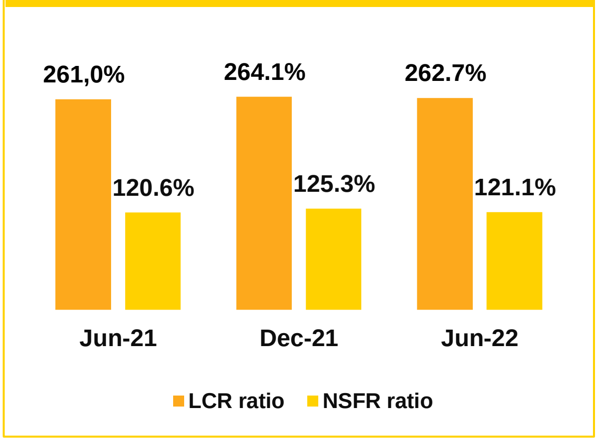
Non-performing exposures (NPE) [(a)] (€Mn)



Capital Ratios and RWA [(b)] (€Mn)



Liquidity ratios



(a) EBA definition.
(c) According to CRD IV / CRR (phasing-in); RWA: Risk Weighted Assets.

RESULTS

- **Positive Net income for the fourth consecutive quarter, reaching 23.3 million euros in the first half of 2022, a change of +56.3 million euros year-on-year,** demonstrating business growth, improved efficiency, and reduced cost of risk, notwithstanding the significant weight of regulatory contributions which amounted to 25.9 million euros in this period.
- **Core banking product of 180.2 million euros (+6.5%),** with **Net interest income** and **Net commissions growing**, respectively, **5.6% and 8.6%** compared to the first half of 2021.
- **Reduction in Operating costs by 6.1% (3.0% with no specific impacts)**, compared to the same period of 2021, materialising the benefits of the Group's adjustment and transformational plan being carried out, aimed at raising the levels of efficiency and financial sustainability.

BUSINESS

- **Performing loans increased 305 million euros year-on-year (+2.7%) and 265 million euros compared to the end of 2021 (+2.4%),** showing Banco Montepio's **commitment to supporting Families, Companies and Social Economy Entities.**
- **Deposits amounted to 13,036 million euros** as at 30 June 2022, representing a **year-on-year growth of 3.3% and 1.9% compared to the end of 2021**.

ASSET QUALITY

- **Reduction in the cost of credit risk to 0.1%,** compared to 0.9% recorded in the first half of 2021 and 0.4% at the end of 2021, reflecting the improved risk profile of the portfolio, arising from the change in policy and risk appetite of loan origination recent years, as well as the reduction in exposure to non-performing loans, as well as benefiting from positive developments in recovery processes.
- **The NPE ratio**[1] **decreased to 7.7%,** maintaining in a continuous and sustained way the downward trajectory, registering an improvement of 1.6 p.p. compared to the first half of 2021 and 0.3 p.p. compared to the end of 2021, accompanied by the **reinforcement of coverage levels, which stood at 53.8%**.

CAPITAL AND LIQUIDITY

- **Significant increase in the Common equity tier 1 ratio by 1.7 p.p. year-on-year to 13.1%** and in the **Total Capital ratio by 1.9 p.p. to 15.5%** (phasing-in), with comfortable headroom against the applicable overall capital requirement (OCR), including combined reserves.
- **Maintenance of a strong liquidity position reflected in the liquidity coverage ratio (LCR)**[2] **of 262.7% and the stable funding ratio (NSFR) to 121.1%, materialising the defined funding and liquidity strategy** and optimising the balance sheet structure with reduced exposure to non-productive assets, and showing **levels well above the regulatory minimums.**

DIGITAL TRANSITION

- Continued improvement in **automation and re-engineering of internal processes, with increasing developments in advanced analytics, new cybersecurity models and acceleration of the implementation of the cloud native architecture.**
- Development of a set of **initiatives aimed at improving Customers' experience and increasing their efficiency and effectiveness when interacting with the Bank**, namely, the **launch of the APPré-pago** app, the availability of **access to Google Pay**, the continuation of the **evolution of the M.A.R.I.A. voice bot** and the **availability of the APProva app**, the Bank's strong authentication solution, **on Huawei's store.**

[1] NPE: non-performing exposures, as defined in the Glossary. Considering all the credits from "Operação Gerês" (Gerês operation).

[2] LCR: liquidity coverage ratio, as defined in the Glossary.

SUMMARY OF INDICATORS

	Jun-21	Dec-21	Jun-22	YoY Change
ACTIVITY AND RESULTS (million euros)				
Total assets	19 460	19 713	19 842	2.0%
Loans to customers (gross)	12 318	12 189	12 436	1.0%
Performing loans to customers (gross)	11 174	11 214	11 479	2.7%
Customer deposits	12 623	12 787	13 036	3.3%
Net income	(33)	7	23	>100%
SOLVENCY [(a)]				
Common equity tier 1 ratio	11.4%	12.7%	13.1%	1.7 p.p.
Tier 1 ratio	11.4%	12.7%	13.1%	1.7 p.p.
Total capital ratio	13.6%	15.1%	15.5%	1.9 p.p.
Leverage ratio	5.4%	5.6%	5.7%	0.3 p.p.
Risk weighted assets (million euros)	9 377	8 800	8 695	(7.3%)
LIQUIDITY RATIOS				
Liquidity coverage ratio (LCR)	261.0%	264.1%	262.7%	1.7 p.p.
Net stable funding ratio (NSFR)	120.6%	125.3%	121.1%	0.5 p.p.
LOAN TO DEPOSIT RATIOS				
Loans to customers (net) / Customer deposits [(b)]	92.4%	91.2%	91.4%	(1.0 p.p.)
Loans to customers (net) / On-balance sheet customer resources [(c)]	83.9%	81.0%	82.2%	(1.7 p.p.)
CREDIT QUALITY				
Cost of credit risk	0.9%	0.4%	0.1%	(0.8 p.p.)
Ratio of loans and interest overdue by more than 90 days	4.1%	3.0%	3.5%	(0.6 p.p.)
Coverage of loans and interest overdue by more than 90 days	131.3%	144.4%	118.8%	(12.5 p.p.)
NPE ratio (Non-performing exposures (NPE) [(d)] / Gross customer loans)	9.3%	8.0%	7.7%	(1.6 p.p.)
NPE [(d)] coverage by Impairment for balance sheet loans	57.7%	53.5%	53.8%	(3.9 p.p.)
NPE [(d)] coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	95.9%	96.0%	95.1%	(0.8 p.p.)
Forborne exposures ratio (Forborne exposures [(d)] / Gross customer loans)	5.9%	5.1%	5.5%	(0.4 p.p.)
PROFITABILITY AND EFFICIENCY				
Total operating income / Average total assets [(b)]	1.7%	2.0%	1.8%	0.1 p.p.
Return on assets (gross) (Net income before income tax / Average total assets) [(b)]	(0.3%)	0.2%	0.5%	0.8 p.p.
Return on equity (gross) (Net income before income tax / Average total equity) [(b)]	(4.8%)	2.4%	6.4%	11.2 p.p.
Cost-to-income (Operating costs / Total operating income) [(b)]	81.1%	69.7%	68.0%	(13.1 p.p.)
Cost-to-Income, excluding specific impacts [(e)]	73.3%	69.0%	67.0%	(6.3 p.p.)
Staff costs / Total operating income [(b)]	49.8%	43.3%	40.8%	(9.0 p.p.)
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group Banco Montepio	3 666	3 478	3 474	(192)
Banco Montepio	3 283	3 121	3 104	(179)
Branches				
Domestic network - Banco Montepio	278	261	261	(17)
Of which: BEM Corporate Centres	7	7	7	0
International Network	20	20	20	0
Finibanco Angola [(f)]	20	20	20	0
Representation Offices - Banco Montepio	5	5	5	0

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

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

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

(d) EBA definition.

(e) Excludes Results from financial operations, 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 €4.1M n in 1H2021, €14.7M n in 2021 and €0.1M n in 1H2022.

(f) Includes corporate centres.

1ST HALF OF 2022 MILESTONES

- **Election of governing bodies for the 2022-2025 term of office**

  Manuel Ferreira Teixeira, former Chairman of the Audit Committee, elected Chairman of the Board of Directors, and Pedro Leitão reappointed as Chairman of the Executive Committee.

  Optimisation of the composition of the Management Body, with low turnover of executive members (2 new members starting functions), providing continuity.

  Banco Montepio leads the way in gender diversity in Portugal, with the new Board of Directors comprising 12 members, 7 of whom are women.

- **Banco Montepio's rating outlook improved**

  - In March 2022, the financial rating agency Fitch Ratings **revised to positive the Outlook** on Banco Montepio's Long Term Issuer Default Rating (IDR) and **revised to positive the Outlook** on the 'AA-' rating of the Mortgage Covered Bonds issued by Banco Montepio.

  - In April 2022, the financial ratings agency DBRS Ratings GmbH (DBRS Morningstar) **revised the trend of all ratings** on Banco Montepio **to stable**.

- **ESG Initiatives - Environmental, Social, Governance**

  - In June 2022, **Banco Montepio joined the UN Global Compact**, reaffirming its mission to improve the reality of Families, Companies, and support Social Economy Entities, in order to actively contribute to a more conscious and solidarity-oriented present, and to cooperate in the construction of a more sustainable future for future generations. Regarding specifically the **promotion of Sustainable Finance**, Banco Montepio has been carrying out the structuring of bonds with a sustainability focus and has been making green loans, thus reinforcing the alignment with climate transition. The UN Global Compact is today a central entity in Sustainability, based on 10 Principles, which constitute the foundations of policies and references for the projection, performance, and evaluation of business practices on an international scale.

  - Banco Montepio has triggered the identification of current practices and areas related to **climate and environmental risks**, taking into account the defined supervisory expectations, and has planned actions that may allow convergence to the said expectations, meeting the European Central Bank Guide on **climate and environmental risks**, and in the framework of the supervisory dialogue that will become part of these matters in 2022.

  - Banco Montepio, which has had ESG principles underlying it since its genesis, with its innate vocation in the Social component, continues to reinforce its intervention in the promotion of **environmental sustainability**, thus maintaining the mortgage credit campaign with benefits for homes with energy certificate A or A+ and the support to the “Plano de Recuperação e Resiliência” (PRR) (Recovery and Resilience Plan) for the acquisition of 100% electric vehicles, directed at Social and Solidarity Economy Entities.

  - Banco Montepio reaffirmed its commitment to sustainable development and joined the **“Associação Portuguesa de Ética Empresarial” (APEE) (Portuguese Association for Business Ethics) at the 1st Edition of ESG WEEK**, an APEE initiative, which had Banco Montepio as host and *main sponsor*, where the major themes of Sustainability framed within the ESG domain were debated. The event brought together government representatives, business leaders, national and international experts, academics, and civil society organisations, to debate in Portugal the major current issues in these matters.

  - Also, in May 2022, Banco Montepio participated in the **Business Forum for Equality promoted by iGen**, of which the Bank is a member. At this event, the board of Banco Montepio stated that differences - be they of gender, culture, origin, background, or education - always bring wealth to the organisation, as they make it stronger, more agile, and better prepared, aware of reality and able to anticipate future challenges.

- **Social Responsibility**
  - Banco Montepio is sponsoring, for the 6th consecutive year, the 12th edition of the largest national entrepreneurship competition promoted by the association **"Acredita Portugal" (Believe Portugal), a non-profit initiative**, with more 10,000 entrepreneurial projects every year and a total of 100,000 projects supported, which aims to boost companies, or projects that are at an early stage, by offering mentoring, training, investment, or prizes.
  - Banco Montepio was a sponsor of the **"VI Congresso da Confederação Nacional das Instituições de Solidariedade" (6th Congress of the National Confederation of Solidarity Institutions) (CNIS)**, the representative structure of IPSS in Portugal. The national Congress took place in June, in Viseu, with the theme "The Private Social Solidarity Institutions (IPSS) in Social Policies", focusing on issues of great relevance for entities of the Social and Solidarity Economy, consisting in an important moment of reflection and sharing.
- **Awards and distinctions**
  - In the first half of 2022, Banco Montepio was **distinguished with the** "**Healthy Workplaces Award**", awarded by the Portuguese Psychologists' Association for the work developed in 2021. A number of projects aimed at promoting occupational well-being, health and safety were promoted, including: E-Coffee with the CEO; Well-Being Week; Weekly Newsletter sent to employees; Leadership Training; Employee Psychosocial Support Programme. With this award the Portuguese Psychologists' Association distinguished the organisations that have demonstrated a strong commitment to the prevention of psychosocial risks and the promotion of healthy workplaces and occupational health.
- **Cessation of functions as a member of the Governing Bodies**

  With effect from 10 January 2022, Rui Pedro Brás de Matos Heitor submitted his resignation as a non-executive member of the Board of Directors of Banco Montepio, as a result of his election to the Board of Directors of Montepio Geral - Associação Mutualista (MGAM).
- **Annual General Meeting**

  Banco Montepio held the ordinary general meeting of shareholders on 29 April 2022, with the following decisions having been taken:

  1. Report and Accounts of the Financial Year of 2021, of the individual and consolidated activity – Approved unanimously;
  2. Allocation of the results of the financial year – Approved unanimously;
  3. General appraisal of the management and supervision of the company, under the terms of articles 376 and 455 of the Commercial Companies Code – Approved unanimously;
  4. Amendment to Article 5 of the Articles of Association, modifying the content of the current paragraph 3, adding two new paragraphs corresponding to paragraph 4 and paragraph 5 and renumbering the current paragraphs 4 and 5 - Approved unanimously;
  5. Election of the office holders and corporate bodies of Caixa Económica Montepio Geral, caixa económica bancária, S.A., under the terms of the law and the Articles of Association – Approved unanimously;
  6. Election of the Remuneration Committee of the General Meeting provided for in item c) of article 11 of Banco Montepio's Articles of Association – Approved unanimously;
  7. Banco Montepio's Mission Charter for the 2022-2025 term of office – Approved unanimously;

8. Report on the assessment of the impact of the remuneration practices of subsidiaries abroad, provided for in paragraph 3 of Article 53 of Notice no. 3/2020 of the Bank of Portugal - Approved unanimously;
9. Report assessing the Remuneration Policies and procedures adopted by Banco Montepio and Banco Montepio Group, prepared under paragraph 6 of Article 115-C of the RGICSF and subparagraph b), paragraph 1 of Article 44 of Notice no. 3/2020 of the Bank of Portugal – Approved unanimously;
10. Review of the Remuneration Policy for Members of the Management and Supervisory Body (MOAF) – Approved unanimously;
11. 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;
12. Policy for the Selection, Appointment and Evaluation of the Statutory Auditor (ROC) or Statutory Audit Firm (SROC) and the Contracting of Services to the ROC/SROC – Approved unanimously;
13. Constitution of special reserve and constitution of conversion rights relating to the special regime for deferred tax assets, reported to 31/12/2021 – Approved unanimously.

03 THE BANCO MONTEPIO GROUP

THE BANCO MONTEPIO GROUP

WHO WE ARE

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

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

Throughout the more than 178 years of its existence, Banco Montepio has consistently supported Families, Small and Medium-sized Entrepreneurs, Companies, and the Community. It has actively supported successive generations of Portuguese at extremely critical times, including wars, crises, and revolutions.

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

With a legacy of almost two centuries of service to the community, Banco Montepio takes its place in the building of a fairer and more sustained society, committed to governing its action according to the highest standards and conduct of respect for the principles of sustainable development, as reflected in its Social Commitment Charter.

GROUP STRUCTURE

Pursuant to Decree-Law 190/2015, of 10 September, which approved the legal system of Savings Banks, Caixa Económica Montepio Geral is henceforth considered a savings bank, with its transformation into a public limited company arising from the same legal provision.

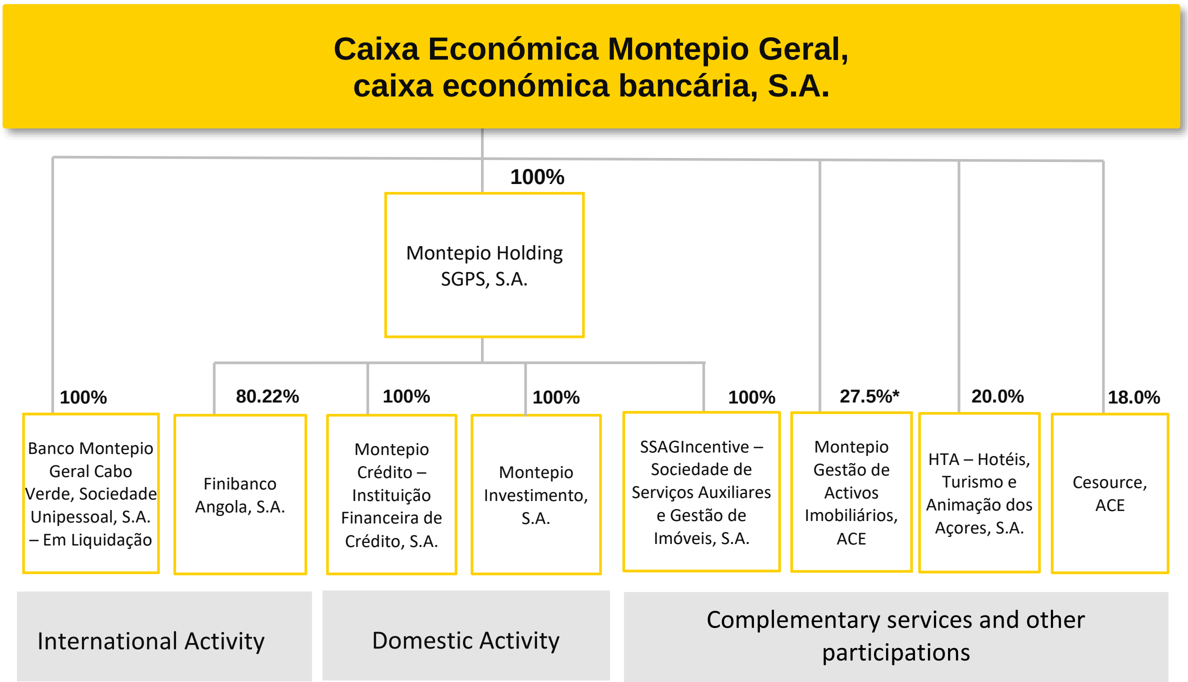
Following this process, its current corporate name is Caixa Económica Montepio Geral, caixa económica bancária, S.A., with the trade name of Banco Montepio having been adopted in 2019.

Banco Montepio holds a series of equity stakes in entities that provide banking and financial services, and contribute with their earnings to the mutualist goals, thus providing a comprehensive and diversified range of products to its Customers.

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

As at 30 June 2022, the Banco Montepio Group was composed of the following entities:

- **Full consolidation:** Caixa Económica Montepio Geral, caixa económica bancária, S.A.; Montepio Holding, Sociedade Gestora de Participações Sociais, S.A.; Banco Montepio Geral Cabo Verde, Sociedade Unipessoal S.A. – Em liquidação; Finibanco Angola, S.A.; Montepio Crédito - Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A. (Banco de Empresas Montepio), and SSAGIncentive – Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.
- **Consolidation by the equity method:** Montepio Gestão de Activos Imobiliários, ACE; HTA – Hotéis, Turismo e Animação dos Açores, S.A.; Cesource, ACE.



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

Under the strategic redefinition of its international subsidiaries, and with a view to refocusing the approach to the African market, Banco Montepio continues to take measures aimed at the deconsolidation of Finibanco Angola, S.A. which, as at 30 June 2022, the Group controlled and held an effective stake of 80.22%. On the other hand, considering the new legal framework of Cabo Verde and having weighed up all the relevant strategic options, in 2021, the Board of Directors of Banco Montepio decided not to promote the changes required to adapt its subsidiary Banco Montepio Geral Cabo Verde to a bank with general authorisation, having approved the development of the procedural initiatives stipulated in the Law for its voluntary dissolution and orderly liquidation.

Taking into consideration the deliberations taken by the management body in 2021, with a view to simplifying the Group's corporate structure, as well as the provisions of IFRS 5, the activity developed by the subsidiary Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. – Em liquidação was considered as a discontinued operation.

As at 30 June 2022, Banco Montepio Group's consolidation perimeter 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 and 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 BANCO MONTEPIO BRAND

In the first half of 2022 Banco Montepio continued to register increases in the main brand indicators, as revealed by BrandScore, an independent study and barometer of Communication and Brand:

Brand Awareness

Spontaneous brand awareness (up to three spontaneously mentioned brands) reached the best result in the last 10 years and the top-of-mind awareness (1st brand mentioned in the study) also increased.

Image and *Equity*:

- Global image – The indicator measuring Customers' perception of the Banco Montepio brand rose to 61% of brand promoters (i.e., 6 out of 10 customers evaluate the Bank's image very positively, in each dimension: image - values, image - reputation and image - sustainability).

- Relationship with the Bank – The level of Relationship or Preference for the brand also rose to 60% and recorded its best result in five years.

- Brand Equity – Banco Montepio maintained a positive trajectory in Brand valuation in 2021 and rose in 2022 to a Brand Equity of 38%, the best result in 10 years. This increase is justified, above all, by the improvement in the level of Customer loyalty and the improvement in the balance of attraction to new Customers.

Campaign Awareness

The new mortgage credit campaign "Dá para mais do que imagina" (You can do more than you think), launched on 29 May 2022 with the actor and comedian Bruno Nogueira as the protagonist and brand ambassador, was the most recalled among the main banking campaigns in that period, and became the most recalled for the brand in the last ten years.

Brand Awards

At the beginning of 2022, Banco Montepio won the title "**Brand no. 1 in Consumer Choice" (Escolha do Consumidor)**, in the Mortgage Loans category, leading all indexes: awareness, credibility, impartiality and transparency and purchase motivation. "Escolha do Consumidor" (Consumer Choice) is the No. 1 brand evaluation system in Portugal and the only one with ISO 9001 certification.

According to Consumer Choice - Consumer Satisfaction Assessment Centre, responsible for awarding this prize, in 2022 the Bank achieved a level of Satisfaction of 82%, and in terms of Recommendation it achieved 83%. With regard to products and services, the most valued attributes were:

- "Trust in the Bank",
- "Detailed explanation of products",
- "Ease of delivery of documents",
- "Flexible credit term" and
- "Manager's availability to handle the process".

In turn, the emotional positioning of the Banco Montepio brand, according to the consumers surveyed, is classified as "Admiration", having already won this award in 2021.

The **Superbrands** title was another of Banco Montepio's achievements, as it was once again voted by consumers as a brand of excellence for the 13th time. The Superbrands seal represents consumer choice and is awarded to brands that excel in attributes such as market dominance, longevity, goodwill, loyalty, and acceptance.

Reputation and Governance

The Banco Montepio brand recorded positive Reputation Indices in the assessment of indicators such as trust, soundness, governance, ethics, and transparency.

Communication Sustainability

Banco Montepio exponentially increased the visibility of actions in the area of sustainability, with a rise of 15 percentage points to 24% in the second quarter of 2022, as a result of external communication of the initiatives developed.

Building The Future

True to its mutualist positioning, as an institution committed to sustainability and with an eye on the future, Banco Montepio took "Pirilampo Mágico" (Magic Firefly) - a long-standing partner's project - to **Building the**

Future. In what is the main digital transformation event in Portugal, promoted by Microsoft, Banco Montepio and Fenacerci debated the theme of inclusion and launched a solidarity campaign in favour of Fenacerci.

178 years doing more for the community

Sustainable development was also the motto for the **celebration of Banco Montepio's 178th anniversary**. For three days, leading figures from the Portuguese government and civil society joined Banco Montepio to reflect on concrete ideas and initiatives for Gender Equality, Education and Decent Work and Economic Growth - three UN Sustainable Development Goals to which the Bank wants to actively contribute. “How can gender equality be achieved and empower all women and girls?”, “How can better access to inclusive, quality and equitable education and promotion of lifelong learning opportunities for all be promoted?” and “How can inclusive and sustainable economic growth, full and productive employment and decent work for all be promoted?” were the three themes under discussion. To take this initiative further, Banco Montepio had the support of the digital newspaper Dinheiro Vivo as media partner.

Ucrânia, ‘Parceiros com Amor’ (Ukraine, Partners with Love)

For all the values that are at its genesis, Banco Montepio stood by the Ukrainian community and launched an integrated strategy to support citizens who have recently arrived in Portugal following the conflict in that country, with three focal points of action:

- **The “Conta Ucrânia” (Ukraine account),** with advantageous conditions to facilitate the start of this new stage in their lives;
- **A joint account,** in partnership with Caritas Portuguesa, for the collection of donations with the ultimate aim of supporting Ukrainian refugees; and
- **Rádio Comercial Ucrânia**, a digital radio station created to connect the Ukrainian community in Portugal and make them feel welcome and at home. Through this channel, Banco Montepio seeks to have a relevant communication with this community, providing information on the extraordinary support measures.

CHANNELS, NETWORKS AND CUSTOMER RELATIONS

CHANNELS AND NETWORKS

On 30 June 2022, Banco Montepio had a network of 261 branches in Portugal, of which 7 are Banco Montepio Corporate Centres.

In its international activity, on 30 June 2022, Finibanco Angola's distribution network totalled 20 branches, including five Corporate centres.

As at 30 June 2022, Banco Montepio had 5 representation offices (Frankfurt, Geneva, Paris, Newark, and Toronto) which ensured the Bank's presence among communities that are resident abroad.

No. of Branches and Representation Offices

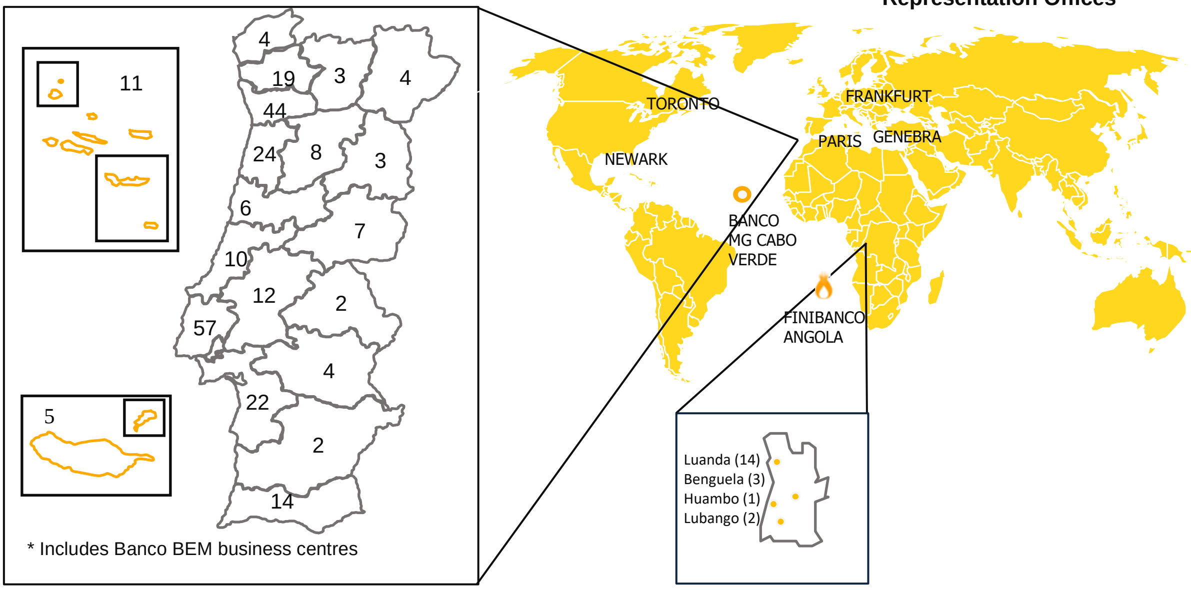
	Jun-21	Dec-22	Jun-22
Domestic network	278	261	261
Of which: BEM Business Centres	7	7	7
International network	20	20	20
Finibanco Angola [(a)]	20	20	20
Representation Offices	5	5	5

(a) Includes Corporate Centres.

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).

Branches* (by districts and autonomous regions)

Representation Offices



CUSTOMER MANAGERS

Banco Montepio's network of Customer managers totalled 465 managers at the end of June 2022, showing a reduction of 9 managers compared to 31 December 2021, related to the progressive adjustment of the distribution model and reorganisation of the commercial network, seeking to update the service model and increase efficiency.

On 30 June 2022, the distribution of managers by segment included 169 managers assigned to Small Businesses, 49 to Small and Medium-Sized Companies with a turnover (TO) up to 20 million euros, 40 to Institutional and Social Economy and 31 to Large Companies (with a TO equal to or greater than 20 million euros) and 176 managers assigned to the Individuals segment, thus continuing to offer a personalised service and proximity to Customer, factors that characterise Banco Montepio.

No. of Managers per Customer Segment

	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Retail Banking	**407**	**404**	**394**	**-13**	**-3**	**-10**	**-2**
Individuals	182	179	176	-6	-3	-3	-2
Small Business	176	176	169	-7	-4	-7	-4
Companies a)	49	49	49	0	0	0	0
Social Economy	**40**	**40**	**40**	**0**	**0**	**0**	**0**
Institutions and Social Economy b)	40	40	40	0	0	0	0
Corporate Banking	**9**	**30**	**31**	**22**	**>100**	**1**	**3**
Companies c)	9	30	31	22	>100	1	3
Total managers	**456**	**474**	**465**	**9**	**2**	**-9**	**-2**

a) Turnover up to 20 million euros.
b) Includes Microcredit managers.
c) Turnover equal to or greater than 20 million euros.
Note: Does not include managers of preventive credit monitoring.

MONTEPIO 24

The Montepio24 service brings together Banco Montepio's various digital channels, which allows Customers to remotely manage their day-to-day financial affairs, and in which the Bank has promoted a continuous evolution, either by expanding the operations available or by improving the experience in their use. At the end of June 2022, Montepio 24 recorded a 4.3% increase in the number of active Customers compared to June 2021, totalling more than 434 thousand users.

On Connect24, a channel dedicated to open banking, where the Bank's Customers can authenticate themselves and authorise access to banking information and operations, when requested by other authorised entities, there was, on 30 June 2022, a 30% increase compared to the same period of 2021, of operations initiated through third party platforms (from Third Party Providers (TPP) or other Banks).

Accelerated by the pandemic context, the level of use of digital channels continues to increase, reflected in the growth in number of subscriptions (+12%) compared to June 2021 and in the frequency of use, with particular emphasis on the increase in accesses (+13.5%) and in the number of transactions (+18.5%) in the mobile channel, compared to the same period last year.

AUTOMATED TELLER MACHINES (ATM)

Banco Montepio's total number of ATM machines at the end of June 2022 amounted to 927 machines, compared to 882 at the end of 2021, representing an increase of 5.1%.

In view of the increase in the number of ATM machines compared to the end of 2021, Banco Montepio's market share increased from 7.1% on 31 December 2021 to 7.5% on 30 June 2022. In turn, the number of ATM machines available in the national market of the SIBS Global Network totalled 12,371 units on 30 June 2022 compared with 12,484 at the end of 2021. The internal Chave24 network stood at 280 machines installed at the end of June 2022, compared with 288 at 31 December 2021.

POINT-OF-SALE TERMINALS (POS)

On 30 June 2022, Banco Montepio's POS network reached 25,380 installed terminals, compared to 24,900 at the end of 2021, representing an increase of 1.9%.

Banco Montepio's market share in number of POS stood at 5.9% at the end of June 2022, in line with the value recorded at 31 December 2021. The number of POS available in the national market of the SIBS Global Network on 30 June 2022 reached 431,760 units, representing an increase of 7,376 machines (+1.7%) compared to the number recorded at the end of 2021.

INNOVATION AND QUALITY

Banco Montepio seeks to continuously improve its value proposal for its 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 treatment and ESG principles (Environmental, Social and Governance).

Throughout the first six months of 2022, Banco Montepio continued the automation and re-engineering of its internal processes, advanced analytics, implemented new cybersecurity models and accelerated the implementation of the cloud native architecture, while also developing a set of initiatives aimed at improving Customers' experience and increasing their efficiency and effectiveness in their interaction with the Bank.

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

- **Launch of the APPré-pago app,** an autonomous smartphone application that aims to simplify the consultation of balances and movements of the Bank's prepaid cards, enabling its holders who do not have access to the Montepio24 service to access this information without having to go to an ATM.
- **Availability of access to Google Pay,** which joined the already available Apple Pay, for the Bank's various debit, credit, and prepaid cards, allowing Bank Customers' access to this form of payment without the need to use a physical card.
- **Continued evolution of the M.A.R.I.A. voice bot,** which in the first half of 2022 continued to increase its ability to interpret contacts and accept instructions for operations, and now accepts and processes instructions for service and on-call state payments without the need to call an operator. At the end of the

first semester of 2022, this service reached a level of satisfaction of 82%, in line with that observed in the same period of 2021.

- **Availability of the APProva app,** the Bank's strong authentication solution, **on Huawei's store** (Gallery app) extending the capability to all Customers with smartphones. Since May 2021, when APProva was launched, more than 260,000 profiles have been registered and more than 7.7 billion operations have been approved, 89% of which are related to Montepio24.

In addition to these deliveries, the Bank developed other initiatives that, besides improving the service provided to Customers, contribute to greater sustainability of the environment, such as the dematerialisation of the bank cards PINs, which is now sent by sms instead of by post.

BUSINESS SEGMENTS

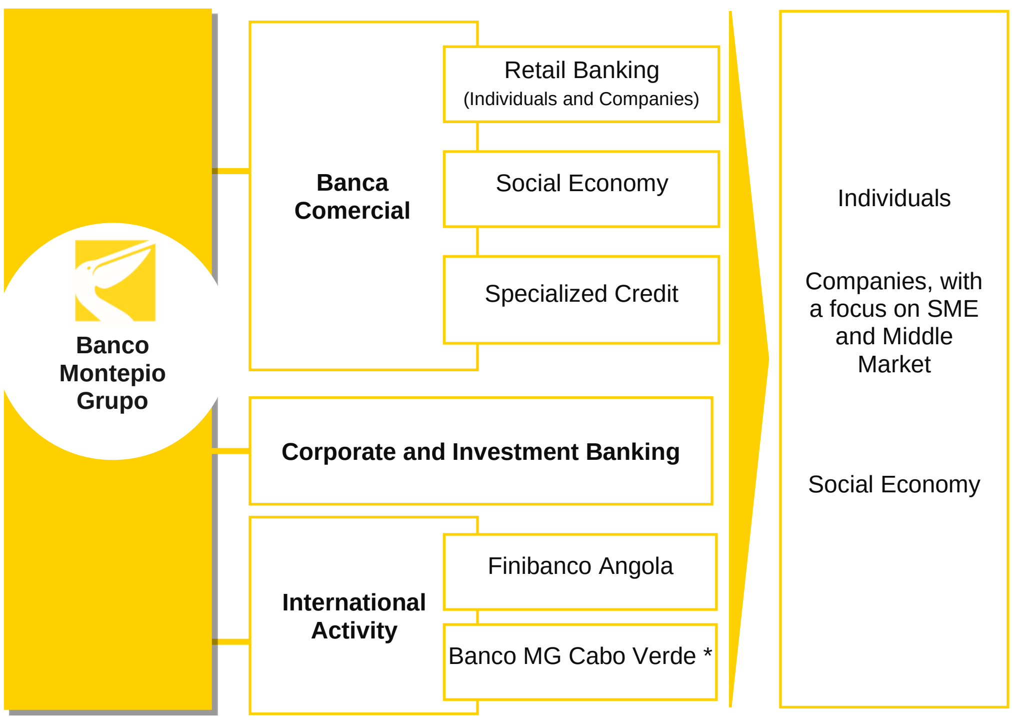
The Banco Montepio Group develops a series of banking and financial services activities, with special focus on retail banking in Portugal, but also abroad.

The Group's business segments include: in domestic activity, Commercial Banking, which includes Retail Banking, Social Economy, specialised Credit, provided by Montepio Crédito, and Corporate and Investment Banking, provided by Banco de Empresas Montepio, as well as complementary services, provided through SSAGIncentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A., and; abroad, the activity developed by the subsidiary Finibanco Angola.

The segmentation is made in the first instance between Individuals and Companies, with an emphasis on Small and Medium Enterprises and middle market, and that of the 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.

BUSINESS SEGMENTS OF THE BANCO MONTEPIO GROUP



** Since 30 November 2021, Banco Montepio Geral Cabo Verde is undergoing a process of voluntary dissolution and liquidation.*

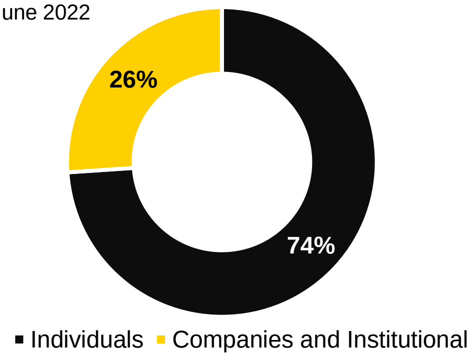
International activity has been carried out through the subsidiaries Finibanco Angola and Banco Montepio Geral Cabo Verde, which, as mentioned above, has been in the process of voluntary dissolution and liquidation since 30 November 2021, and by the representation offices. In turn, the stake in Finibanco Angola is in the process of being reduced as part of the strategic redefinition of international holdings.

As at 30 June 2022, the operations in Portugal accounted for 98.5% of total assets, 99.5% of total loans to customers (gross) and 98.5% of total customer resources; Banco Montepio had a network of 261 branches in Portugal, serving 1,313 thousand Customers, composed of 161 thousand Companies and 1,152 thousand Individuals, with market shares of 5% in Deposits and in Loans to customers.

Banco Montepio's customer Deposits stood at 13.0 billion euros, with Individual Customers accounting for 74% of this amount, and Gross customer lending reached 12.4 billion euros, split between 52% Individual Customers and 48% Corporate and Institutional Customers.

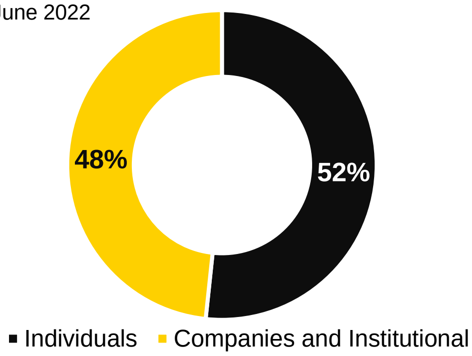
Structure of Customers Deposits

30 June 2022



Structure of Loans to Customers (Gross)

30 June 2022



The main highlights of the first half of 2022 are presented below with respect to the Banco Montepio Group's offer of financial products and services, by Customer segment.

INDIVIDUALS

Banco Montepio's offer for the Private Individuals segment gives priority to encouraging Families to save, true to its centuries-old vocation as a savings institution, namely by attracting and retaining resources, making available deposits with different characteristics and maturities, as well as promoting credit solutions that meet the needs and desires of Customers.

DEPOSITS

In the first half of 2022, Banco Montepio continued to invest in structured deposits, having launched in March the “Banco Montepio Cabaz Ações ESG março.2022” whose remuneration is indexed to the performance of 5 shares of European companies that in the development of their activity assume compliance with environmental (such as decarbonisation), social and internal governance ESG criteria. In May 2022, the structured deposit “Banco Montepio Cabaz Tecnológico May.2022” was launched, indexed to a basket of 5 shares in US companies linked to the technology sector.

Considering the solidarity aspect that characterises Banco Montepio, in the face of Russia's military invasion of Ukraine on 24 February, which caused the displacement of thousands of refugees to other countries, including Portugal, a specific current account “Conta Ucrânia” (Ukraine Account) was launched in April 2022 for Ukrainian refugees, in order to support them in this new stage of their lives.

In turn, for the younger segment, Banco Montepio continued to offer the Conta Cresce (Grow Account), and the term deposits “Poupança Cresce 1 ano” (Grow 1 year Savings) and “Poupança Cresce 3 anos” (Grow 3 years Savings) with the aim of encouraging savings habits in young people (from 0 to 17 years old).

INVESTMENT AND PENSION FUNDS

Within the scope of the Investment Funds offer, Banco Montepio distributes Securities Investment Funds managed by Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A. and two Real Estate Investment Funds, Valor Prime Fund and VIP Fund, managed respectively by the Management Companies Montepio Valor - Sociedade Gestora de Organismos de Investimento Coletivo, S.A. and SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.

Banco Montepio ensures the distribution of "PPR/PPA" (retirement saving plan/saving in shares plan) and Pension Funds promoted by Futuro - Sociedade Gestora de Fundos de Pensões, S.A: two campaigns were carried out in the first half of 2022 with the aim of attracting new Customers and reinforcing deposits by current Customers:

- **"Com Poupanças tudo parece Low-Cost"** (With Savings everything seems Low-Cost), and
- **"O melhor da Vida Hoje e no Futuro" (The Best of Life Today and in the Future).**

PUBLIC SUBSCRIPTION OFFERS

In the first half of 2022, Banco Montepio participated as Placement Entity within the scope of the **Public Offerings for Subscription of Bonds** OPS/OPT FC PORTO SAD 2022/2025 and Benfica SAD 2022/2025 Bonds, providing its Customers with the possibility of subscribing to bonds of recognised entities and providing diversification of their investments.

INSURANCE

Within the scope of bancassurance, the simplification of services and processes prevails, 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.

CREDIT

Pursuing the objective of repositioning itself as a specialist bank in the Mortgage Loans product, and considering that the relevant factors in choosing a mortgage loan are price, service and the relationship established between the Bank and the Customer, Banco Montepio continued to surprise the market with the launch in May 2022 of the Mortgage Loans communication campaign "Dá para mais do que Imagina" (You can do more than you think).

- **Housing Loans and Multifunction Loans**

Housing Loans and Multifunction Loans are strategic products to reorient the growth and sustainability of the loan portfolio, considering lower capital consumption and risk-adjusted profitability, having great impact regarding customer engagement with the Bank, cross-selling products and commissions, so Banco Montepio continued to develop improvements in product conditions as well as a new communication campaign.

With the objective of continuing to innovate and surprise, the new Mortgage Credit campaign "Dá para mais do que imagina" (You can do more than you think) returns 1.5% of the loan value in a pre-paid card, for the customer to buy what he wants and where he wants, and can reach 1.7% for "green" houses, that is, if the property has an A+ or A energy certificate.

The campaign also reinforces Banco Montepio's DNA as a bank that supports those who need it most, since every time the customer uses the value offered in the prepaid card, they are supporting Caritas. In this way, Banco Montepio continually strives to reinforce the differentiation of its offer sustained by environmental and social values.

- **Personal Loan Campaign**

Banco Montepio has supported its Customers in carrying out their projects responsibly and with a high level of analysis and risk 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.

COMMERCIAL SOLUTIONS

Banco Montepio provides the commercial solutions **"E.mpreendedor" (E.Enterpreneur), "E.mpresário" (E.Businessperson), "E.xpert" (E.Expert) and "E.Social" (E.Social),** an integrated products and services offer that aims to facilitate daily financial management and simultaneously ensure the relationship and transactionality of Corporate Customers, bringing together the most used products and services at a more advantageous price than if they were acquired individually.

CREDIT

Throughout the first six months of 2022, Banco Montepio maintained its focus on strengthening its presence in the Corporate segment, making State-guaranteed credit lines available to meet the challenges and economic constraints of Portuguese companies operating in the sectors most affected by the effects of the Covid-19 pandemic, namely:

- **"Linha Tesouraria IFAP" (IFAP Support Line)**

  Support line for the liquidity of companies in the pig production sector and cow milk producers faced with reduced marketing margins for pork and milk, along with high production costs resulting from the impact of the economic crisis caused by the Covid-19 pandemic, aggravated by the context of extreme drought throughout the country and potentially reinforced by uncertainty in the European market.

- **"Linha Apoio Turismo 2021" (Tourism 2021 Support Line)**

  This line seeks to broaden the range of solutions currently offered to support the sustainable recovery of Tourism, namely by reinforcing the working capital of its agents and stimulating relevant investments for the sector.

In the first half of 2022, the strategy of promoting the Credit Lines under Protocols signed with the European Investment Bank (EIB) and the European Investment Fund (EIF) continued, with the aim of supporting the Portuguese business fabric with conditions that allow greater competitiveness.

"PROGRAMA FINCRESCE | PME LÍDER 2021" (FINCRESCE | SME LEADER 2021 PROGRAMME)

In 2022 the "Estatutos PMR Líder 2021" (SME Leader 2021 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.

SERVICES

Automatic Payment Terminal (POS)

Banco Montepio continues to provide automatic payment terminal at point of sale in various formats: "TPA Fixo" (Fixed POS), "TPA Móvel GPRS" (GPRS Mobile POS) and "TPA WI-FI" (Wi-Fi POS). The Mobile POS (Touch2Pay) solution continues to stand out, allowing payments to be accepted quickly and safely, anywhere. This offer comprises a payment app, available for IOS and Android, and a small card reader, which is connected via Bluetooth and allows for payments with EMV chip cards (Europay, MasterCard and Visa), Magnetic Stripe 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 all other functionalities (Urgent Transfers, SPGT Transfers or Credit transfers by SEPA+ by XML File - payments and collection), not included in the service, the defined price list is maintained.

SOCIAL ECONOMY

The Social Economy and its entities, through its activities and valences, acts on an increasingly wider universe of Portuguese society, assuming themselves as economic and social agents of extreme importance in employment and in the production of wealth.

Given its third sector nature, the Social Economy finds in the achievement of social objectives the raison d'être of its existence, complementing the public and private sectors. The Social Economy displays 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 community responses.

Along this path and in order for Social and Solidarity Economy Entities (EESS) to innovate and evolve, these entities have the support of Banco Montepio, a financial partner with a very specific nature that has had social concerns present in its way of operating since its inception. At Banco Montepio, EESSs are monitored by the Commercial Department of the Social Economy and the Public Sector (DCESSP), an area complementary to Banco Montepio's branch network, composed of a team from the north to the south of the country with specialised knowledge of the sector, its needs, and distinct areas of activity. Through a partnership relationship, Banco Montepio presents an integrated response to all contacts and requests.

As a result of the work developed by the commercial teams in this area, Banco Montepio maintained in the first semester of 2022 a penetration rate in Social and Solidarity Economy Customers (with a social purpose) of 27.9%, as a result of Customer growth of 3.4% compared to the end of 2021, following the dynamics of the constitution of new Entities in the market, thus materialising the strategy of continuous growth of the Social Sector Customer base as a differentiating pillar.

After ending 2021 with a credit market share in the Social and Solidarity Economy Sector of around 15% (according to the classification of NPISHs - Non-Profit Institutions Serving Households by the Bank of Portugal's monetary and financial statistics), Banco Montepio continued, as the main action driver, together with the enlargement of the Customer base, the strategy of financing this sector.

Of particular note is the “Linha de Crédito + Impacto Social” (Credit + Social Impact Line), by funding with around 22 million euros during the first half of 2022 - increasing to around 77 million euros the amount contracted to projects that will make a significant contribution to extending the network of equipment, to increasing quality and to incorporating innovation and sustainability into the social responses of the EESS.

In this context, Banco Montepio, provides EESS with **unique solutions** that add value to the day-to-day of Institutions, highlighting:

- **“Solução ESocial” (ESocial Solution),** is an integrated solution of products, services, and exclusive benefits for EESS. This solution includes a unique product on the market, the “Conta Acordo” (Agreement Account);
- “**Conta Acordo” (Agreement Account),** is an exclusive product of Banco Montepio, created to facilitate and ensure treasury needs that could arise before receiving State funds. This is an exclusive overdraft facility for private social solidarity institutions (IPSS) to facilitate treasury management;

- **“Seguro Voluntariado” (Volunteer Insurance),** personal accident, sickness, and liability insurance - compulsory for all institutions that rely on the collaboration of volunteers. Available in two subscription modalities: Permanent (for one year, automatically renewable) and Temporary (up to seven days), valid in Portugal 24 hours a day;
- **“Leasing Auto Setor Social” (Leasing Auto Social Sector),** a Banco Montepio financing modality that was created in 2021 to guarantee the mobility of the EESS and allow the acquisition of light passenger or goods vehicles (transformed for home support or mobility), by EESSs, with differentiated conditions in terms of pricing and insurance;
- **“Linhas próprias de apoio à tesouraria Covid-19” (Own lines for Covid-19 treasury support),** with a focus on providing liquidity to EESSs so they can be concerned only with responding to social problems:
  - **“Linha de Apoio ao Setor Social Covid-19” (Covid-19 Social Sector Support Line),** a credit line aimed at providing treasury support to EESSs to cope with the impacts of the Covid-19 pandemic;
  - **“Linha de Crédito +Impacto Social” (+Social Impact Credit Line),** an exclusive credit line of Banco Montepio that seeks to help institutions to foster social inclusion;
  - **“Linha de Crédito Fundo para a Inovação Social (FIS)” (Social Innovation Fund Credit Line),** a line that aims to facilitate access to bank financing and improve the financing conditions of Social Innovation and Entrepreneurship.

Partnerships and Protocols in the Social Economy

As a reference financial partner, Banco Montepio maintained its “Bolsa de Parceiros Estratégicos” (Pool of Strategic Partners supporting EESS), with the support of four social consultants: “Aposta nas Pessoas”, “Turnaround”, “ValeConsultores”, and “4Change”.

In addition to these partnerships, the commercial relations between Banco Montepio and the EESS allow the continuation of **commercial protocols** that make a difference in society and in the activity of these institutions. Of the protocols available, the **11 protocols** stand out 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:

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

sector, aimed at structuring suitable solutions for the development of intellectually disabled persons, in addition to supporting and promoting their inclusion in society.

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

Social Economy Projects and Initiatives

The first half of 2022 marked the return of face-to-face events, but also the awakening of the theme of social and environmental sustainability in the EESS mindset. Banco Montepio as the Social Economy Bank in Portugal continued to support the evolution of these institutions, but also to participate in projects and initiatives, of which the following stand out:

- "**E-Social",** a 360º communication platform of Banco Montepio directed at all stakeholders of the Social Sector. With the mission of stimulating and disseminating this area and its participants in the most varied forms of action, the social networks Instagram and Facebook (@montepioesocial) of E-Social worked as a meeting point of causes, initiatives, projects, challenges, exhibitions, and disclosure of the best that is being done in the Social Economy, in Entrepreneurship, in Social Innovation and in Sustainability in Portugal;
- **"Semana Nacional Cáritas" (National Caritas Week),** an initiative that brought together the whole Caritas network in Portugal between 13 and 20 March 2022, and which takes place every year in the week before National Caritas Day, which is celebrated on the 3rd Sunday of Lent. It is a week during which we try to highlight the action of Caritas in the fight against poverty and social exclusion. Throughout the country, there are multiple- reflection activities on social action, pastoral animation activities and also fundraising initiatives, particularly the National Public Collection Campaign where around 4 thousand volunteers participate every year, appealing to the contribution of all the Portuguese people as a way of expressing their solidarity with all those who are going through a moment of vulnerability and therefore seek help from Caritas;
- **"Congresso Anual de IPSS" (Annual IPSS Congress),** of national scope, which took place on 7 to 8 June 2022, in Viseu, was themed "The IPSS in Social Policies" and focused on matters of great relevance to entities of the Social and Solidarity Economy, consisting of an important moment of reflection and sharing. Banco Montepio sponsored the VI Congress of the National Confederation of Solidarity Institutions (CNIS), the representative structure of the IPSS in Portugal.

Support to the Public Sector

The Public Sector is made up of various public institutional units, including the general government and the entire business sector with wholly or mainly public capital.

This Sector, which is considered a fundamental part in creating value in the Portuguese economy, is an area monitored by the DCESSP, which has an experienced team with specific knowledge of the sector, under a commitment to stand by 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 and proposals for global involvement resulting from the Customer loyalty strategy through day-to-day products and services.

Support to Entrepreneurship and Social Innovation

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

In the area of entrepreneurship, Banco Montepio's role is manifested through the availability of financing lines for sustainable projects, but also through the continuity of partnerships that allow the promotion of equal opportunities.

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

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

  Under the established partnership and consequent investment in the “Linha de Crédito Code Academy” (Code Academy Credit Line), in the first half of 2022, Banco Montepio recorded:

  44 Code Academy Students Financed

  241.900 euros of Code Academy Financing

- **Banco Montepio Acredita Portugal**, the largest entrepreneurship programme in Portugal, promoted by Banco Montepio and the non-profit organisation Acredita Portugal. It is considered a programme of connection between entrepreneurs with innovative ideas and solutions, some of the biggest companies in Portugal and various players in the innovation ecosystem.

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

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

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

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

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

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

Banco Montepio, as a Social Innovation Partner, supports **5 projects** and spaces aimed at fostering entrepreneurship in Portugal:

- **“Acredita Incubação”** (Believe Incubation), located in Vila Nova de Gaia, is an incubation project aimed at providing support and tools to entrepreneurship in areas of the creative industries, technological entrepreneurship, and the social economy;
- **“Associação Rede do Progresso”** (Association Network of Progress), a non-profit organisation with the aim of promoting social welfare and development in the areas of entrepreneurship and social action;
- **“Casa do Impacto”** (Impact House) created by SCML, is the home of the new generation of entrepreneurs who believe in sustainable business models able to create social and environmental impact. As the only partner bank, Banco Montepio is part of the Board of Curators of the Casa de Impacto project, a reference of Social Innovation in Portugal.
- **“Incubadora Regional de Impacto Social – IRIS”** (Social Impact Regional Incubator), located in Amarante and in Porto, is an entity that aims to capture ideas and projects, and support the creation, development and acceleration of social innovation and social entrepreneurship initiatives, promoted by the European Investment Bank Institute and by the Associação do Parque de Ciência e Tecnologia do Porto (Porto Association of Science and Technology Parks).
- **“Incubadora Inovação Social do Baixo Alentejo” (IISBA),** (Lower Alentejo Social Innovation Incubator) is a project of the Centro Social Nossa Senhora da Graça (Our Lady of Grace Social Centre), seeking to foster entrepreneurship and social innovation in the district of Beja.

Microcredit

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

During the first half of 2022, Banco Montepio promoted 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)”** (Entrepreneurism and Own Job Creation Support Line), composed of two distinct credit lines (MicroInvest and Invest+) for different amounts, is directed at unemployed persons enrolled in job centres, with ability and willingness to work. LAECPE, arising from a collaboration agreement between Banco Montepio, the Instituto de Emprego e Formação Profissional, I.P. (IEFP) and four mutual guarantee companies (Norgarante, Garval, Lisagarante and Agrogarante), seeks to fight against economic and social exclusion, and long-term unemployment;

- **“Solução E.mpreendedor”** (E.Entrepreneur Solution), a Banco Montepio solution for new business that is less than 2 years old, presents a selection of integrated products and services to keep the business on the right path;
- **“Solução E.mpresário”** (E.Businessperson), a solution that supports companies at the growth stage, presents a selection of integrated products and services to keep the business on the right path;
- **“Microcrédito (Linha Própria)”** (Microcredit (Own Line)), a special social insertion instrument for those who, having entrepreneurial skills, have extra difficulties in accessing credit and the labour market.

Banco Montepio also provides access to a set of **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).

In addition to the protocols previously mentioned, Banco Montepio maintained the **collaboration protocol**, established in 2021, with the Consortium between the Universidade da Beira Interior (UBI) (University of Beira Interior) and the Universidade de Coimbra (UC) (University of Coimbra), under the project "The Role of Microcredit in Promoting Financial and Social Inclusion". The consortium not only carries out a study of the impact of microcredit in Portugal, but also aims to stimulate interdisciplinarity between academic areas, cooperation between academia and society, thus aiming at impact and social innovation.

As regards financing in the context of Microcredit, Banco Montepio provided support in the first half of 2022:

32 Projects

486.251 euros of financing

36 jobs

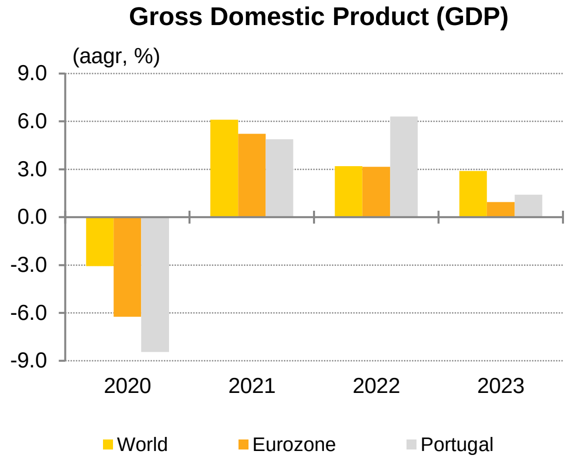
04
BUSINESS ENVIRONMENT

BUSINESS ENVIRONMENT ECONOMY

ECONOMY

World Economy

In the recent update the World Economic Outlook (WEO) on 26 July, the International Monetary Fund (IMF) revised downwards its estimate of global economic growth in 2022, now expecting world GDP to grow by 3.2%, down 0.4 p.p. from the April outlook, and to brake again in 2023 to growth of just 2.9%. Weighing on the downward revision of growth forecasts are high inflation (in advanced economies, the IMF anticipates that prices will rise by 6.6% in 2022 and, in emerging economies, by 9.5%) and the tightening of financing conditions, an abrupt reduction in economic activity in China with lockdowns as a result of Covid-19 and the contagion effects of the war in Ukraine. However, the IMF admits that the forecasts are extraordinarily uncertain and tipped to be revised downwards, as the projections are based on assumptions that can be quickly overtaken by reality, such as the absence of further reductions in Russian gas supplies to Europe, the maintenance of long-term inflation expectations and the absence of disorderly adjustments in financial markets.



Source: Thomson Reuters, Banco Montepio and IMF.

Economy of the Eurozone

Economic activity in the region started the year with a quarter-on-quarter growth of 0.7% in the 1st quarter of 2022, and unexpectedly accelerated in the 2nd quarter to 0.8% growth, despite the impact of the military conflict in Ukraine. After the average annual growth of the Eurozone of 5.2% in 2021, following the sharp contraction of 6.2% in 2020, the European Commission (on 14 July 2022) forecast an expansion of 2.6% for 2022, but with these forecasts remaining surrounded by uncertainty, resulting in particular from the evolution of the current military conflict [reflecting the better performance of GDP in the 1st half of the year], on 8 September 2022, the European Central Bank (ECB) forecast a growth of +3.1%].

Throughout the first half of 2022, against a backdrop of high inflation, the European Central Bank (ECB) began the process of gradual withdrawal of monetary stimuli, with the first moment occurring at the end of March, with the end of the pandemic emergency purchase programme (PEPP), and the second moment at the end of June, with the end of net purchases of assets under its asset purchase programme (APP).

Meanwhile, the continued galloping increase in inflation, with the year-on-year rate rising from +5.0% in December 2021 to +8.6% in June 2022, reaching the highest levels since February 1984, largely reflecting the evolution of energy prices (a problem that was already being experienced and which was exacerbated with the beginning of the war between Russia and Ukraine), led the ECB to harden its stance in terms of monetary policy tightening. Thus, the Central Bank announced more aggressive increases in its reference interest rates for the second half of the year, with a 50 b.p. hike starting in July 2022 (when market expectations pointed to 25 b.p.), followed by a new rate hike in September of 75 b.p. and with the market expecting further hikes in the October and December 2022 meetings.

Portuguese Economy

Portuguese GDP started the year showing a strong and unexpected quarter-on-quarter expansion of 2.5% in the 1st quarter of 2022, accelerating strongly compared to the previous quarter (+1.7% in the 4th quarter of 2021) and surpassing the previous historical highs recorded in the 4th quarter of 2019, thus surpassing pre-pandemic levels, having stagnated in the 2nd quarter of 2022, partly resulting from the technical correction of the statistical problems in measuring activity that will have been observed in the 1st quarter this year.

In annual terms, according to the forecasts of various entities, real GDP growth should not be less than 6% (the European Commission forecasts an expansion of +6.5% and the Banco de Portugal of +6.3%), accelerating from the 4.9% expansion observed in 2021. Economic growth in 2022 will continue to benefit from a still favourable monetary policy (despite the interest rate hikes that have already occurred and are forecast for the 2nd half of 2022 and the worsening gas crisis) and the implementation of the Recovery and Resilience Plan (RRP).

In terms of prices, and as occurred in the Eurozone and practically at a global level, the inflation rate (measured by the HICP) also worsened significantly during the period, rising from 2.8% in December 2021 to 9.0% in June 2022, a maximum since the beginning of the historical series in January 1996.

In the labour market, a slight increase in the unemployment rate was observed in the first semester of 2022, from 5.9% in December 2021 to 6.1% in June 2022, but a reduction of this rate is expected in annual terms, from 6.6% in 2021 to around 5.9% in 2022.

A further easing of public finances is also anticipated, with the budget deficit benefiting from very favourable revenue levels (and well above the forecast in the State Budget for 2022), and with the public debt ratio declining by no less than 10 p.p. in view of nominal debt growth and no increase in the average cost of stock debt (given that, despite the rise in long-term interest rates, the issuance of new long-term debt is occurring at rates lower than those of maturing debt).

The current account deficit is expected to worsen (something that is corroborated by the forecasts of the European Commission and the IMF), given the reduction in the savings rate of individuals in 2022, prolonging the trajectory that began in 2021 (in this year, 2022, exacerbated by the increase in inflation), after the sharp rise observed in 2020 (at the time heavily influenced by the fall in consumption caused by the pandemic).

The evolution of the pandemic continues to represent a downside risk (albeit lower than last year), the main risk now being the effects of the military conflict in Ukraine, which has, in particular, aggravated the upside risks on the evolution of inflation (namely after the intensification of the gas crisis) and requires responses from central banks to make monetary policy less expansionary, thus further contributing to the slowdown of the economy.

Angola

In **Angola**, GDP greatly intensified the pace of decline in 2020, to 5.8% (-0.7% in 2019), essentially reflecting the impact of the economic crisis caused by Covid-19, seeing a return to growths in 2021, to 3.0%, [being a net exporter of oil, the economy ultimately benefited from the rise in raw material prices exacerbated by the military conflict in Ukraine], and with the IMF anticipating an acceleration in 2022, to 3.3%.

FINANCIAL MARKETS

The first half of the year saw an interruption in the recovery trajectory of market sentiment, which had begun in mid-2020, following the invasion of Ukraine by Russia on 24 February, which led to the application of economic sanctions on Russia by the West and an escalation in the prices of commodities, which inevitably implied a change in the outlook for growth in activity and prices in most economies, albeit to different intensities.

Market sentiment was also conditioned by continued concerns about mutations of the virus responsible for Covid-19 (and which provoked new restrictive measures in some economies, namely in China, where the “zero Covid” policy will have been at the origin of the fall in GDP in the 2nd quarter of 2022), the intensification of inflationary pressures (greatly aggravated by the outbreak of war in Ukraine) and the consequent response by the main central banks to make their monetary policies less expansionary.

Also noteworthy were continued concerns over the previous pace of share price increases, with the upward trend in the yields of sovereign debt reinforcing fears about the overvaluation of various shares, especially in the more indebted companies more exposed to the economic cycle, as well as the economic data released during the first half of 2022, which continued, in general, to show a recovery in activity in the main economies, although slowing down, particularly after the beginning of the conflict. The end of the first half of 2022 was even marked by the increased probability of a recession in Europe and the USA, resulting from the rise in inflation and the consequent response of monetary policy.

The main US **stock indices** recorded sharp falls during the first half of 2022, with the S&P 500 (-20.6%) posting the worst 1st half of the year for more than 50 years, albeit after strong growth of 26.9% in 2021 in what had been the best performance in three straight years since 1999. The Nasdaq registered the biggest fall (-29.5%), while the Dow Jones fell by slightly less (-15.3%). In Europe, the Eurostoxx 50 closed the half-year losing 19.6%, but with the Portuguese PSI gaining 8.5%, against most European markets, after having risen 13.7% in 2021, its best annual performance since 2017. The MSCI global index fell 20.9%, away from the historic highs recorded on 16/11/2021.

Reference public debt yields rose significantly in **Germany** in the short term (2 years) and in the long term (10 years), more intensely in the latter case (+151 b.p., to +1.336%, returning to positive territory), having also increased in the **USA** and more intensely in the short term (in the 2 years, +222 b.p. to 2.953%; in the 10 years, +150 b.p. to 3.013%), reflecting the expectations and materialisation of a more restrictive monetary policy.

Credit spreads showed unfavourable movements in the CDS (Credit Default Swaps) indices in investment grade, also against a worsening backdrop in the **spreads of the peripheral Eurozone countries**, with Greece standing out negatively (+77 b.p., to a spread of 228 b.p.), followed by Italy (+58 b.p., to 193 b.p.) and Portugal (+44 b.p., to 108 b.p.), which ended the half year with a spread relatively similar to Spain's (109 b.p.).

Reflecting expectations of the start of the cycle of increases in reference interest rates by the ECB, **Euribor rates** showed marked rises (+38 b.p. at 3 months, +81 b.p. at 6 months and +154 b.p. at 12 months), after having closed 2021 close to historic lows (in the 3 months observed on 10 December, in the 6 months on 9 December and in the 12 months on 2 February 2021), having closed the half year already in positive territory in the 6 months (0.263%) and in the 12 months (1.037%).

The general **commodities** indices registered strong rises, with the CRB Composite Index advancing 25.3% and the GSCI 26.4%, being supported by the energy classes (the class with the highest weighting in the index and which exhibited the biggest rise, of 46.5%, in a context of increases in Brent crude and WTI (West Texas Intermediate) prices also exceeding 40%), agricultural (historical highs in the half-year) and livestock, being, however, penalised by base metals (but which reached historical highs in the half-year) and precious metals.

MAIN RISKS AND UNCERTAINTIES FOR THE SECOND HALF OF 2022

In the World Economic Outlook dated 26 July, the IMF considers that several factors have hit the global economy in recent months, identifying a number of risks to the economic outlook that, if they were to occur, would reduce global growth to one of the lowest levels in five decades.

On the one hand, Europe has a gas supply problem: following Russia's invasion of Ukraine, the IMF report notes that since April, gas from Russia's Nord Stream1 pipeline shipped to Europe has fallen to around 40% of the previous year's level. Disruption is not likely to abate any time soon and the IMF predicts that volume will decline further. The worst-case scenario would be a complete cessation of Russian gas exports to Europe as early as 2022, which could increase global inflation and force energy rationing in Europe, with subsequent reduced growth and negative cross-border transfers.

On the other hand, supply-related shocks caused by the war in Ukraine have raised food and energy prices, spurring inflation and prompting governments to adopt measures to prevent a further contraction in demand. At worst, central bank actions could precipitate recession. Price and wage spirals are also a possibility, with low unemployment in several economies leading workers to demand higher wages.

However, the IMF expects inflation to return to near pre-pandemic levels by the end of 2024. The IMF stressed that central banks are performing a delicate balancing act in attempts to avoid recession by rapidly raising interest rates, but the outlook is dubious. According to the IMF, the risk of recession is particularly prominent in 2023, warning that in several economies it expects growth to bottom out, Family savings accumulated during the pandemic to shrink, and even small shocks could cause economies to grind to a halt.

On debt dynamics, the expectation is for deterioration in advanced economies as the most indebted countries face rising interest rates and low economic growth, but the stress in emerging markets and developing economies is especially worrying.

As advanced economies raise interest rates to fight inflation, borrowing costs are likely to rise, putting pressure on governments that were forced to borrow to prop up their economies during the pandemic, while at the same time their currencies depreciate as capital leaves those countries. The IMF estimates that 60% of low-income countries are already at high risk of over-indebtedness. Already, progress in the face of ongoing Covid surges in China, including budget support and Beijing's reformulation of its zero Covid policy, offers some hopeful signs for the world's second largest economy (and largest when measured in purchasing power parity).

At a national level, and in the current context of relatively reduced domestic political risks, the Portuguese economy should also be conditioned by the risks identified on the global economy. According to the analysis of the Banco de Portugal in the June Financial Stability Report, in the current framework of uncertainty and normalisation of monetary policy, the main vulnerabilities and risks to financial stability are: i) the risk of an additional repricing of risk premia, notwithstanding the correction that has already occurred; ii) the risk of a reduction in prices in the residential property market, arising from changes in financing conditions; iii) the reduction in real disposable income due to inflation and the effect of rising interest rates on debt servicing are relevant risks to the financial situation of households; iv) the joint effect of (a) the financial vulnerability of some NFCs; (b) the incomplete recovery of activity and profitability of some sectors in the post-pandemic period and (c) the current macroeconomic and financial environment are expected to impact more sharply on a subset of firms, increasing their likelihood of credit default; v) the increase in financing costs and uncertainty about the evolution of economic activity constitute an added risk to the downward path of the general government debt-to-GDP ratio.

It should be noted that the aforementioned start of the normalisation of monetary policy, the high inflationary pressures, the still relatively recent phasing out of public support to Families and Companies and the still recent end of the moratoria will continue to be particularly relevant challenges in 2022, since they contribute to the deterioration of the financial situation of Families and Companies, increasing the number of insolvencies in some sectors of activity.

It is reinforced that uncertainty is quite high, so the growth outlook remains surrounded by downward risks (and the inflation outlook by upward risks), being naturally very affected by the duration of the military conflict in Ukraine and its impact on financial markets, especially of commodities, as well as by economic policy reactions, with emphasis on the aforementioned ongoing normalisation of monetary policy.

The banking sector has been benefiting from the increase in net interest income due to the rise in short-term interest rates as a result of the tightening of monetary policy. However, the deceleration of economic activity, in a context of a sharp loss of real household income and increased financial costs for the economy, constitutes a relevant risk on the behaviour of credit impairments, which the stock markets have been increasingly incorporating. Thus, during the first quarter of 2022, the banking sector in Europe and the USA depreciated 13.9% and 22.5%, respectively.

The outlook for the banking sector may also be unfavourably impacted by reduced demand for credit and rising operating costs, given inflationary pressures.

OUTLOOK

Although the pandemic crisis conditioned activity in early 2022, the reduction in its severity allowed for a significant easing of the measures conditioning activity, however, it is expected that the world economy will continue to recover, but at a slower pace than initially forecast in early 2022.

The expected slowdown in economic growth can be explained by rising inflationary pressures, tightening financing conditions and the contagion effects of the war in Ukraine. The slowdown (or possible reduction) in economic activity, associated to inflationary pressures through a supply shock, will influence the situation of Portuguese Families.

The impact of the rise in interest rates on the financial costs of Families and Companies, associated to an economic recovery below expectations, may generate some pressure on default levels, to which must be added the implications of the war in Ukraine already mentioned above.

However, currently available information indicates that the direct exposure of the Portuguese banking sector is limited, as is the weight of trade relations with Russia and Ukraine, with the Portuguese banking sector having a solid solvency and liquidity position.

Banco Montepio Group's exposure to the 23 member states of the United Nations Organisation (UN) that make up the Eastern Europe Regional Group, where Russia and Ukraine are included, corresponding to credit portfolio positions, is residual, totalling 0.4 million euros (0.0022% of the Group's total assets). In the case of the exposure to Russia and Ukraine, the exposure, under the same criteria, is only 0.04 million euros and 0.003 million euros, respectively, as at 30 June 2021.

Given this framework, the activity carried out by Banco Montepio Group and the information available at the present date, the Board of Directors does not estimate any material effects on the financial statements in the first half of 2022 arising from the conflict in Ukraine. However, given the uncertainty about the course of the conflict and its possible effects, it is not possible to estimate and quantify at this date, its future impacts on the Portuguese economy, and in particular at the level of banking business, so the Board of Directors will continue to monitor and assess the situation throughout the second half of 2022.

In view of the changed circumstances and the challenges facing Banco Montepio, the banking sector and the Portuguese economy, the Board of Directors had reassessed the objectives and measures set out in the Transformation Plan designed in 2018 and adopted a multi-dimensional, multi-year adjustment programme through four main strategic pillars - business model update, operational adjustment, capital preservation, and Group simplification.

- The **business model update** focuses on **strengthening Customer-oriented banking services** and on **improving the proximity relationship in a mix of channels**, in the **strengthening of financing the economy**, **supporting** the financial needs of **Families** and **SMEs** (of which the protocoled credit lines stand out), and the **development of distribution capacity and complementary margin**, in order to recover the profitability of Banco Montepio's domestic operation.
- The **operational adjustment** focuses on **accelerating the Bank's digital transition**, by endorsing best market practices, both with respect to the Customer's experience and operational efficiency. Concerning the optimisation of the distribution channels, Banco Montepio resized its physical distribution network (having closed 39 branches in 2020 and 37 in 2021) according to their geographical coverage, profitability, and market size, without placing in question the adequate coverage of the Customer base. At the same time, the Bank approved a **staff reduction** through a series of measures, including early retirement, rescissions by mutual agreement, and labour flexibility measures to accommodate new forms of working, such as part-time and remote work. For purposes of **expansion of the limit of eligibility** for social protection in unemployment, Banco Montepio was declared a “company under restructuring” by order of the Minister of Labour, Solidarity and Social Security, as at 31 December 2020.

- Concerning the **preservation of capital**, the Bank improved its capital ratios by endorsing various measures aimed at **reducing its risk-weighted assets** (RWA) through a more efficient credit and securities portfolio and **divestment of non-performing assets**.
- For the **simplification of the Group's corporate structure**, the adjustment measures are aimed at the **sale of equity holdings in the national and international market**, as well as the **modernisation and rationalisation of the Group's internal procedures**.

In line with the simplification of Banco Montepio Group's activity and operations, the operational and customer service model is being adjusted, namely with a view to:

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

05
FINANCIAL INFORMATION

FINANCIAL INFORMATION

ACTIVITY BY SEGMENTS

RETAIL BANKING

The Retail Banking segment corresponds to the entire activity developed by the Group with Individual Customers, Sole Proprietorships, Small and Medium-sized Enterprises allocated to this segment and Microenterprises, commercially referred to as the segment of Individuals and Small Businesses, essentially originated through the branch network, electronic channels, and network of promoters. The financial information of this segment covers, among other aspects, products and services, mortgage loans, 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.

Summary of indicators - Retail Banking (million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Income Statement					
Net interest income [1]	68.9	139.2	70.6	1.7	2.4
Net fees and commissions	46.1	98.4	50.4	4.3	9.3
Total operating income	115.5	241.0	121.1	5.6	4.8
Operating costs [2]	44.4	85.0	38.9	(5.5)	(12.4)
Operating income before impairment	71.2	156.0	82.2	11.0	15.6
Balance Sheet					
Loans to customers (gross)	8 565	8 630	8 782	216.8	2.5
Customer deposits	11 069	11 187	11 441	372.1	3.4

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

CORPORATE AND INVESTMENT BANKING

The Corporate and Investment Banking segment (Companies and Economic Groups with turnover equal to or greater than 20 million euros) aggregates the activity provided by the Group to small, medium-sized and large companies, with booking at Banco Montepio and Banco Empresas Montepio (BEM), through the commercial structure dedicated to this segment, as well as the business with the institutional Customers, namely of the financial sector, and the activity developed in the area of Investment Banking of 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, deposits, payment and receipt services, cards, and custody services.

The Corporate and Investment Banking segment includes the Commercial Banking component that operates, under the Group's cross-selling strategy, as a distribution channel for products and services of other Companies of the Group, as well as the Investment Banking business, with activity in the areas of Corporate Finance, Capital Markets, Debt and Equity Distribution, Structured Loans, Financial Advice, Business Studies, and Information.

A list of key indicators of the Corporate and Investment Banking segment is given below, reflecting the integrated activity developed with Companies monitored by Banco Empresas Montepio, in accordance with the segmental reporting indicated in IFRS 8 and presented in the notes to the financial statements of this report.

The indicators expressed in the table reflect an improvement in the level of operating income achieved in relation to the first half of 2021, in a period marked by the impact of rising interest rates on the financial costs of Companies and the contagion effects of the war in Ukraine, which determined a lower-than-expected economic recovery for the Companies. The reduction observed in value of gross loans falls under the strategy of improving the efficiency of the use of the available capital, namely by promoting initiatives of external placement of new operations and of existing operations on the balance sheet, as well as reducing the concentration risk.

With a view to improving the risk profile, there was a strategic reorientation focused on the contracting of new loan operations with good risk levels of the borrowers, alongside operations with lower capital consumption, namely with national and supranational guarantees, aimed at maximising the profitability of the allocated capital. However, the new operations were also directed at progressively giving the securitised loan operations (namely debenture loans and commercial paper) their true vocation of market instruments placed with institutional investors.

These guidelines, alongside the increase in the level of fees and commissions for services rendered led to the aforementioned increase in operating income (+15.0%), which amounted to 21.4 million euros, and more than offset the increase registered in operating costs (+6.8%).

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

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Income Statement					
Net interest income [1)]	19.1	43.2	21.2	2.1	11.2
Net fees and commissions	4.6	12.0	5.4	0.8	19.6
Total operating income	22.8	54.9	25.9	3.1	13.5
Operating costs [2)]	4.2	8.2	4.5	0.3	6.8
Operating income before impairment	18.6	46.7	21.4	2.8	15.0
Balance Sheet					
Loans to customers (gross)	1 884	1 794	1 828	(56.1)	(3.0)
Customer deposits	250	299	346	96.2	38.5

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

All other segments, namely comprising specialised credit and asset management (reflecting, in this case, the activity of Montepio Valor, presented in the financial statements in Discontinued operations) are analysed individually herein, for each subsidiary in the “Subsidiary Companies” section of this report.

In Angola, the Group is represented by a locally based financial institution offering an extensive range of financial products and services to Individuals and Companies. In Cabo Verde, Banco Montepio pursued, jointly with Banco de Cabo Verde, the necessary process of authorisation for the pursuit of the decision on the voluntary dissolution and consequent liquidation of Banco Montepio Geral Cabo Verde, which is expected to be completed during 2022. The international activity is analysed in the “International activity” section of this report.

SOCIAL ECONOMY

The Social Economy segment reinforces Banco Montepio's role as a reference agent in the market and with the different Stakeholders, innately incorporating the Environmental, Social and Governance (ESG) principles in the social component. In terms of organisation of the commercial activity developed, this area also promotes the business related to Public Sector entities.

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

Summary of indicators - Social Economy (million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Income Statement					
Net interest income [1)]	1.7	3.6	1.6	(0.1)	(9.7)
Net fees and commissions	0.7	1.5	0.9	0.2	18.2
Total operating income	2.5	5.1	2.3	(0.2)	(4.9)
Operating costs [2)]	1.7	3.3	1.6	(0.1)	(5.4)
Operating income before impairment	0.8	1.8	0.7	(0.1)	(3.9)
Balance Sheet					
Loans to customers (gross)	198	227	312	113.7	57.3
Customer deposits	756	752	704	(51.9)	-6.9

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

SUBSIDIARIES AND INTERNATIONAL ACTIVITY

SUBSIDIARIES

Montepio Investimento, S.A.

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

Underlying the creation of BEM was the contribution that the new model would bring as an incremental business to the Banco Montepio Group. The launch of Banco de Empresas Montepio was accompanied by the creation of the Corporate Banking Department (DBE), with the mission of managing commercial relations with the Companies and Institutional segments (excluding financial sector entities) with an annual turnover equal to or greater than 20 million euros, an area particularly well suited to the development of the activity of BEM, whose business is domiciled in the two entities according to the established specialisation[3].

The Corporate Banking area supports its Customers throughout all the stages of their business cycle, with specific solutions for every need, namely in areas related to international trade, factoring, and treasury management. The Investment Banking area - which incorporates the areas of Corporate Finance, Capital 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. To this end, BEM has a team of specialised professionals working side by side in permanent coordination, to assure that the Customers receive an overall and personalised service.

In the first half of 2022, BEM pursued its action driven by the goal of expanding the Banco Montepio Group's offer of products and services directed at the Corporate segment, especially the SME and middle market segments. BEM has 7 Business Centres, distributed throughout the country, where dedicated managers

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

receive their Customers, identify their needs, present value propositions while cultivating relations of proximity.

As at 30 June 2022, the Net assets of BEM stood at 507.9 million euros, representing an increase of 70.2 million euros (+16.1%) in relation to the value recorded at the end of 2021, driven by the growth in loans granted as part of its vocation to support the Portuguese business fabric (+76.6 million euros), along with the decrease in Cash and deposits at other credit institutions (-3.7 million euros) and in the Securities portfolio (-2.9 million euros).

Net loans to customers amounted to 417.4 million euros as at 30 June 2022, compared to 340.8 million euros recorded at the end of 2021, showing an increase of 76.6 million euros (+22.5%), driven by the performance of the business, namely the favourable evolution of the headings of Loans and Securitised credit (Bonds and Commercial paper). As mentioned in the review of the Corporate and Investment Banking area, the more moderate evolution of the volume of loans granted also arises from the option to make greater use of the securitised loans (debenture loans and commercial paper) from a market perspective, through their partial placement in institutional investors.

As at 30 June 2022, Equity (181.1 million euros) and Resources of other credit institutions (313.1 million euros) constituted the main source of asset funding, representing 97.3% of Total assets, compared to 96.5% at the end of 2021.

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

In the first half of 2022, there was a favourable evolution in the operational component when compared to the same period of 2021, a period marked by the economic and pandemic crisis experienced worldwide, having registered an increase in the level of revenues, alongside the necessary increase in operating costs resulting from the allocation of resources to the growth of activity.

Net operating income in the first half of 2022 reached 4.8 million euros, representing an increase of 2.0 million euros (+68.7%) compared to the same period of 2021, benefiting mainly from the favourable performance of Net interest income (+0.6 million euros), driven by the growth in the Loans to customers portfolio, and of Net commissions (+0.8 million euros), determined by the increase in commissions related to advisory services and financial structuring. There was also a favourable development of Results from financial operations, which reached -0.1 million euros compared to -1.2 million euros in the first half of 2021 (+1.1 million euros), benefiting from the evolution in the value of the participation units. On the other hand, there was a reduction of 0.6 million euros in Other operating income determined by the increase in contributions to the banking sector and by lower gains on the sale of real estate properties for trading.

In the first half of 2022, operating costs increased to 2.6 million euros, compared to 2.3 million euros in the first half of 2021, as a result of the increase recorded in Staff costs (+0.6 million euros) and in Depreciation and amortisation (+11.2 thousand euros), which more than offset the reduction registered in General and administrative expenses (-0.3 million euros).

Operating income before impairments and provisions for the first half of 2022 increased to 2.2 million euros compared to 0.6 million euros in the first half of 2021, primarily reflecting the favourable evolution of Total operating income, which more than offset the increase in Operating costs, demonstrating the progressive capacity to generate results.

Impairments and provisions stood at 1.7 million euros (-0.3 million euros in the first half of 2021). It should be noted that in this period there was a significant net reinforcement of impairments and provisions, largely associated with assets (credit and real estate) in existence prior to the creation of BEM (about 1.4 million euros).

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

Activity and Results (million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Total assets	454.2	437.7	507.9	53.7	11.8
Loans to customers (net)	327.9	340.8	417.4	89.5	27.3
Securities portfolio [1)]	76.9	73.8	70.9	(6.0)	(7.7)
Equity	178.9	180.8	181.1	2.2	1.2
Total operating income	2.8	8.7	4.8	2.0	68.7
Operating costs [2)]	2.3	4.8	2.6	0.3	13.4
Net operating income before impairment and provisions	0.6	3.9	2.2	1.6	>100

1) Includes Financial assets not held for trading mandatorily at fair value through profit or loss and Financial assets at fair value through other comprehensive income.
2) Includes Staff costs, General and administrative expenses and Depreciation and amortisation.

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

Montepio Crédito – Instituição Financeira de Crédito, S.A. (Montepio Crédito), 100% controlled by Banco Montepio, through Montepio Holding, SGPS, S.A., offers 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 repositioning in terms of the Banco Montepio Group and the solid relations established with its partners, based on the experience acquired over the years, Montepio Crédito continued to offer a comprehensive range of specialised credit solutions in the following areas: Automobile, Health, Automobile Repair, Telecommunications and Furniture for the segment of Individuals; and Logistics, Water, Transport, Energy, Energy Efficiency and Industry for the segment of Companies.

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

As at 30 June 2022, net assets totalled 556.1 million euros, compared to 616.9 million euros at the end of 2021 (-60.8 million euros), as a result of the decreases registered in Financial assets at fair value through profit or loss and Loans to customers.

Loans to customers (net) amounted to 534.8 million euros as at 30 June 2022, representing a reduction of 15.4 million euros (-2.8%) compared to the value recorded at the end of 2021 as a result of the constraints in the automotive sector's value chains due to the war in Europe, which influence the dynamics of supply and demand for specialised credit in that sector.

The securities portfolio stood at 9.2 million euros as at 30 June 2022, corresponding to a decrease of 46.4 million euros in relation to the value at the end of 2021, as a result of the reduction recorded in Financial assets at fair value through profit or loss due to the liquidation of the Aqua Finance No. 4 securitisation operation.

Equity stood at 65.8 million euros, showing an increase of 3.4 million euros (+5.5%) in relation to the value of 62.4 million euros recorded at the end of 2021, primarily underpinned by the positive evolution of Net income for the period and the favourable actuarial evolution of the Pension Fund recorded in June 2022 in the amount of 1.9 million euros.

Total operating income reached 9.1 million euros in the first half of 2022, representing a reduction of 1.1 million euros (-11.1%) compared to 10.2 million euros in the first half of 2021, penalised by the evolution of Net interest income, which fell 5.0 million euros (-71.2%), reflecting the reduction in Net interest income from the securities portfolio, reflecting the new Pelican Finance No. 2 securitization, and Net fees and commissions, which fell 0.3 million euros (-13.1%), partially offset by the increase of 4.3 million euros (+293.4%) recorded in Net gains/(losses) from financial assets and liabilities at fair value through profit or loss, reflecting the new Pelican Finance No. 2 securitisation.

Operating costs in the first half of 2022 decreased to 6.3 million euros, representing a decrease of 0.2 million euros (-3.6%) compared to the first half of 2021, due, on the one hand, to a reduction in General and administrative expenses of 0.3 million euros (-10.2%) and, on the other hand, to an increase in Staff costs of 0.1 million euros (+2.0%), as a result of the increase in Salaries and Mandatory social charges.

Operating income before impairment and provisions reached 2.8 million euros in the first half of 2022, reflecting a reduction of 0.9 million euros (-24.2%) compared to the value of 3.7 million euros recorded in the first half of 2021, mainly penalised by the evolution of Total operating income, notwithstanding the decrease registered in Operating costs and the lower allocation for Loan impairment.

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

Activity and Results (million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Total assets	613.8	616.9	556.1	(57.7)	(9.4)
Loans to customers (net)	511.8	550.2	534.8	23.0	4.5
Equity	56.8	62.4	65.8	9.0	15.7
Total operating income	10.2	21.6	9.1	(1.1)	(11.1)
Operating costs 1)	6.5	12.7	6.3	(0.2)	(3.6)
Cost-to-Income	63.4%	58.8%	68.8%	5.4 p.p.	
Net operating income before impairment and provisions	3.7	8.9	2.8	(0.9)	(24.2)

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 2022, the Assets of SSAGINCENTIVE amounted to 54.5 million euros, showing a 0.6% reduction in relation to the value of 54.9 million euros recorded at the end of 2021, 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 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 2022 the heading of Inventories amounted to 21.0 million euros, of which 8.9 million euros refer to buildings and 12.2 million euros refer to plots of land, showing a reduction of 3.3 million euros in relation to the value of 24.3 million euros recorded as at 31 December 2021, as a result of the sales occurred throughout the first half of 2022.

The heading of Cash and deposits at banks amounted to 33.5 million euros as at 30 June 2022, representing an increase of 2.9 million euros compared to the value of 30.6 million euros recorded at the end of 2021, showing the deposits made at Banco Montepio, which reflect the value received from the disposal of the real estate properties.

As at 30 June 2022, Equity stood at 54.3 million euros, virtually in line with the value reported at the end of 2021 (54.6 million euros), benefiting from the favourable evolution of Net income for the first half of 2022. Equity was the main source of Asset funding, representing 99.6% of Total assets (99.5% in 2021).

Sales and services rendered stood at 3.2 million euros in the first half of 2022, compared to the value of 7.6 million euros recorded in the first half of 2021, and correspond to the amounts from the sales of inventories, under SSAGINCENTIVE's current business activity.

The heading of Cost of goods sold and materials consumed reached 3.0 million euros in the first half of 2022, corresponding to a reduction of 4.4 million euros in relation to the first half of 2021, and represents the acquisition cost of the real estate properties sold, after deduction of their impairment.

The heading of Impairment of inventories amounted to 0.2 million euros in the first half of 2022, evolving favourably in relation to the value of 1.1 million euros recorded in the first half of 2021, reflecting the impacts of the lower constitution of Impairments of real estate properties for trading.

The heading of Other income and gains stood at 0.02 million euros in the first half of 2022 (0.01 million euros in the first half of 2021) and includes the refunding of tax (IMT (municipal property tax) and IS (stamp duty)) related to real estate properties sold, income received from real estate properties and other income.

The heading of Other costs and losses, which includes costs related to the maintenance, legalisation, and promotion of the sale of real estate properties, amounted to 0.2 million euros in the first half of 2022, compared to 0.3 million euros recorded in the first half of 2021.

Total operating income evolved favourably to -0.3 million euros in the first half of 2022 compared to -1.9 million euros in the first half of 2021, benefiting from the lower level of impairment of inventories recorded in the period.

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

Activity and Results (million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Total assets	55.6	54.9	54.5	(1.1)	(1.8)
Inventories	27.6	24.3	21.0	(6.6)	(23.9)
Equity	55.3	54.6	54.3	(1.0)	(1.8)
Total operating income	(1.2)	(1.9)	(0.3)	0.9	73.6

INTERNACIONAL ACTIVITY

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

Under the strategic redefinition of the international equity holdings, and with a view to refocusing the approach to the African market, Banco Montepio is continuing to take measures towards the deconsolidation of Finibanco Angola, and, considering the new legal framework of Cape Verde and having weighed up all the relevant strategic options, in 2021, the Board of Directors of Banco Montepio decided not to promote the changes required to covert its subsidiary Banco Montepio Geral Cabo Verde into a bank with general authorisation.

Therefore, through a Unanimous Decision in Writing dated 30 November 2021, Banco Montepio, as sole shareholder, approved the procedural initiatives stipulated in the law for the voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde, having also approved its Dissolution Plan and approved the liquidators. The liquidation process is expected to be completed during the financial year 2022.

Finibanco Angola, S.A., 80.22% held by Banco Montepio, is a universal bank supporting Small and Medium-sized Enterprises, Individuals and Angolan foreign trade with special incidence on transactions between Portugal and Angola, which seeks to leverage its competitive advantage on the quality of its service. Under its strategy, Finibanco Angola seeks to support and finance Individual Customers and Micro-enterprises, promoting viable business initiatives.

Finibanco Angola completed 14 years of activity in September 2022, having been incorporated on 4 September 2007 and having started its activity in the city of Luanda on 9 June 2008.

As of 30 June 2022, Finibanco Angola had a network of 15 agencies (Retail Banking and Small Businesses) and 5 Business centres (Corporate Banking).

Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. – Em Liquidação., 100% held by Banco Montepio, until the date of its voluntary dissolution and liquidation (30 November 2021), provided a comprehensive offer of specialised financial products and services for the Individuals segment with international vocation, especially directed at diversified investment and savings solutions.

The total Assets of the international activity of the Banco Montepio Group reached 306.4 million euros as at 30 June 2022, compared to 317.9 million euros recorded at the end of 2021. This evolution essentially reflects the reduction in the Total assets of Finibanco Angola, influenced by the aggregate decrease in the headings of Cash and deposits at central banks and Other credit institutions, partially offset by the increase in the Securities portfolio.

In the first half of 2022, despite the process of voluntary dissolution and liquidation in course of Banco Montepio Geral Cabo Verde and the adverse evolution of the net gains/(losses) from foreign exchange differences, the Net income of the international activity of the Banco Montepio Group reached 1.6 million euros (3.0 million euros in the first half of 2021), without considering non-controlling interests and exchange rate effects.

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

Activity and Results (million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Total assets	429.7	317.9	306.4	(123.3)	(28.7)
Loans to customers (net)	47.3	59.0	55.4	8.1	17.2
Customer deposits	317.8	198.4	192.0	(125.8)	(39.6)
Total operating income	9.4	17.1	12.9	3.6	38.0
Operating costs	8.0	16.4	7.0	(1.0)	(12.5)
Cost-to-income	85.3%	96.1%	54.1%	(31.2 p.p.)	
Net income	3.0	10.3	1.6	(1.4)	(48.0)

Notes:

1) For comparative purposes the financial statements of Jun-20, Dec-21 and Jun-22 of Finibanco Angola were converted using the same exchange rate: AOA/EUR 446.129.

2) Since 30 November 2021, Banco Montepio Geral Cabo Verde is undergoing a process of voluntary dissolution and liquidation.

Finibanco Angola, S.A.

The Total assets of Finibanco Angola as at 30 June 2022 stood at 297.1 million euros, compared to 308.4 million euros at the end of 2021 (-3.7%). This evolution was mainly influenced by the reduction in the aggregate of the headings of Cash and deposits at central banks and Other credit institutions (-25.2%), partially offset by the increase in the Securities Portfolio, namely Angolan Public Debt securities in the balance sheet compared to the values reached at the end of 2021 (+52.7%).

Loans to customers (net) totalled 55.4 million euros as at 30 June 2022, representing a decrease of 6.2% in relation to the value of 59.0 million euros recorded on 31 December 2021.

Customer deposits as at 30 June 2022, stood at 192.0 million euros, compared to 198.4 million euros as at 31 December 2021, representing a reduction of 3.2%.

The aggregate of the headings of Cash and deposits at central banks and Other credit institutions (OCI) includes the balances recorded under Cash and deposits at central banks and Loans and advances to credit institutions. As at 30 June 2022, this aggregate amounted to 58.1 million euros (-25.2%), reflecting a greater decrease than that recorded in Customer deposits.

In the first half of 2022, Total operating income reached 12.9 million euros, representing an increase of 3.8 million euros (+42.0%) compared to the value recorded in the first half of 2021, reflecting, on the one hand, the increase in Net interest income (+3.6 million euros) and Net fees and commissions (+0.5 million euros), along with the favourable evolution of Other operating income (+0.2 million euros), and on the other hand, the reduction observed in Net gains/(losses) from foreign exchange differences (-0.5 million euros).

Operating costs stood at 7.0 million euros in the first half of 2022, showing a reduction of 0.7 million euros (-9.2%) in comparison to the first half of 2021. The decrease observed in Operating costs in the first half of 2022 was driven by the reductions recorded in the General administrative expenses (-31.3%) and Depreciation and amortisation (-10.2%), which more than offset the increase in Staff costs (+7.0%) compared to the first half of 2021.

As a result of the favourable operating performance, the Cost-to-income ratio of Finibanco Angola stood at 54.1% in the first half of 2022, compared to 84.7% recorded in the first half of 2021.

In the first half of 2022, Impairments, and provisions (net) increased by 6.0 million euros, influenced by the progression of Credit impairment, which increased by 6.7 million euros compared to the first half of 2021.

In the first half of 2022, despite the unfavourable evolution of Impairments and provisions (net), Finibanco Angola's Net income reached 1.6 million euros (2.9 million euros in the first half of 2021), without considering non-controlling interests and exchange rate effects.

The key indicators of Finibanco Angola are presented in the following table:

Activity and Results (million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Total assets	317.4	308.4	297.1	(20.3)	(6.4)
Loans to customers (net)	47.3	59.0	55.4	8.1	17.2
Customer deposits	213.5	198.4	192.0	(21.5)	(10.1)
Total operating income	9.1	16.6	12.9	3.8	42.0
Operating costs	7.7	16.0	7.0	(0.7)	(9.2)
Cost-to-income	84.7%	96.1%	54.1%	(30.6 p.p.)	
Net income	2.9	9.1	1.6	(1.4)	(47.0)

Note: For comparative purposes the financial statements of Jun-21, Dec-21 and Jun-22 of Finibanco Angola were converted using the same exchange rate: AOA/EUR 446.129.

Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. – Em Liquidação

As indicated above, considering the new legal framework of Cape Verde and having weighed up all the relevant strategic options, in 2021, the Board of Directors of Banco Montepio decided not to promote the changes required to convert its subsidiary Banco Montepio Geral Cabo Verde into a bank with general authorisation, having decided on 30 November 2021, as sole shareholder, to approve the procedural initiatives stipulated in the law for the voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde. .

In this context, the financial statements of Banco Montepio Geral Cabo Verde for the first half of 2022 were drawn up pursuant to the condition of a bank under liquidation and in conformity with the International Financial Reporting Standards ("IFRS") as approved by the European Union ("EU") in force on that date, considering that the activity of Banco Montepio Geral Cabo Verde is included in the consolidation perimeter of Banco Montepio, its sole shareholder.

The financial statements were prepared on the assumption of non-continuity of operations.

On 30 June 2022, the Assets of Banco Montepio Geral Cabo Verde came to a total of 9.2 million euros, and total Deposits at other credit institutions abroad are at Banco Montepio.

CAPITAL AND LIQUIDITY

CAPITAL

According to the provisions in force, on 30 June 2022, the regulatory ratios, considering Overall Capital Requirements (OCR), which include the combined capital reserves, were 9.08%, 11.19% and 14.01% for Common equity tier 1, Tier 1, and Total capital, respectively.

However, as a consequence of the Covid-19 pandemic, and in line with the decision taken by the ECB for significant institutions, Banco de Portugal took a series of measures aimed at enhancing the flexibility of the regulatory and supervision requirements, enabling less significant credit institutions subject to its supervision to operate, temporarily, until the end of 2022, at a level lower than that of the combined reserve of own funds (i.e. below the Overall Capital Requirements – OCR), considering that the capital reserves were designed to enable credit institutions to overcome especially adverse situations. In this way, the minimum regulatory ratios as at 30 June 2022 for Common equity tier 1, Tier 1 and Total capital were 6.328%, 8.438% and 11.25%, respectively.

With reference to 30 June 2022, the capital ratios reported by Banco Montepio were above the required prudential levels of the overall capital requirement (OCR), including the combined own funds reserves, not only according to the phasing-in criteria, but also on a fully implemented basis.-. Nevertheless, the Board of Directors remains committed to strengthening the capital ratios and has been promoting initiatives to this end and successfully implementing the approved capital plan.

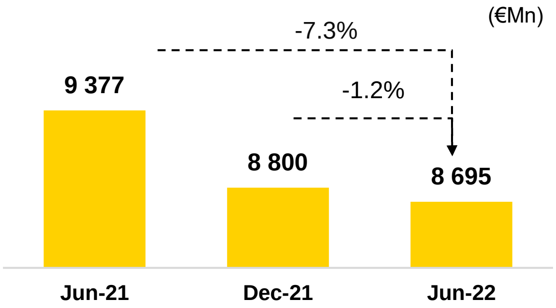
Thus, and continuing the continuous strengthening of the capital ratios, in the first half of 2022, Banco Montepio proceeded with the implementation of a series of measures aimed at improving solvency levels, namely through the reduction of risk-weighted assets (RWA), focused on deleveraging the balance sheet via divestment of non-core or non-strategic assets, fostering the growth of the core business of granting loans in lower risk segments, and with a view to maximising the return on the assigned capital.

Risk-weighted assets maintained their downward trajectory, showing a further decrease of 105 million euros compared to the end of 2021 despite the significant growth of the business, mainly due to the reduction of non-strategic assets, achieved in the stock of non-performing loans (NPL) and real estate assets and participation units, as well as the recompositing of the balance sheet, which benefited from efficient risk allocation in the credit portfolios, with a distinct credit risk profile and lower underlying capital consumption.

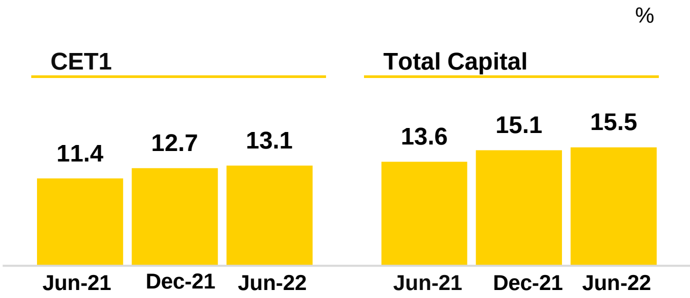
Total own funds increased to 1,345 million euros as at 30 June 2022, from 1,328 million euros as at 31 December 2021, reflecting the favourable evolution of net income for the period, as well as the exchange reserve due to the appreciation of the Kwanza against the Euro and the Dollar, and the actuarial deviations determined in terms of pension liabilities, which more than offset the unfavourable impacts of phasing-in under IFRS 9.

Thus, due to the successful accomplishment of the outlined capital plan, Banco Montepio's Common equity tier 1 (CET1) and Total capital ratios, in accordance with the phasing-in rules, increased to 13.1% and 15.5%, respectively, translating into an increase of 40 b.p. in both ratios in comparison with the end of 2021 (12.7% and 15.1% at the end of 2021), consolidating the upward trend registered in recent quarters, as a consequence of the continued reduction of risk-weighted assets and the contribution of net income for the year in the first six months of 2022, and having gained considerable leeway with regard to regulatory requirements, namely the OCR.

Risk-weighted assets (phasing-in)



Capital ratios (phasing-in)



Note: Ratios include the accumulated net income for the period.

On a fully implemented basis, there was an even more favourable evolution compared to the end of 2021, with an increase of 80 b.p. in both ratios, to 12.6% in the CET1 ratio and to 15.0% in the Total capital ratio, also showing significant leeway with regard 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. Furthermore, Banco Montepio endorsed the prudential filter relative to the fair-value reserves of public debt, whose impact is immaterial.

As at 30 June 2022, the leverage ratio stood at 5.7% (5.6% at the end of 2021) pursuant to the phasing-in rules, and at 5.5% on a fully implemented basis (5.1% in December 2021), continuing to be above the benchmark minimum defined by the Basel Committee on Banking Supervision (3%).

According to the provisions in force, on 30 June 2022, the regulatory ratios, considering Overall Capital Requirements (OCR), which include the combined capital reserves, were 9.08%, 11.19% and 14.01% for Common equity tier 1, Tier 1, and Total capital, respectively.

However, as a consequence of the Covid-19 pandemic, and in line with the decision taken by the ECB for significant institutions, Banco de Portugal took a series of measures aimed at enhancing the flexibility of the regulatory and supervision requirements, enabling less significant credit institutions subject to its supervision to operate, temporarily, until the end of 2022, at a level lower than that of the combined reserve of own funds (OCR), considering that the capital reserves were designed to enable credit institutions to overcome especially adverse situations. In this way, the minimum regulatory ratios as at 30 June 2022 for Common equity tier 1, Tier 1 and Total capital were 6.328%, 8.438% and 11.25%, respectively.

With reference to 30 June 2022, the capital ratios reported by Banco Montepio were above the required prudential levels of the overall capital requirement (OCR), including the combined own funds reserves, not only according to the phasing/in criteria, but also on a fully implemented basis. Nevertheless, the Board of Directors remains committed to strengthening the capital ratios, promoting initiatives to this end whenever appropriate.

A summary of the ratios of own funds of the Banco Montepio Group for Jun-21, Dec-21 and Jun-22 is presented below:

CAPITAL AND CAPITAL REQUIREMENTS

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Total own funds							
Common Equity Tier 1	1 068	1 122	1 137	69	6.5	15	1.4
Tier 1	1 068	1 122	1 138	70	6.5	16	1.5
Total Capital	1 275	1 328	1 345	70	5.5	17	1.3
Risk-weighted assets	**9 377**	**8 800**	**8 695**	**(682)**	**(7.3)**	**(105)**	**(1.2)**
Phasing-in ratios							
Common Equity Tier 1	11.4%	12.7%	13.1%	170 bp		40 bp	
Tier 1	11.4%	12.7%	13.1%	170 bp		40 bp	
Total Capital	13.6%	15.1%	15.5%	190 bp		40 bp	
Fully implemented ratios							
Common Equity Tier 1	10.3%	11.8%	12.6%	230 bp		80 bp	
Tier 1	10.3%	11.8%	12.6%	230 bp		80 bp	
Total Capital	12.5%	14.2%	15.0%	250 bp		80 bp	
Leverage ratios							
Phasing-In	5.4%	5.6%	5.7%	30 bp		10 bp	
Fully implemented	4.8%	5.1%	5.5%	70 bp		40 bp	

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

LIQUIDITY

In the first half of 2022, Banco Montepio continued to develop management measures aimed at upholding a robust liquidity position, with levels well above the regulatory limits in force and in line with the strategic goals of the Funding and Capital Plan.

The management of Banco Montepio's balance sheet enabled the liquidity coverage ratio (LCR) to be set at 262.7% (264.1% as at 31 December 2021), which is 162.7 p.p. above the minimum regulatory requirement of 100%.

At the same time, the Bank maintains a comfortable base of stable funding, as a result of the delineated funding structure, namely using medium and long-term instruments, which enabled the net stable funding ratio (NSFR) to stand at 121.1% (125.3% as at 31 December 2021).

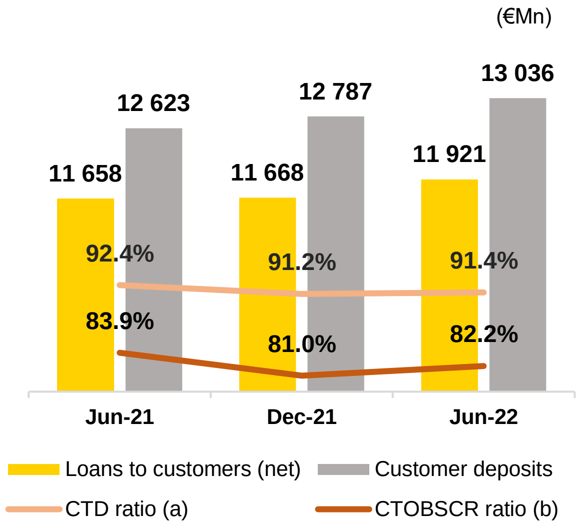
Reflecting Banco Montepio's strategy of investing in liquid assets, from a perspective of integrated management of liquidity and funding sources, on 30 June 2022, the value of the pool of collateral for Eurosystem operations was 4,982 million euros, compared to 3,808 million euros at the end of 2021, representing an increase of 1,174 million euros. The pool of collateral included tradable assets, namely eligible debt instruments, in the amount of 4,415 million euros, and non-tradable assets, such as eligible credit rights granted to Non-Financial Corporations and Public Sector Entities, namely bank loans and utilised credit lines, valued at 568 million euros.

The use of the pool of eligible assets at the end of the first half of 2022, of the value of 2,955 million euros, which includes Eurosystem financing operations for a nominal amount of 2,940 million euros, remained in line with the value observed on 31 December 2021, as part of the funding management aimed at preserving stable funding. The Eurosystem financing operations are composed in their entirety of several series of TLTRO-III (Targeted Longer-term Refinancing Operations).

In terms of collateral available to obtain liquidity, the increase of 1,177 million euros to 2,027 million euros at the end of December 2021 reflects the policy of investing in eligible assets as a way of applying excess liquidity, optimising net interest income and the maturity profile of the banking portfolio.

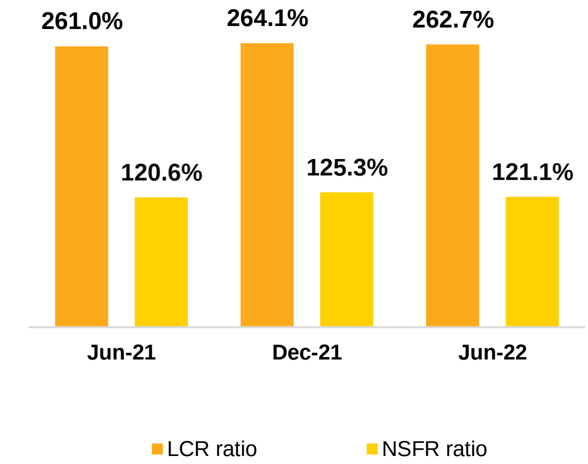
The performance of Customer deposits, on the one hand, and the progression of Loans to customers (net), on the other hand, led to a loan-to-deposit ratio, calculated in accordance with Banco de Portugal Instruction No. 16/2004, of 91.4% as at 30 June 2022, compared to 91.2% as at 31 December 2021.

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



In the heading Deposits at Banco de Portugal, which reached the value of 1,624 million euros as at 30 June 2022, there was a reduction of 1,158 million euros compared to the end of 2021 set off against the investment in eligible assets, maintaining the levels of the liquidity buffer.

Accordingly, the liquidity buffer, which reflects the liquidity immediately available, resulting from the aggregation of the value of assets available for obtaining funding from the ECB and Cash and deposits at central banks, came to 3,664 million euros as at 30 June 2022, recording an increase of 26 million euros compared to the end of 2021, reflected in the comfortable position of the liquidity ratios.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Pool of eligible assets [(a)]	3 654	3 808	4 982	1 328	36.3	1 174	30.8
Use of the pool	2 906	2 958	2 955	49	1.7	(3)	(0.1)
Pool of available assets	**748**	**850**	**2 027**	**1 279**	**>100**	**1 177**	**>100**

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

In the interbank money market, Banco Montepio did not show any assignment or taking of funds. In the interbank money market of foreign currency, Banco Montepio showed a position of 15 million US dollars assigned from a treasury management and foreign exchange position perspective.

BALANCE SHEET AND RESULTS

As part of the simplification of the Group's corporate structure, and given that it was not Banco Montepio's intention to make the necessary changes to convert Banco Montepio Geral Cabo Verde into a bank with general authorisation, the necessary authorisation process for the adoption of the resolution for the voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde was promoted with Banco de Cabo Verde, in accordance with the law, which has been underway since 30 November 2021 and is expected to be completed during 2022. As at 30 June 2022 this entity is presented as a discontinued operation, and its assets and liabilities are registered under the headings of Non-current assets and liabilities held for sale - Discontinued operations, respectively.

In accordance with IFRS 5, the subsidiary Finibanco Angola is now fully consolidated line by line, retrospectively, having ceased to meet the conditions laid down in that standard for being considered a discontinued entity.

BALANCE SHEET

In view of the changing circumstances and the challenges facing the Banco Montepio Group, the banking sector and the Portuguese economy, the Board of Directors adopted a multi-dimensional, multi-year Adjustment Programme, through the adoption of four main strategic pillars: business model review, operational adjustment, preservation of capital, and simplification of the Group.

Accordingly, the deleveraging of the balance sheet continued, materialised in the reductions of non-performing assets and in the ongoing strengthening of its liquidity position, through the capture and retention of Customer deposits and the active management of the securities portfolio, contributing to reinforce the solid liquidity position even more. The set of delineated initiatives, namely the strengthening of the in-house recovery of loans, enabled Banco Montepio to pursue its plan to reduce non-performing loans, whose stock amounted to 924 million euros as at 30 June 2022, corresponding to a 2.0% decline in relation to the 942 million euros as at 31 December 2021.

On the other hand, with a view to the simplification of the corporate structure of the Banco Montepio Group and the strategic redefinition of the international holdings, the measures stipulated in the Adjustment Programme primarily concern the sale of equity stakes in the national and international market. In this regard, reference is made to the sale of all the equity stakes held in Monteiro Aranha S.A., in June 2021, in Almina Holding S.A., in June 2021, and in Montepio Valor - Sociedade Gestora de Organismos de Investimento Coletivo, S.A., on 30 December 2021

Additionally, the Group continues to take measures towards the deconsolidation of Finibanco Angola, S.A., and, having decided not to promote the necessary changes to convert Banco Montepio Geral Cabo Verde into a bank with general authorisation, this subsidiary has been in the process of voluntary dissolution and liquidation since 30 November 2021.

SYNTHETIC BALANCE SHEET

(million euros)

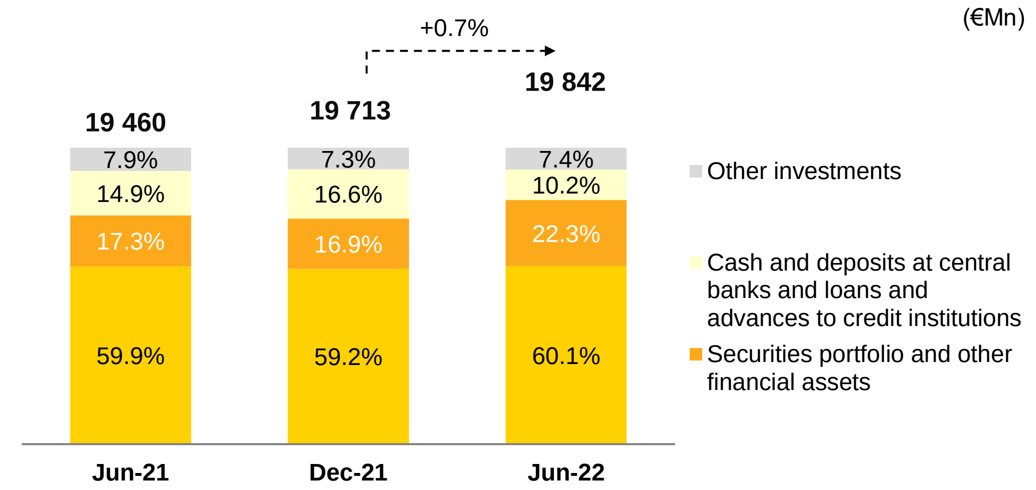
	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Cash and deposits at central banks and loans and advances to credit institutions	2 906	3 264	2 030	(876)	(30.1)	(1 234)	(37.8)
Loans to customers	11 658	11 668	11 921	263	2.3	253	2.2
Securities portfolio and other financial assets*	3 364	3 339	4 419	1 055	31.4	1 080	32.4
Non current assets held for sale and investment properties	121	142	85	(36)	(29.8)	(57)	(40.2)
Non current assets held for sale - Discontinued operations	2	0	0	(2)	(94.6)	0	(79.7)
Current and deferred tax assets	497	467	455	(42)	(8.5)	(12)	(2.4)
Other	913	834	932	19	2.1	98	11.8
Total assets	**19 460**	**19 713**	**19 842**	**382**	**2.0**	**129**	**0.7**
Deposits from central banks and other credit institutions	3 593	3 457	3 264	(329)	(9.2)	(193)	(5.6)
Customer resources	12 623	12 787	13 036	413	3.3	249	1.9
Debt issued	1 487	1 834	1 673	186	12.5	(161)	(8.8)
Non current liabilities held for sale - Discontinued operations	105	0	0	(105)	(99.9)	0	(56.8)
Other	301	271	328	27	9.1	57	21.1
Total liabilities	**18 110**	**18 350**	**18 301**	**191**	**1.1**	**(49)**	**(0.3)**
Share capital*	2 420	2 420	2 420	0	0.0	0	0.0
Reserves, retained earnings and other	(1 036)	(1 063)	(902)	134	12.9	161	15.1
Net income	(33)	7	23	56	>100	16	>100
Total equity	**1 351**	**1 363**	**1 541**	**190**	**14.1**	**178**	**13.0**
Total liabilities and equity	**19 460**	**19 713**	**19 842**	**382**	**2.0**	**129**	**0.7**

* 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 show an increase of 129 million euros (+0.7%) in relation to the end of 2021, primarily determined by the increases recorded in the headings of Securities portfolio and Loans to customers, which allowed reducing the excess liquidity shown under the heading of Cash and deposits at central banks by 1,157 million euros.

Asset structure



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

As at 30 June 2022, the liquidity deposited at Central Banks and Other credit institutions stood at 2,030 million euros, compared to 3,264 million euros recorded at the end of 2021, corresponding to a decrease of 1,234 million euros (-37.8%), reflecting the funding strategy outlined within the scope of liquidity management with reinforcement of the public debt portfolio.

LOANS TO CUSTOMERS

As at 30 June 2022, Loans to customers(gross) increased to 12,436 million euros, an increase of 247 million euros (+2.0%) compared to 12,189 million euros as at 31 December 2021. However, this evolution was impacted by write-offs of 24.3 million euros and by the assignment of non-performing loans under the Gerês Operation carried out at the end of 2021.

In December 2021, purchase and sale agreements were entered into with respect to a portfolio of non-performing loans of the value of 253 million euros, which comprised on-balance sheet and off-balance sheet contracts (Gerês Operation). The book value of the sold NPL was 133 million euros, of which 48 million euros was an unsecured portfolio, derecognised in December 2021. The secured component of this operation was recorded under Non-current assets held for sale at the end of 2021, with its financial settlement having taken place at the end of March 2022.

It is important to highlight that gross performing loans grew by 265 million euros in relation to the end of 2021 (+2.4%), while non-performing loans decreased by 18 million euros (-1.9%), accomplishing the strategy of deleveraging in non-performing assets.

At the same time, there was an improvement in the credit quality indicators, which benefited from rigorous risk-taking discipline, as well as the measures that were approved and implemented in the credit monitoring and recovery areas. Therefore, as a result of the actions that have been implemented, and notwithstanding the increase at the end of the first half of 2022, both of the number of new contracts[4] that moved into default (+82%) and of the value in default (+166%), compared to the first half of 2021, the values remained significantly below those recorded in the pre-moratorium period, -29% and -28%, respectively.

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

Of note was the positive performance of business in the Corporate Loans segment, which grew 273 million euros, against a backdrop of slowing economic activity, after the sharp reduction in 2020 and 2021, as a result of the Covid-19 pandemic and the contagion effects of the war in Ukraine on economic agents, and which more than offset the reduction noted in loans granted to Individuals (-26 million euros), both for residential purposes (-16 million euros), which continues to show a higher level of repayment in comparison to new operations raised, and for loans granted for Other purposes (-10 million euros).

Under Banco Montepio's Adjustment Programme, the improvement of credit quality is also based on a more effective and integrated management of the non-performing exposures, by maximising recoveries and corporate finance solutions, benefiting from the strategic focused on the segments of Individuals and Companies, particularly on Small and Medium-sized Enterprises (SME) and Social Economy Entities.

LOANS TO CUSTOMERS
(By sector of activity)

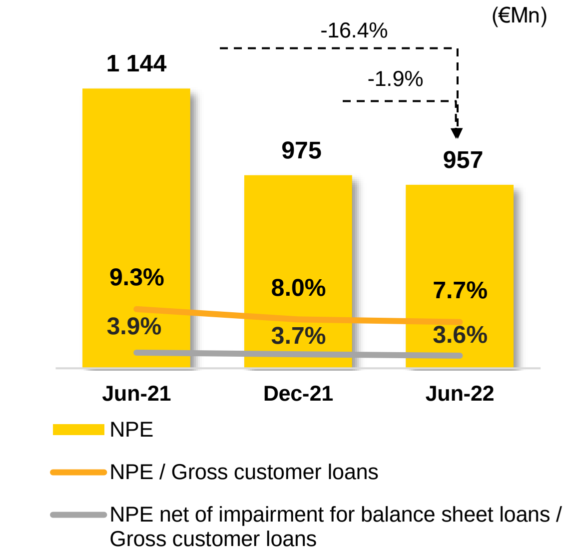
(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Individuals	**6 454**	**6 453**	**6 427**	**(27)**	**(0.4)**	**(26)**	**(0.4)**
Housing loans	5 688	5 680	5 664	(24)	(0.4)	(16)	(0.3)
Others	767	773	763	(4)	(0.4)	(10)	(1.3)
Corporate	**5 863**	**5 736**	**6 009**	**146**	**2.5**	**273**	**4.7**
Manufacturing industries	1 016	1 031	1 175	159	15.7	144	14.0
Wholesale and retail trade	905	860	934	29	3.2	74	8.6
Construction and Public works, and Real estate activities	1 214	1 065	1 050	(164)	(13.5)	(15)	(1.4)
Accommodation and catering activities	607	596	602	(5)	(0.8)	6	1.1
Financial and insurance activities	549	493	458	(91)	(16.6)	(35)	(7.1)
Transportation and storage	384	393	399	15	4.1	6	1.5
Business Services	373	367	373	0	(0.1)	6	1.5
Other collective service activities	330	340	363	33	9.9	23	6.8
Others	486	592	655	169	34.8	63	10.6
Gross loans	**12 318**	**12 189**	**12 436**	**118**	**1.0**	**247**	**2.0**
Impairment for credit risk	**660**	**522**	**515**	**(145)**	**(22.0)**	**(7)**	**(1.3)**
Net loans	**11 658**	**11 668**	**11 921**	**263**	**2.3**	**253**	**2.2**

Despite the challenges of the current macroeconomic context, embodying the effect of the measures referred to above, Banco Montepio was able to reduce the stock of non-performing loans, consequently reflected in the decline of the ratio of non-performing exposures (NPE) in relation to the total Gross loans to customers, which stood at 7.7% as at 30 June 2022, compared to 8.0% as at the end of 2021.

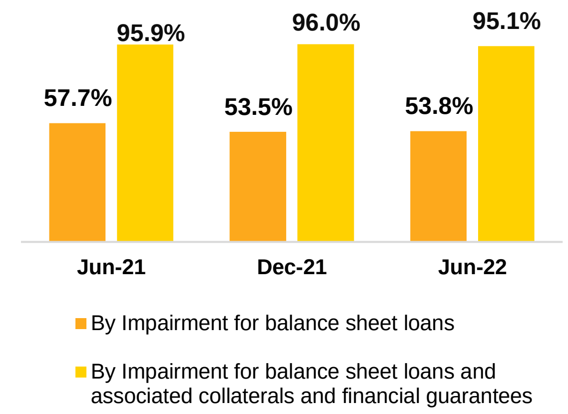
This favourable evolution reveals, on the one hand, the reduction of the balance of non-performing exposures in relation to the value recorded at the end of 2021(-1.9%), which stood at 957 million euros as at 30 June 2022, and on the other hand, the growth of gross Loans to Customers (+2.0%). In turn the NPE ratio net of on-balance sheet loan impairment stood at 3.6% as at 30 June 2022 evolved favourably in relation to the 3.7% recorded at the end of 2021.

Non-performing exposures (NPE)*



* EBA definition

NPE* Coverage



* EBA definition

As at 30 June 2022, Banco Montepio also strengthened the level of coverage of balance sheet impairment, which reached 53.8%, compared to 53.5% as at 31 December 2021. In turn, the coverage of non-performing exposures by impairment for loans and associated collateral and financial guarantees on the balance sheet stood at 95.1% as at 30 June 2022, compared to 96.0% at the end of 2021.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

In the context of the strategy of rebalancing the asset structure, Banco Montepio continued, in the first half of 2022, 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 2022, the portfolio of securities and other instruments amounted to 4,419 million euros, compared to 3,339 million euros recorded as at 31 December 2021, an increase which aimed to reduce the financial cost of excess liquidity.

A positive contribution was made by the increase in Other financial assets at amortised cost of 1,124 million euros due to investment in public debt securities, reflecting the execution of the funding and liquidity application strategy and, to a lesser extent, the increase in the Financial assets held for trading portfolio of 10 million euros, resulting from the increase in Securities held for trading, namely bonds (+ 5.1 million euros) and shares (+1.2 million euros).

In turn, there was a reduction of 51 million euros in the portfolio of Financial assets at fair value through profit or loss, derived from the reduction of Investment fund units and Variable yield securities, as a result of the deleveraging outlined in the approved Capital Plan, which was successfully implemented and contributed, along with other measures, to the strengthening of capital ratios.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Financial assets held for trading	31	8	18	(13)	(42.9)	10	>100
Financial assets at fair value through other comprehensive income	230	123	122	(108)	(47.0)	(1)	(1.3)
Other financial assets at amortised cost	2 814	3 004	4 128	1 314	46.7	1 124	37.4
Financial assets not held for trading mandatorily at fair value through profit or loss*	290	203	152	(138)	(47.6)	(51)	(25.3)
Total Securities portfolio and other financial assets	**3 364**	**3 339**	**4 419**	**1 055**	**31.4**	**1 080**	**32.3**

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

In analysing the securities portfolio by type of instrument, an increase is observed in relation to 31 December 2021 of 1,128 million euros in Bonds and other debt instruments, which include public debt, that led to the increase recorded in the portfolio of securities and other instruments of 32.3% in relation to 31 December 2021.

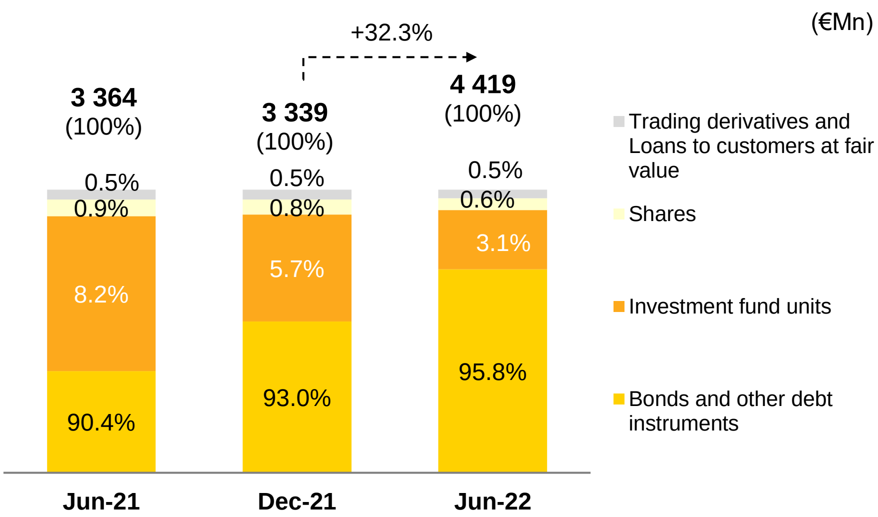
SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS BY TYPE OF INSTRUMENT

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Bonds and other debt instruments	3 041	3 105	4 233	1 192	39.2	1 128	36.3
Shares	29	26	28	(1)	(5.9)	2	4.5
Investment fund units	276	189	139	(137)	(49.8)	(50)	(26.8)
Trading derivatives	8	8	11	3	44.6	3	47.4
Loans to customers at fair value	10	10	9	(1)	(9.5)	(1)	(7.2)
Total securities portfolio and other financial assets	**3 364**	**3 339**	**4 419**	**1 055**	**31.4**	**1 080**	**32.3**

The structure of the Securities Portfolio and other instruments remained, as at 30 June 2022, primarily composed of Bonds and other debt instruments, whose total weight in the portfolio increased to 95.8%. In turn, the proportion of Investment fund units and Shares decreased to 3.1% and 0.6% of the portfolio, respectively.

Structure of the Securities Portfolio and other financial assets

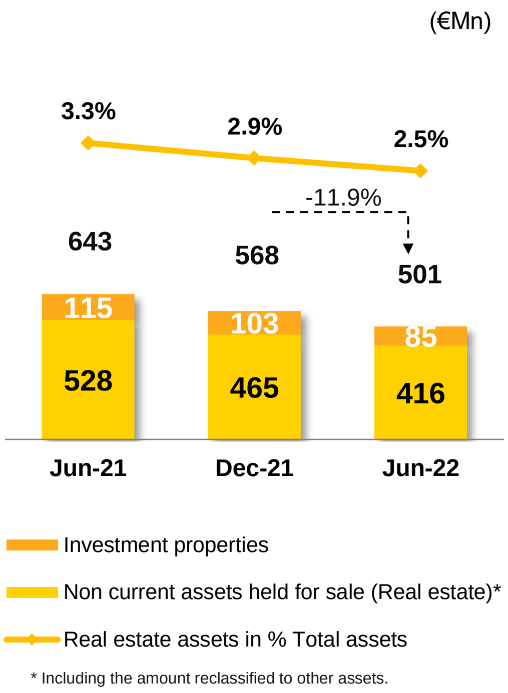


NON-CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

The aggregate of these headings is influenced by the reclassification of the Non-current assets held for sale, primarily related to real estate properties held, to the heading of Other assets, but with the strategy to reduce exposure to real estate risk remaining unchanged.

The evolution of the exposure to real estate assets, incorporating the aforesaid reclassification, showed a year-on-year decrease of 11.9% as at 30 June 2022 in relation to the end of 2021, in having shifted from 568 million euros as at 31 December 2021 to 501 million euros as at 30 June 2022, in line with the guidelines for the integrated management of real estate properties and consequent reduction of exposure to this activity sector.

Exposure to Real Estate Assets



The heading of Non-current assets held for sale, together with the value reclassified to the heading of Other assets, essentially shows the reduction in the value associated with real estate properties derived from the dissolution of loan contracts with Customers, which fell 49 million euros (-10.6%) from 465 million euros at the end of December 2021 to 416 million euros as at 30 June 2022. This evolution primarily reveals the effect of credit recovery.

Investment properties, a heading which records the real estate properties held by the Real Estate Investment Funds in Banco Montepio's consolidation perimeter, decreased by 17.7%, from 103 million euros at the end of December 2021 to 85 million euros as at 30 June 2022, continuing to accomplish the goal of reducing exposure to real estate risk, whose weight in total net assets shows a downward trajectory, reflected in a ratio of 2.5% at the end of the first half (compared with 3.3% in the same period of the previous year).

NON-CURRENT ASSETS HELD FOR SALE – DISCONTINUED OPERATIONS

As at 30 June 2022 the heading of Non-current assets held for sale - Discontinued operations amounted to 0.09 million euros, corresponding to the value of the assets recorded by the Group's operations related to the subsidiary Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. – Em Liquidação, after having been adjusted for the necessary movements of the consolidation process, having been stated following the application of IFRS 5, as indicated in Note 58 of the notes to the consolidated financial statements.

CURRENT AND DEFERRED TAX ASSETS

As at 30 June 2022, the aggregate of Current and deferred tax assets amounted to 455 million euros, compared to 467 million euros as at 31 December 2021.

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

OTHER

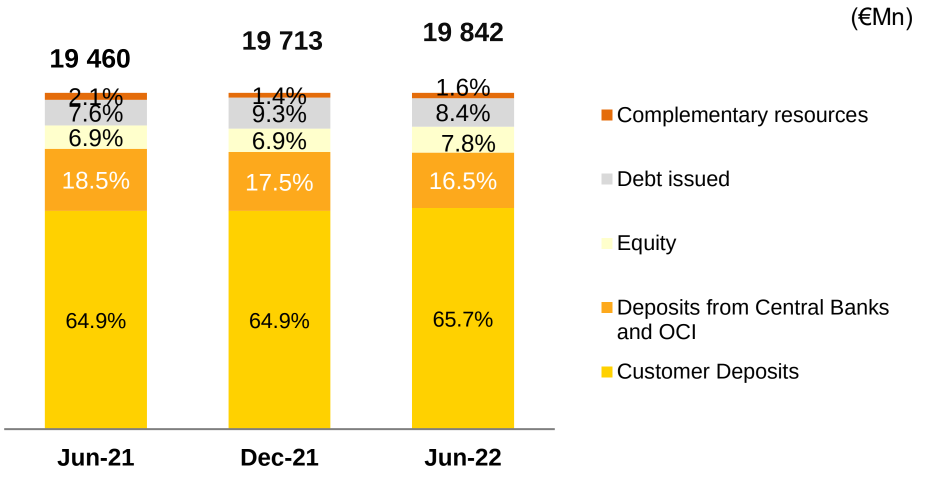
The aggregate of Other presented in the Assets of the synthetic balance sheet includes the headings of Assets with repurchase agreements, Hedge derivatives, Other tangible assets, Intangible assets, Investments in associates and Other assets.

As at 30 June 2022, the aggregate Other stood at 932 million euros, compared to 834 million euros as at 31 December 2021, of which 416 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 2022, total Liabilities stood at 18,301 million euros, down 49 million euros (-0.3%) compared to 18,350 million euros as at 31 December 2021, essentially due to the reduction in Resources from other credit institutions (-194 million euros), and Debt Issued (-161 million euros), despite the increase in Customer resources (+249 million euros). As at 30 June 2022, equity funded 7.8% of Assets and Debt issued funded 8.4%, reflecting the issues made to strengthen the Bank's own funds. Customer deposits continued to be the main source of balance sheet funding, representing 65.7% of total liabilities and equity.

Liabilities and Equity Structure



DEPOSITS FROM CENTRAL BANKS AND OTHER CREDIT INSTITUTIONS

As at 30 June 2022, the funding obtained from Central Banks and other credit institutions amounted to 3,264 million euros, compared to 3,457 million euros recorded at the end of 2021, revealing a decrease of 5.6%.

These loans were collateralized by portfolios of financial assets at fair value through other comprehensive income and the portfolio of other assets at amortised cost, which amounted to 2,902 million euros, in line with the value recorded as at 31 December 2021 (2,903 million euros).

Funding obtained from Other credit institutions stood at 361 million euros as at 30 June 2022, compared to 555 million euros as at 31 December 2021, representing a reduction of 35.0% determined by the termination of a REPO operation in the amount of 191 million euros, which denotes the active treasury management and funding costs, in a particular context of negative interest rates experienced until the first half of 2022.

CUSTOMER RESOURCES

Total Customer resources amounted to 14,325 million euros as at 30 June 2022, of which 13,241 million euros correspond to Customer resources on the balance sheet, with 98.5% referring to Customer deposits.

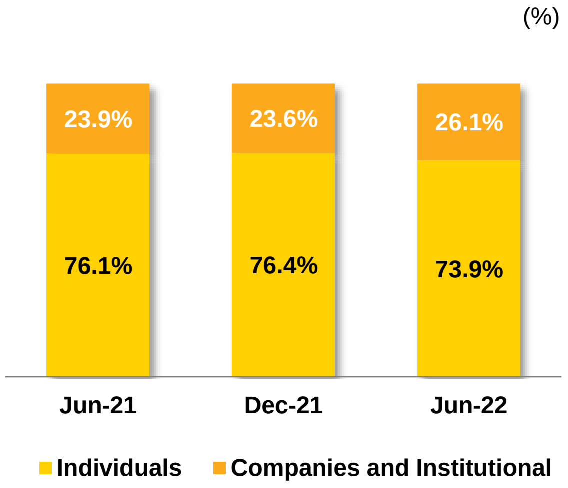
As at 30 June 2022, Customer deposits reached 13,036 million euros, concentrated-mainly in Individual Customers, which, notwithstanding the increase in the weight of Corporate and Institutional Customers deposits, remained the predominant segment, representing 73.9% of the total.

As at 30 June 2022, Customer deposits increased by 249 million euros compared to 31 December 2021. The favourable evolution referred to above is supported by Corporate and Institutional Customers with an increase of 375 million euros, while Deposits from Individual Customers fell by 126 million euros, with Term deposits falling by 88 million euros and Sight deposits rising by 337 million euros, maintaining the pace of recomposition of the structure of the deposit portfolio with the change in the Sight deposits/Term deposits mix, which was set at 52%/48% as at 30 June 2022.

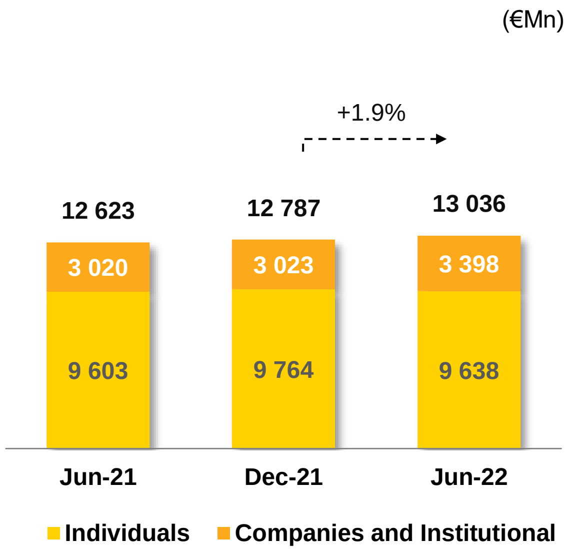
As at 30 June 2022, the heading of Securities placed with customers stood at 205 million euros, compared to 209 million euros at the end of December 2021.

Off-balance sheet resources reached 1,084 million euros as at 30 June 2022, compared to 1,045 million euros recorded at the end of December 2021, representing a 3.8% increase, underpinned by the increases recorded in the Real estate investment funds (+63 million euros), which more than offset the reduction recorded in Pension Funds (-17 million euros) and Securities investment funds (-6 million euros).

Customer deposits structure



Customer deposits



CUSTOMER RESOURCES

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Customer deposits	**12 623**	**12 787**	**13 036**	**413**	**3.3**	**249**	**1.9**
Sight deposits	6 004	6 428	6 765	761	12.7	337	5.3
Term deposits	6 619	6 359	6 271	(348)	(5.3)	(88)	(1.4)
Securities placed with customers	206	209	205	(1)	(0.2)	(4)	(1.6)
Total on-balance sheet resources	**12 829**	**12 996**	**13 241**	**412**	**3.2**	**245**	**1.9**
Off-balance sheet resources	903	1 045	1 084	181	20.1	39	3.8
Total customer resources	**13 732**	**14 041**	**14 325**	**593**	**4.3**	**284**	**2.0**

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 2022, the value of Debt issued stood at 1,673 million euros, representing a reduction of 161 million euros (-8.8%) in relation to the value of 1,834 million euros recorded as at 31 December 2021, as a result of the decrease recorded in Mortgage covered bonds (92 million euros), and in Securitisations (63 million euros).

NON-CURRENT LIABILITIES HELD FOR SALE – DISCONTINUED OPERATIONS

As at 30 June 2022 the heading of Non-current liabilities held for sale - Discontinued operations amounted to 0.1 million euros and corresponds to the value of the liabilities recorded by the Group's operations related to the subsidiary Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. – Em Liquidação, after having been adjusted for the necessary movements of the consolidation process, having been stated following the application of IFRS 5, as indicated in Note 58 of the notes to the consolidated financial statements.

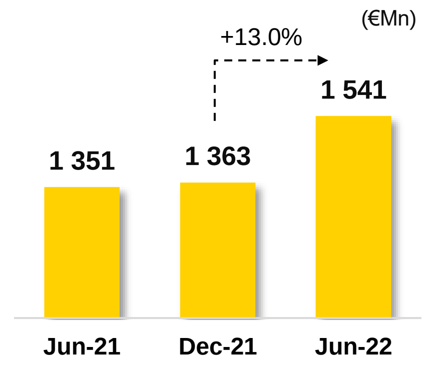
OTHER

The aggregate Other, presented in the Liabilities of the synthetic balance sheet, stood at 328 million euros as at 30 June 2022 (271 million euros at the end of 2021), and incorporates the headings of Financial liabilities held for trading, Hedge derivatives, Provisions, Current tax liabilities and Other liabilities.

TOTAL EQUIY

Total equity amounted to 1,541 million euros as at 30 June 2022, an increase of 178 million euros (+13.0%) compared to the value at the end of 2021, reflecting the favourable evolution of net income for the year, which reached 23 million euros (-33 million in the first half of 2021), the positive foreign exchange reserve (+22 million euros), due to the appreciation, observed in the first half of 2022, of the Kwanza against the Euro and the Dollar, and the positive actuarial deviations in the Pension Fund (+131 million euros).

Total Equity



RESULTS

In the first half of 2022, Banco Montepio recorded a consolidated net income of 23.3 million euros, comparing favourably to the -33.0 million euros recorded in the first half of 2021.

The improvement in profitability reflects, on the one hand, the increase in Total operating income, driven by Net interest income, Net commissions, and the results of financial operations, and on the other hand, the reduction in operating costs compared to the first half of 2021.

The fruits of the operational adjustment programme are particularly visible in the favourable evolution of staff costs, even excluding the impact of restructuring costs registered in the first half of 2021. In turn, the improvement in the cost of risk, reflecting the quality of credit origination in recent years, which has determined lower allocations for Impairments and provisions. There was also an increase in regulatory contributions, namely to the banking sector and to the resolution funds, which amounted to 25.9 million euros in the first half of 2022, recorded under the heading of other results, representing a significant burden on net income before taxes.

SYNTHETIC INCOME STATEMENT

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Net interest income	**114.3**	**243.5**	**120.6**	**6.3**	**5.6**
Commercial net interest income	121.4	244.4	116.7	(4.7)	(3.9)
Net fees and commissions	54.9	116.3	59.6	4.7	8.6
Core total operating income	**169.2**	**359.8**	**180.2**	**11.0**	**6.5**
Income from equity instruments	1.7	1.8	1.0	(0.7)	(45.6)
Results from financial operations	(3.3)	10.8	20.7	24.0	>100
Other operating income	(8.1)	6.6	(23.4)	(15.3)	(<100)
Total operating income	**159.5**	**379.0**	**178.5**	**19.0**	**11.9**
Staff Costs	79.5	164.1	72.8	(6.7)	(8.5)
General and administrative expenses	32.0	64.7	31.1	(0.9)	(2.8)
Depreciation and amortization	17.8	35.3	17.5	(0.3)	(1.7)
Operating costs	**129.3**	**264.1**	**121.4**	**(7.9)**	**(6.1)**
Operating costs, excluding specific impacts [(a)]	**125.2**	**249.4**	**121.5**	**(3.7)**	**(3.0)**
Net operating income before provisions and impairments	**30.2**	**114.8**	**57.1**	**26.9**	**88.7**
Net provisions and impairments	60.7	80.5	11.9	(48.8)	(80.4)
Share of profit (losses) booked under the equity method	(0.2)	0.0	(0.2)	0.0	28.3
Net income before income tax	**(30.7)**	**34.3**	**45.0**	**75.7**	**>100**
Income tax	1.2	25.3	21.5	20.3	>100
Net income after income tax from continuing operations	**(31.9)**	**9.1**	**23.5**	**55.4**	**>100**
Income from discontinued operations	(0.8)	(1.5)	(0.0)	0.8	98.9
Non-controlling interests	0.4	1.1	0.2	(0.2)	(45.1)
Net Income	**(33.0)**	**6.6**	**23.3**	**56.3**	**>100**

(a) Excludes the amount related to the increase in Personnel Costs and in General administrative expenses generated by the operational adjustment measures of €+4.1Mn in 1H2021, €+14.7Mn in 2021 and €-0.1Mn in 1H2022.

TOTAL OPERATING INCOME

Total operating income in the first half of 2022 totalled 178.5 million euros, representing an increase of 19 million euros (+11.9%) in relation to 159.5 million euros recorded in the first half of 2021, benefiting from the increases in Net interest income, Net commissions, and Results from financial operations, despite the unfavourable evolution of Other income.

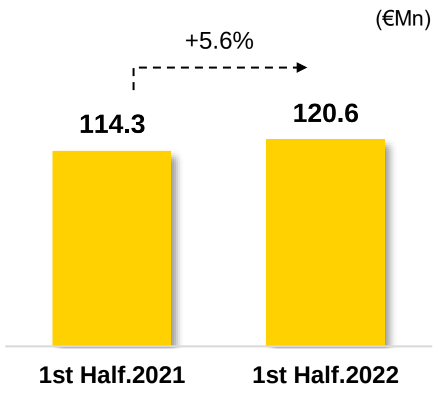
Net interest income in the first half of 2022 reached 120.6 million euros, compared to 114.3 million euros in the first half of 2021, reflecting the increase in income from investments in Other credit institutions and in the securities portfolio, reflecting the impact of the investment strategy, as well as from fund-raising, partially mitigated by the lower contribution from Commercial net interest income, impacted by the negative effect related to low market interest rates, which constrain the profitability of operations and the repricing of the loan portfolio. The cost of excess liquidity, with the deposit rate at the Central Bank negative at -0.5%, still within the context of historically low interest rates, put pressure on Net interest income for the first half of 2022.

As at 21 July 2022, the deposit rate shifted from -0.5% to 0%, being the first time the ECB decides to raise interest rates in more than a decade, ending negative interest rates in the Eurozone and beginning a path of normalisation of interest rates.

In this context, there was a reduction of 7.6 million euros in interest on the Loans to customers portfolio in the first half of 2022 due to the price effect, in a context in which the main reference rates still remained on negative ground, having reached successive minimums, partially offset by the repricing of the deposits portfolio.

In the first half of 2022, Net interest income also benefited from the funding and liquidity application strategy pursued by Banco Montepio, which offset the unfavourable effects referred to above, namely through the subsidising of interest on TLTRO-III by meeting the net lending benchmark, as well as the reduction of the cost associated with Customer deposits, the management of pricing in attracting new deposits, as well as in renewing existing deposits, and the increase in the proportion of demand deposits. Additionally, in the first half of 2022, Net interest income incorporated the favourable impact of a new amortisation of financing lines with reduced residual maturities and higher interest rates materialised at the end of 2021, for a total amount of 350 million euros.

Net interest income



Thus, in the first half of 2022, the net interest margin rate was 1.30%, in line with the rate recorded in the first half of 2021, reflecting the context of low interest rates and the highly competitive environment in the granting of loans, as well as the change in the portfolio structure to lower risk, which continued to condition the performance of this indicator, but offset by the optimisation of capital consumption, both through the cost of credit risk and through RWA (risk weighted assets).

BREAKDOWN OF NET INTEREST INCOME

BY INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

(million euros)

	1st Half of 2021			1st Half of 2022		
	Avg. amount	Avg. rate (%)	Interest	Avg. amount	Avg. rate (%)	Interest
Assets						
Cash and deposits	1 799	-0.26	(2.4)	2 317	-0.34	(3.9)
Loans and advances to OCI	340	0.28	0.5	208	2.87	3.0
Loans to customers	12 421	2.04	127.4	12 264	1.94	119.8
Securities portfolio	2 908	0.43	6.3	3 613	0.47	8.6
Other assets at fair value	10	1.37	0.1	10	1.15	0.1
Other (includes derivatives)	-	-	7.3	-	-	3.3
subtotal	17 479	1.58	139.2	18 411	1.41	130.8
Liabilities						
Resources from central banks	2 238	-0.28	-3.1	2 901	-0.77	-11.3
Resources from OCI	814	0.01	0.1	400	0.12	0.2
Customer deposits	12 430	0.10	6.0	12 846	0.05	3.1
Senior debt	1 289	0.76	4.9	1 544	0.54	4.2
Subordinated debt	216	8.89	9.7	217	8.66	9.4
Other (includes derivatives)	-	-	7.4	-	-	4.4
subtotal	16 988	0.29	25.0	17 907	0.11	10.1
Net interest margin		**1.30**	**114.3**		**1.30**	**120.6**

EVOLUTION OF NET INTEREST INCOME

BETWEEN THE FIRST HALF OF 2021 AND THE FIRST HALF OF 2022

(million euros)

	Volume effect	Price effect	Residual effect	Total
Assets				
Cash and deposits	(0.7)	(0.7)	(0.2)	(1.5)
Loans and advances to OCI	(0.2)	4.4	(1.7)	2.5
Loans to customers	(1.6)	(6.1)	0.1	(7.6)
Securities portfolio	1.5	0.6	0.1	2.3
Other assets at fair value	(0.0)	(0.0)	0.0	(0.0)
Other (includes derivatives)	0.0	0.0	(4.1)	(4.1)
subtotal	7.4	(15.1)	(0.8)	(8.5)
Liabilities				
Resources from central banks	(0.9)	(5.6)	(1.7)	(8.2)
Resources from OCI	(0.0)	0.4	(0.2)	0.2
Customer deposits	0.2	(3.0)	(0.1)	(2.9)
Senior debt	1.0	(1.4)	(0.3)	(0.7)
Subordinated debt	0.0	(0.2)	(0.0)	(0.2)
Other (includes derivatives)	0.0	0.0	(3.0)	(3.0)
subtotal	1.3	(15.3)	(0.8)	(14.8)
Change in net interest income	**6.1**	**0.3**	**0.0**	**6.4**

INCOME FROM EQUITY INSTRUMENTS

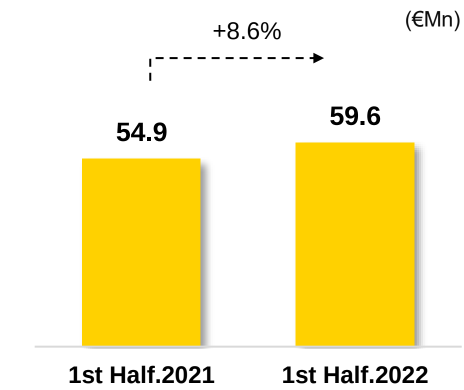
The heading of Income from equity instruments includes the income associated with variable yield securities, namely shares related to investments stated in the portfolio of assets available for sale.

The value recorded in the first half of 2022 totalled 1.0 million euros, compared to 1.7 million euros in the first half of 2021, reflecting the disposal of Monteiro Aranha's non-strategic position, resulting from the outcome of the credit recovery, and complying with the measures recommended in the Capital Plan, with the dividends received relating to the Unicre and SIBS held in the balance sheet.

NET FEES AND COMMISSIONS

Net fees and commissions in the first half of 2022 increased to 59.6 million compared to 54.9 million euros in the first half of 2021 (+8.6%), reflecting the favourable performance of Loan fees and commissions, which increased 0.6 million euros (+13.2%), Market fees and commissions[5], which grew by 0.3 million euros (+10.3%) and Other fees and commissions[6], which increased by 5.4 million euros (+14.1%), and more than offset the reduction of 1.7 million euros (-19.9%) in Fees and commissions on payment services[7].

Net fees and commissions



RESULTS FROM FINANCIAL OPERATIONS

The Results from financial operations reached 20.7 million euros in the first half of 2022, compared to -3.3 million euros recorded in the first half of 2021, reflecting the higher net gains from foreign exchange differences of 20.4 million euros, due to the appreciation of the Kwanza against the Euro and the Dollar, and with the securities portfolio at 3.6 million euros.

It should be noted that, in the first half of 2022, net gains/(losses) from financial assets and liabilities valued at fair value through profit or loss reflect the impacts of the revaluation of the hedge of mortgage bonds, both of the instrument and the derivative, and incorporate the effect of the change in value of credit operations that do not comply with the SPPI.

RESULTS FROM FINANCIAL OPERATIONS

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	(6.5)	(0.3)	(3.6)	2.9	44.8
Net gains / (losses) from financial assets at fair value through other comprehensive income	0.5	2.0	1.2	0.7	>100
Net gains / (losses) from foreign exchange differences	2.7	9.0	23.1	20.4	>100
Results from financial operations	**(3.3)**	**10.8**	**20.7**	**24.0**	**>100**
of which: Results from the sale of Portuguese public debt	0.1	1.5	(1.0)	(1.1)	(<100)

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

OTHER RESULTS

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

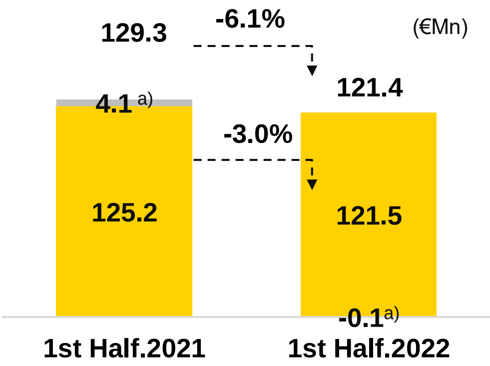
Other results stood at -23.4 million euros in the first half of 2022, compared to -8.1 million euros in the first half of 2021 (-15.3 million euros), reflecting the lower income on the sale of assets of 5.5 million euros (-14.7 million euros related to the sale of a portfolio at amortized cost in the first quarter of 2021, +4.2 million euros from credit sales operations and +5.0 million euros from gains on the sale of real estate properties), the cost of revaluing financial liabilities in the amount of 11.9 million euros (from the re-measurement of the TLTRO-III liability), and the increase in the cost of contributions applied to the banking sector of 3.2 million euros.

OPERATING COSTS

In the first half of 2022, total Operating costs amounted to 121.4 million euros, representing a reduction of 7.9 million euros (-6.1%) compared to the value reported in the first half of 2021, capturing the synergies resulting from the implementation of staff adjustment measures (early retirement and termination by mutual agreement) and the reduction of non-strategic assets. Excluding these effects, Operating costs would have fallen by 3.7 million euros (-3.0%) compared to the first half of 2021.

Staff costs reached 72.8 million euros in the first half of 2022, reflecting a reduction of 6.7 million euros (-8.5%) in relation to 79.5 million euros stated in the first half of 2021. These costs incorporate the expenses incurred via the programme of early retirement and rescissions by mutual agreement, and include the components of the Pension Fund, compensations, and health charges. Excluding these impacts, Staff costs fell by 3.5 million euros when compared to the same period of 2021 (-4.6%).

Operating costs



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

General and administrative expenses stood at 31.1 million euros in the first half of 2022, reflecting a reduction of 0.9 million euros compared to the 32.0 million euros recorded in the first half of 2021 (-2.8%), primarily benefiting from the reduction recorded in the heading of Specialized services (which includes expenses with Other specialized services, IT and Independent work) and in the heading of Communications and dispatching, which more than offset the increase registered in the heading of Advertising and publications and in the heading of Training, which reflect the investment made in communication campaigns and in the development of the qualifications and deepening the knowledge of the Bank's Employees. Excluding the non-recurring costs incurred with the reduction of non-strategic assets in the first half of 2021 (0.9 million euros), General and administrative expenses remained stable in the first half of 2022.

Amortisation and depreciation amounted to 17.5 million euros (-1.7%) in the first half of 2022, compared to 17.8 million euros recorded in the first half of 2021, materialising the investments made within the scope of the global strategy for information technologies and digitalisation.

In the first half of 2022, the cost-to-income ratio, corrected for non-recurring costs related to the Staff adjustment measures and costs incurred with the reduction of non-strategic assets, as well as the more volatile components of the results, such as the Results from financial operations and Other results (Results from the sale of other assets and Other operating income), stood at 67.0% compared to 73.3% recorded in the first half of 2021, reflecting the combined effect of the increase in Core total operating income and the reduction of Operating costs.

OPERATING COSTS

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Staff Costs	79.5	164.1	72.8	(6.7)	(8.5)
General and administrative expenses	32.0	64.7	31.1	(0.9)	(2.8)
Depreciation and amortisation	17.8	35.3	17.5	(0.3)	(1.7)
Operating costs	**129.3**	**264.1**	**121.4**	**(7.9)**	**(6.1)**
Operating costs, excluding specific impacts [(a)]	**125.2**	**249.4**	**121.5**	**(3.7)**	**(3.0)**
Efficiency ratios					
Cost-to-income (Operating costs / Total operating income) [(b)]	81.1%	69.7%	68.0%	(13.1 p.p.)	
Cost-to-income, excluding specific impacts [(a) (c)]	73.3%	69.0%	67.0%	(6.3 p.p.)	

(a) '1) Excludes the amount related to the increase in Personnel Costs and in General administrative expenses generated by the operational adjustment measures of €-4.1Mn in 1H2021, €-14.7Mn in 2021 and €0.1Mn in 1H2022.

(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).

IMPAIRMENTS AND PROVISIONS

The allocations for Impairments and provisions in the first half of 2022 amounted to 11.9 million euros, reflecting a decrease of 48.8 million euros (-80.4%) compared to the first half of 2021, a year in which, as in 2020, the impact of the Covid-19 pandemic was still felt. The decrease observed in the first half of 2022 is essentially driven by the reduction in the Impairment of loans and advances to customers and credit institutions of 51.9 million euros, and to a lesser extent, by the decrease in the Impairment of other financial assets of 1.1 million euros, along with the increase in the Impairment of Other assets of 0.8 million euros and of Other provisions of 3.4 million euros.

In the first half of 2022, the Impairment of loans and advances to customers and credit institutions (net of reversals) stood at 3.2 million euros, compared to the value of 55.1 million euros in the first half of 2021 (-51.9 million euros). This shift was fundamentally driven by the lower allocation of impairment for risk of loans to customers, of 7.0 million euros in the first half of 2022, in relation to 57.6 million euros in the first half of 2021, a year still impacted by the effects of the Covid-19 pandemic, both in the forward looking component and through moratoria and stage transitions. The evolution of Loan impairment in the first half of 2022 also benefited from the higher level of loan recovery and from interest on credits already written off from assets, which reached the value of 3.4 million euros in relation to the 2.5 million euros in the same half of 2021. The favourable evolution of Loan impairment led to a reduction in the cost of credit risk to 0.1%, compared to 0.4% at the end of 2021.

The aggregate of Other impairment and provisions, related to other financial assets, other assets, and provisions, amounted to 8.7 million euros in the first half of 2022 in comparison with 5.6 million euros recorded in the first half of 2021, reflecting the strengthening of the impairments for real estate properties for trading, partially mitigated by the lower allocations made for other financial assets and the update resulting from the reversal of provisions.

Impairment of other financial assets recorded an increase of 1.8 million euros due to the strategy of acquiring a portfolio of one billion euros of public and corporate debt.

Regarding Impairment of other assets, the value recorded in the first half of 2022 amounted to 10.3 million euros (9.5 million euros recorded in the first half of 2021), mainly consisting of impairments related to real estate properties, essentially related to the process of updating valuations.

In turn, Other provisions amounted to -3.5 million euros in the first half of 2022 as a result of the reversals of provisions for off-balance sheet exposures by 0.9 million euros and for judicial proceedings by 2.6 million euros, denoting the favourable evolution in these matters.

IMPAIRMENTS AND PROVISIONS

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change	
				Amount	%
Impairment of loans and advances to customers and to credit institutions	55.1	54.3	3.2	(51.9)	(94.2)
Impairment of other financial assets	3.0	(0.2)	1.9	(1.1)	(38.2)
Impairment of other assets	9.5	31.0	10.3	0.8	8.6
Other provisions	(6.9)	(4.6)	(3.5)	3.4	49.1
Total net impairments and provisions	**60.7**	**80.5**	**11.9**	**(48.8)**	**(80.4)**

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.

In the first half of 2022, current and deferred taxes amounted to 21.5 million euros, compared to 1.2 million euros recorded in the first half of 2021, having been stated in conformity with the International Accounting Standards (IAS) and observing the tax system applicable to each subsidiary of the Banco Montepio Group. The allocation for taxes in the first half of 2022 incorporates the unfavourable impacts related to the Gerês Operation (2.8 million euros due to the differential between the rates of Deferred Tax and Current Tax), with the contributions to the banking sector and the additional solidarity levy, the reinforcement of impairments in exposures of common Customers in Banco Montepio and Finibanco Angola and derecognition operations of non-performing assets.

INCOME FROM DISCONTINUED OPERATIONS

The heading of Results from discontinued operations stood at -8.0 thousand euros in the first half of 2022 and incorporates the net income for the year of the subsidiary Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. – Em Liquidação, attributable to the Banco Montepio Group following the application of the accounting policy defined in IFRS 5.

NON-CONTROLLING INTEREST

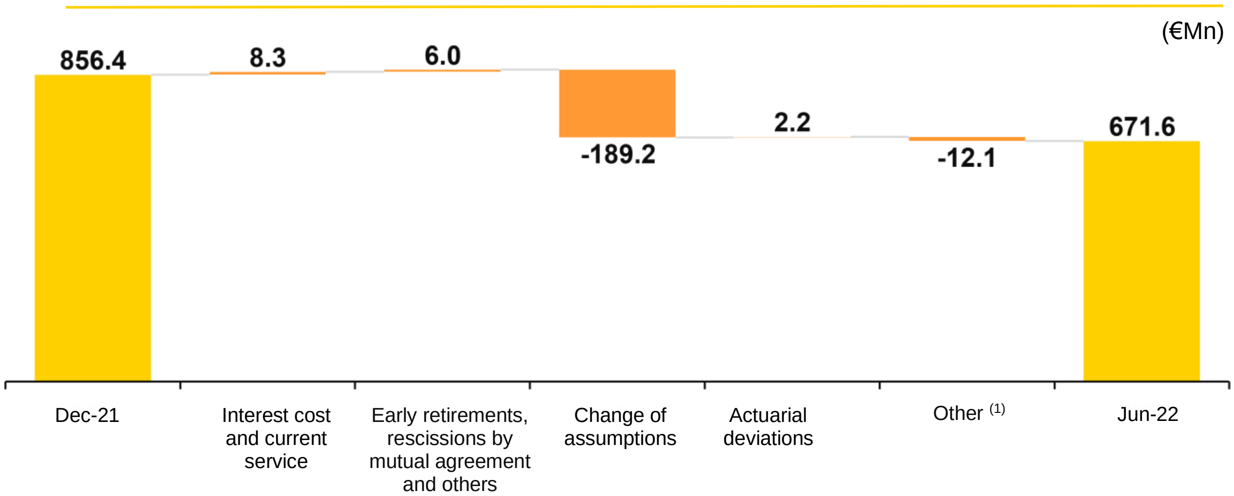
The Non-controlling interests recorded in the first half of 2022 (0.2 million euros) correspond to the portion of equity held by third parties in the subsidiary Finibanco Angola, S.A.

PENSION FUND

The liabilities related to post-employment and long-term benefits of Employees amounted to 671.6 million euros as at 30 June 2022, compared to 856.4 million euros recorded as at 31 December 2021, showing a reduction of 184.9 million euros, reflecting 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 the liabilities was driven, on the one hand, by the increase resulting from the cost of interest and current service of 8.3 million euros, by the Early retirement, mutually agreed terminations and other component of 6.0 million euros and by the impact of actuarial deviations of 2.2 million euros, and, on the other hand, by the effect associated with the change in actuarial assumptions, which resulted in a reduction of 189.2 million euros, influenced by the impact of the increase in the discount rate, of the growth in salaries and pensions, the exits under clause 102 (Recognition of entitlement in the event of termination of employment contract) and the change in the methodology for deduction of the Social Security pension, along with the reduction in the Other component, which includes Pensions paid by the Fund, Pensions paid by Banco Montepio, Contributions by participants and Others, of 12.1 million euros, and as shown in the graph.

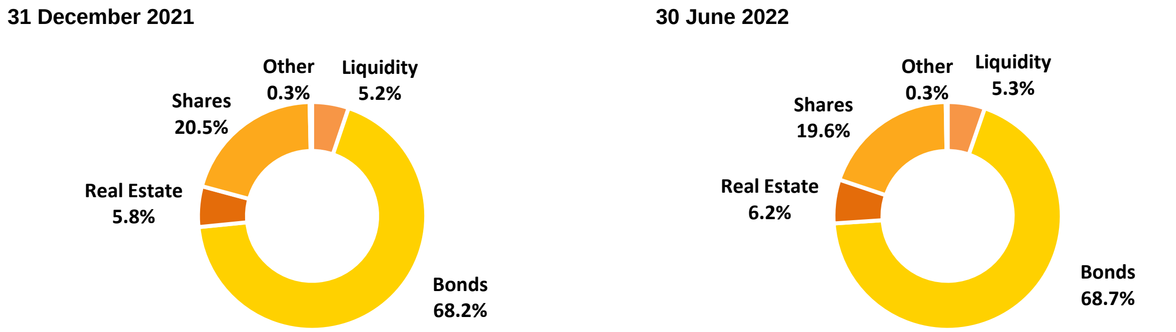
Evolution of pension liabilities in June 2022



(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 decreased by 7.1%, reaching the total value of 804.6 million euros as at 30 June 2022, compared to 866.2 million euros recorded at the end of 2021, continuing to show a conservative distribution, with 68.7% of these assets invested in Bonds compared to 68.2% as at 31 December 2021.

Distribution of the pension fund assets portfolio



The evolution of the key indicators of the Pension Fund for Dec-21 and Jun-22 are presented below, namely the liabilities, the value of the Pension Fund's assets and the respective funding levels.

PENSION FUND

(million euros)

	Dec-21	Jun-22	YtD Change	
			Amount	%
Total liabilities	856.4	671.5	(184.9)	(21.6)
Minimum liabilities to be financed	835.0	656.3	(178.7)	(21.4)
Value of the Pension Fund's assets	866.2	804.5	(61.7)	(7.1)
Coverage:				
Minimum liabilities (1)	104.8%	123.8%	19.0 p.p.	
Total liabilities (1)	102.1%	121.0%	18.9 p.p.	

(1) Also considering, in Dec-21 and in Jun-22, 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 121% as at 30 June 2022.

Pursuant to Banco Montepio's accounting policy, and following the appraisal made on the adequacy of the actuarial assumptions, the discount rate was changed to 3.40% as at 30 June 2022, compared to 1.40% as at 31 December 2021, taking into account the evolution occurred in the key market indices related to high quality bonds and the duration of the Pension Fund’s liabilities. As at 30 June 2022, the average duration of the liabilities related to Bank Montepio Group Employee pensions was 16.2 years (17.5 years as at 31 December 2021), including actively employed and pensioners.

The main actuarial assumptions used to determine the liabilities in Dec-21 and Jun-22 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-21	Jun-22
Financial Assumptions		
Salary growth rate	0.50%	1.00% in the first two years and 0.75% in the following
Pension growth rate	0.30%	0.50%
Rate of return of the Fund	1.40%	3.40%
Discount rate	1.40%	3.40%
Revaluation rate	0.00%	0.00%
Salary growth rate - Social Security	1.25%	1.25%
Pension growth rate	1.00%	1.00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial Valuation Methods (1)	UCP	UCP

(1) Projected Unit Credit method.

06
RISK

RISK

RISK MANAGEMENT

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

INTERNAL CONTROL SYSTEM

In line with Banco de Portugal Notice 3/2020 and all the other provisions, the Banco Montepio Group's internal control system incorporates a series of strategies, policies, procedures, systems, and controls that seek to ensure that the following goals are achieved:

- Profitable and sustainable performance: ensure achievement of the goals established in the strategic planning, the efficiency of the operations, the efficient use of resources, the safeguarding of assets and, consequently, business sustainability in the medium and long term.
- Prudent risk management: an appropriate identification, assessment, monitoring, and control of the risks currently faced or that
may be faced by the Group.
- Quality information and sound accounting procedures: the existence of timely, objective, complete and reliable accounting, financial and management information, and of reporting mechanisms independent from that information to the management and supervisory bodies and to the internal control functions.
- Normative compliance: respect for the legal and regulatory provisions of prudential or performance-related nature, including 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 model of the internal control and risk management system of the Banco Montepio Group corresponds to 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, which 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, safeguarding the separation of functions and a code of conduct applicable to all the Employees that 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 guarantee the collection, processing and exchange of relevant, encompassing, and consistent data, within a period of time

and manner allowing for the effective and timely management and control of the activity and of the Group's risks;

- 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 Committee (COMCI) has the main mission of supporting Banco Montepio's Executive Committee in the process of implementing an effective internal control system, at the level of the Banco Montepio Group, namely through a continuous and effective process of follow-up and monitoring of detected deficiencies, helping to promote a robust control environment and a solid risk management.

The scope of the COMCI includes the follow-up and monitoring of all the deficiencies detected in relation to the control system.

Regular reporting by the Internal Control Office (GCI) to the Board of Directors and the Audit Committee provides an overview of all internal control deficiencies in the Group - centralising all the Group's deficiencies in a single database - and improves the efficiency and effectiveness of their resolution.

The Internal Control Manual, in turn, defines the procedures and responsibilities of each of the parties involved in the process of remedying deficiencies.

RISK MANAGEMENT SYSTEM

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

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

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

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 an overview 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;

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

m) Issue opinions on exceptional transactions.

In the area of the risk management function, the following developments took place during the first half of 2022:

- Review of the Credit Risk Policy and Regulation; Review of the scoring and rating models (ongoing activity);
- Continuation of the reinforcement and improvement of the risk management information system and reporting produced by the Risk Department (DRI);
- Continuation of the updating and review of internal rules and regulations on various processes related to risk management;
- Pursuit of the strengthening of the processes for calculation and reporting interest rate risk, pursuant to Banco de Portugal Instruction 34/2018 and most recent EBA guidelines;
- Review and updating of the Bank’s risk taxonomy, as well as the process of identification of material risks.
- Participation in the European Central Bank exercises called "Quantitative impact study - QIS", which aims 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.

Banco Montepio’s compliance function is exercised by the Compliance Department; 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, budget, 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 compliance risk. For the purpose of compliance and reputational risk management, Banco Montepio has a Policy and Methodological Approach for Compliance Risk Management and a Policy and Methodological Approach for Reputation Risk Management, both of which are communicated to all the institution's employees. These policies support the adoption of a compliance culture based on the identification, assessment, monitoring, and mitigation of compliance risk.

The 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.

For Banco Montepio, the endorsement of ethical conduct in business is an essential element to ensure good service to the Customers, meet the expectations of its Shareholders and other Stakeholders, satisfy and encourage its Employees, and, in general, contribute to consolidate its affirmation as a unique financial institution in the national panorama due to its origin and mutualist foundations and, consequently due to its vocation as an institution geared towards savings and the provision of universal financial services for Individual Customers, at all stages of their life cycle, for all Business Sector Customers and, in particular, for Social Economy institutions and social entrepreneurs.

Regarding compliance risk management, it is important to highlight the approval of the Compliance Plan for 2022, which considers the main priorities and risks identified by the supervisory entities, the changes in the legal and regulatory framework that have occurred or are expected to occur, and which have a material impact on Banco Montepio, as well as the compliance risks identified internally. This plan defined three priority objectives for 2022:

- Consolidating the internal control system for the prevention of financial crime: reviewing the anti-money laundering and terrorist financing (AML/CFT) programme and sanctions in order to optimise its policies, procedures, and controls, involving a technical assessment of the AML/CFT and sanctions systems in terms of their effectiveness and efficiency. Within this scope, a Business Risk Assessment exercise was also started.
- Promote Banco Montepio's values and ethical conduct: considering the review of the Code of Conduct in 2021, the aim is to promote the dissemination of the principles of action and rules of professional conduct that Employees must observe in performing their duties.

- Enhance compliance risk management and strengthen monitoring by developing an integrated compliance and reputational risk management programme.

Also noteworthy is the review of the Product Governance Policy, which aimed to establish a simpler internal process, oriented towards the customer (customer centric) and based on three fundamental axes:

- Design and Structuring - defining the target market, the distribution strategy and marketing channels, as well as the pricing strategy;
- Approval - the process should be based on an identification of risks, as well as the definition of the response to them; and
- Monitoring - continuous follow-up of products being marketed, by defining a set of relevant indicators and metrics.

In terms of monitoring, the follow-up of Banco Montepio Group subsidiaries (from a compliance perspective) continued to be a priority, focusing on the management of compliance risks from a consolidated standpoint. In the first half of 2022, the project for the implementation of a regulatory reporting control tool also had very significant developments with a view to its entry into production at the beginning of the second half of 2022.

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

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

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

Risk Appetite Framework (RAF)

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

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

RISK MANAGEMENT GOVERNANCE MODEL

At Banco Montepio, the risk management function is the responsibility of the Risk Department (DRI), the organic unit that conducts this function in a manner independent from the functional areas subject to assessment.

In Banco Montepio's current governance model, the head of the Risk Department reports hierarchically to the member of the Executive Committee responsible for the risk area, and there is also functional reporting to the Risk Committee, to the Audit Committee, as Banco Montepio's supervisory body, 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 Banco Montepio's supervisory body, whose duties include supervision of the Company's administration, supervision of the audit activities, the process of preparation and disclosure of financial information, the efficacy of the internal control systems, the drafting of opinions on the policies and procedures supporting the systems of risk management prior to approval by the Board of Directors, of control of conformity (compliance) and on the activity and independence of the statutory auditor and external auditor.

Risk Committee

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

Supporting Committees of the Executive Committee

Committees providing support to the Executive Committee have been constituted, as forums of debate and support to decision-making, through formulation of proposals and recommendations in the areas of their scope of intervention. The Asset and Liability Committee (ALCO or COMALCO Committee) holds weekly meetings, where credit operations are assessed and decided upon in accordance with the lending policy and regulations. The Assets and Liabilities Committee (COMALCO), which holds monthly meetings, is responsible for following up the management of Capital, the Balance Sheet, and the Income Statement. Its duties include, in particular, the issue of proposals or recommendations with a view to the management of liquidity or capital positions, considering the scenarios of evolution of the activity, the macroeconomic context and the indicators relative to the real and projected evolution of the different risks. Under its risk management function, the Risk Department also participates in the Impairment Committee (COMIMP), in the Non-Performing Asset Monitoring Committee (COMAANP), in the Business Committee (COMNEG), in the Pension Fund Monitoring Committee (COMAFP), Technology Committee (COMTECH), Internal Control Committee (COMCI) and Cybersecurity Committee (COMCS), as well as in the regular meetings of the Crisis Management Office (whose last meeting was held on 29 July 2022, and at which its deactivation was approved), and business recovery, activated under the Bank's response to the Covid-19 pandemic crisis in order to ensure the operational continuity of the Bank's critical functions and business continuity.

Risk Department (DRI)

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

The Risk Department carries out the analysis and management of risks, providing advice to the Board of Directors, namely through proposed rules and management models for the different risks, the preparation of management reports to substantiate the decisions taken, and participation in the Supporting Committees of the Board of Directors and to the Executive Committee. The Risk Department also ensures compliance with a set of prudential reports to the supervision authority, namely in the area of own fund requirements, control of major risks, liquidity risk, interest rate risk, counterparty risk, monitoring of the evolution of the impact of the Covid-19 pandemic in the financial statements and in the operational processes of the Bank, internal capital and liquidity adequacy assessment, Market Discipline, Recovery Plan and Resolution Plan.

Subsidiary Companies

In order to ensure an effective management of the risks associated with the Group's activities, the Risk Department is responsible for ensuring that all Banco Montepio Group Companies, including those located abroad, adopt risk management systems that are coherent with one another and in conformity with the requirements defined in Banco Montepio's Internal Regulation of the risk management system, in the Banco Montepio Group's Overall Risk Policy and in all the other applicable internal policies and rules, without prejudice to the respective legal and regulatory framework The Risk Department is responsible for monitoring the risk management activity of Banco Montepio Group Companies, on a consolidated and individual basis, with a view to ensuring the consistency of the risk concepts used, the methodologies of identification, assessment and control of risk, the supporting regulations and respective processes for monitoring the risk profile, as well as compliance with the applicable regulatory and prudential requirements, namely in consolidated terms. These activities should be conducted directly by the risk management functions of these entities, except in those for which Banco Montepio's Board of Directors decides that the development of these responsibilities by Banco Montepio's Risk Department would be more effective and efficient.

Model Validation Office

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

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

During the first half of 2022, the Model Validation Office completed a series of validation procedures relative to various models, among which particular reference is made to the regular validation of the models, methodologies, and results of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

The Office also initiated various validation activities, including validation of the IFRS 9 Probability of Default (PD) model and validation of the Early Warning System (EWS) model.

With respect to its function of management of the Group's model risk, the Model Validation Office proceeded with the control of the inventory of models, the follow-up of recommendations among the model owners and analysis of rating model overrides with the respective four-monthly reporting, and the monitoring of model risk limits. A model governance solution was also implemented that formalises a model risk management framework, allowing the monitoring of all the Group's models throughout their life cycle and the intervention of the various stakeholders in the various phases of the model life cycle.

Information Management

Banco Montepio has defined a data policy and the respective implemented operative model. This policy is aligned with the reference framework referred to as DAMADMBOK (DAMA International Guide to Data Management Body of Knowledge) and BCBS 239 (Principles of effective risk data aggregation and risk reporting), which were reviewed and aligned pursuant to Banco de Portugal Notice 3/2020. During 2021, continuing into 2022, investments continued in the modernisation of the technological infrastructure and software tools to support the processes of governance and data quality.

The Information Management Office during the first half of 2022, in addition to its current activity, monitored and supported in matters within its remit, the efforts made by various areas of the bank in the field of environmental, social and governance (ESG) reporting, particularly with regard to obtaining quality information to support these informational requirements.

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 2022, 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.

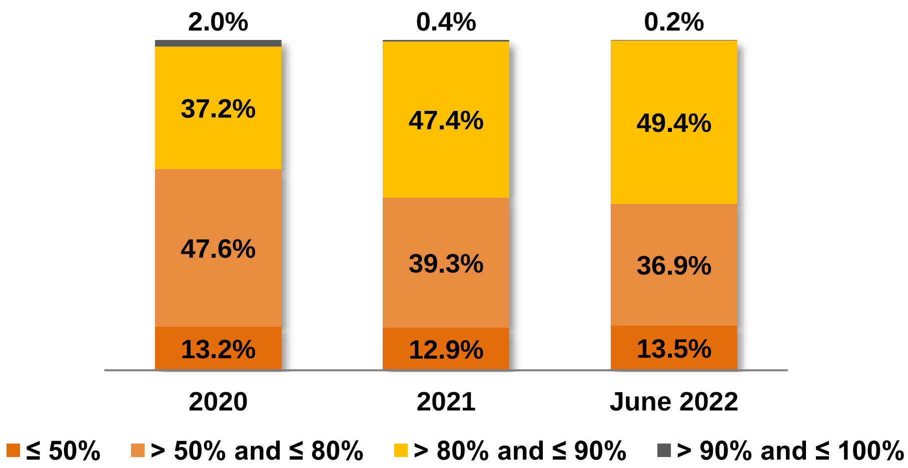
The decision-making process for loan operations is based on a series of policies using scoring models for the retail and business portfolios and rating models for the Corporate segment. These models, developed based on internal historical data, enable obtaining an assessment which is reflected in the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

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

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

In the mortgage loan segment, the loans granted in the first half of 2022 recorded an increase, in relation to 2021, of the Loan-to-Value (LTV) ratio (the loan value divided by the valuation of the collateral), to 74.6% (74.3% in 2021 and 73.1% in 2020), excluding financing of real estate properties held by Banco Montepio, essentially explained by the component of own and permanent residence.-- It should be noted that the macro prudential recommendation of Banco de Portugal entered into force in July 2018 where, relative to compliance with the LTV criterion, the calculation of the ratio in this regard henceforth considers the value of the real estate property to be the lowest between the acquisition value and the assessment value, which naturally led to an increase in the disclosed ratio.

Mortgage loans distribution granted by LTV level



As at 30 June 2022, the weight of the non-performing exposures (NPE) measured based on the heading of Gross loans to customers decreased by 0.3 p.p. in relation to 31 December 2021, to stand at 7.7%. This evolution was driven by the positive effect of the reduction of non-performing exposures by 18 million euros (-1.9%), notwithstanding the growth in Gross loans to customers of 246 million euros (+2.0%).

The amount of impairments for credit risk reached 515 million euros as at 30 June 2022, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 118.8%. Moreover, the coverage of non-performing exposures stood at 53.8%, while the coverage ratio, also considering total collateral and associated financial guarantees, stood at 95.1%.

CREDIT QUALITY INDICATORS

(million euros)

	Jun-21	Dec-21	Jun-22	YoY Change		YtD Change	
				Amount	%	Amount	%
Gross loans to customers	12 318	12 189	12 436	118	1.0	247	2.0
Loans and interest overdue by more than 90 days	503	361	433	(70)	(13.8)	72	19.9
Loans impairment	660	522	515	(145)	(22.0)	(7)	(1.3)
Ratios (%)							
Cost of credit risk	0.9	0.4	0.1	(0.8 p.p.)		(0.3 p.p.)	
Loans and interest overdue by more than 90 days	4.1	3.0	3.5	(0.6 p.p.)		0.5 p.p.	
Non-performing exposures (NPE) [(a)] / Gross loans to customers	9.3	8.0	7.7	(1.6 p.p.)		(0.3 p.p.)	
Forborne exposures [(a)] / Gross loans to customers	5.9	5.1	5.5	(0.4 p.p.)		0.4 p.p.	
Coverage by Impairments for balance sheet loans (%)							
Loans and interest overdue by more than 90 days	131.3	144.4	118.8	(12.5 p.p.)		(25.6 p.p.)	
Non-performing exposures (NPE) [(a)]	57.7	53.5	53.8	(3.9 p.p.)		0.3 p.p.	
Non-performing exposures (NPE) [(a)], also including associated collaterals and financial guarantees	95.9	96.0	95.1	(0.8 p.p.)		(0.9 p.p.)	

(a) EBA definition.

CREDIT CONCENTRATION RISK

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

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

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

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

MARKET RISK

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

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

With respect to market risk information and analysis, there is regular reporting on Banco Montepio's own portfolios and those of other entities of the Group, with various risk limits being defined, including overall 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 encompass the analysis of scenarios, namely the sensibilities of securities portfolios to changes in interest rates, of spreads, as well as analyses of stress scenarios based on past extreme events, such as 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.

A summary of the VaR indicators in December 2021 and June 2022 is presented below with the note that the trading portfolio did not have positions in shares or bonds as at 31 December 2021:

VaR INDICATORS (1)

	Jun-22		Dec-21	
	Banking Book	Trading Portfolio	Banking Book	Trading Portfolio
Market VaR (1) (2) (3)	**3.43%**	**4.05%**	**1.28%**	**n.a.**
Interest Rate Risk	2.45%	2.65%	0.87%	n.a.
Exchange Rate Risk	0.06%	0.20%	0.00%	n.a.
Price Risk	0.29%	1.26%	0.03%	n.a.
Credit risk (spread)	1.14%	0.51%	0.69%	n.a.
Commodity Risk	0.00%	0.00%	0.00%	n.a.

(1) 10-day time horizon and significance level of 99%; As a Percentage of total portfolio assets; Includes the portfolios of BM and BEM.

(2) Includes diversification effect.

(3) Excludes positions of Finibanco Angola.

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

EXCHANGE RATE RISK

Concerning the exchange rate risk of the banking book, in general, the different resources captured in different currencies are invested in assets in the respective money market for maturity periods that are not higher than those of the resources. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources. The current foreign exchange exposure of the Bank Montepio Group in consolidated terms is essentially the result of positions derived from the conversion of the balances of the subsidiaries in their main currencies, namely the Kwanza and American Dollar, concerning Finibanco Angola.

Limits of exposure have been defined for the exchange rate risk of the banking book, which are monitored by the management and supervisory bodies and the Capital, Asset and Liability Committee (ALCO), where any overrunning of the established limits follows an established circuit, including approval by the Board of Directors or the implementation of measures to cover this risk.

The limits defined for exchange rate risk include limits of position by currency, in consolidated and individual terms, as well as in terms of VaR, and are also disaggregated in terms of the trading book and banking book.

INTEREST RATE RISK IN THE BANKING BOOK

The interest rate risk caused by operations of the banking book is assessed through risk sensitivity analysis, on an individual and consolidated basis for the subsidiaries included in the Group's consolidated balance sheet.

Interest rate risk is appraised in accordance with the impacts on net interest income, economic value and own funds caused by variations in market interest rates. The main risk factors result from the mismatch between the rates repricing dates and/or residual maturities between assets and liabilities (repricing risk), from the non-parallel change in the interest rate curves (yield curve risk), from the lack of a perfect correlation between different interest rates with the same repricing time limit (basis risk) and from the options associated with instruments enabling a diverse action on part of the stakeholders dependent on the level of contracted and practised interest rates in the moment (option risk).

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

In this context, limits are defined for exposure to interest rate risk factors which are monitored by the Capital, Asset and Liability Committee (ALCO), where any overrunning of the established limits, even if temporary, requires the approval of the Board of Directors or the implementation of measures to cover the exposure.

At the same time, a stress test is conducted with six shock scenarios on the interest rate curve. The test also measures impacts on net interest income at one year and on economic value arising from shocks on the interest rate curve specified in the BIS document of April 2016, Standards – Interest rate risk in the banking book.

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

LIQUIDITY RISK

Liquidity risk is assessed using regulatory indicators defined by the supervisory authorities and other internal measurements for which exposure limits are also defined. This control is reinforced by the execution of stress tests 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. Liquidity risk is monitored weekly, with various reports being prepared for control and monitoring purposes and to support decision-taking within the ALCO Committee. Under the control of risk levels, limits are defined for various liquidity risk indicators, which are monitored through monthly reports.

The evolution of the liquidity situation is analysed, in particular, based on estimated future cash flow projections for various time horizons, considering Banco Montepio’s balance sheet. The liquidity position on the day of the analysis and the amount of assets deemed highly liquid existing in the unencumbered 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 2022, the liquidity gaps up to 12 months were as presented in the table below.

LIQUIDITY POSITION GAPS IN JUNE 2022

(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	3 955	3 940	3 909	3 113	3 024

Customer resources constitute the main source of funding, accounting for 71.2% of total funding sources in June 2022.

Liabilities	%
Resources from central banks	15.9%
Resources from other credit institutions	2.0%
Resources from customers	71.2%
Debt securities issued	8.0%
Other liabilities	2.9%
Total	**100.0%**

The Liquidity Coverage Ratio (LCR) reached 262.7% in June of 2022, 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 121.1% in June 2022, compared to the minimum requirement of 100%.

REAL ESTATE RISK

Real estate risk arises from possible negative impacts on Banco Montepio's net income or own funds, due to fluctuations in the market price of real estate assets.

Real estate risk arises from the real estate assets on the balance sheet, whether from properties given in lieu of repayment or judicial auction sale in the context of recovery procedures for loans or investment fund units of real estate funds held in the securities portfolio. These exposures are monitored based on analyses of scenarios that seek to estimate potential impacts of alterations in the real estate market on the portfolios of these real estate assets, providing necessary information for the definition of the real estate risk management policy.

During the first half of 2022, the Banco Montepio Group's exposure to real estate risk, in the components described above, fell by approximately 116.7 million euros, from 682.1 million euros at the end of 2021 to 565.4 million euros as at 30 June 2022.

PENSION FUND RISK

Pension Fund risk arises from the potential devaluation of the fund’s portfolio of assets or from the decrease of the corresponding expected returns, as well as from increased liabilities of this fund as a result of the evolution of the different actuarial assumptions. When faced with scenarios of this type, Banco Montepio is required to make unforeseen contributions, so as to maintain the benefits defined by the Fund.

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

As at 30 June 2022 the accumulated negative actuarial deviation of the Pension Fund stood at 143.1 million euros, compared to 273.8 million euros in December 2021.

OPERATIONAL RISK AND BUSINESS CONTINUITY

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

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

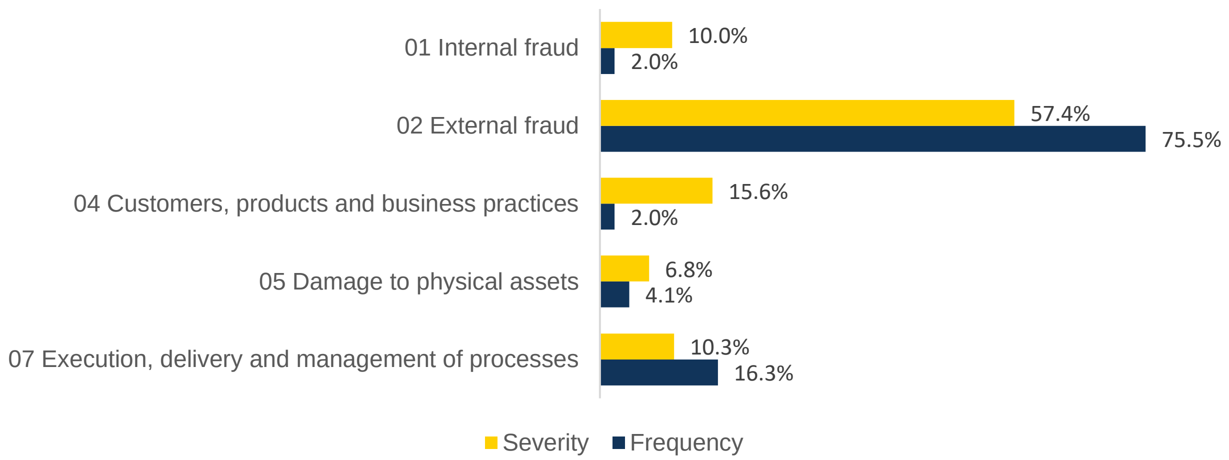
The Risk Department performs the corporate function of operational risk management for Banco Montepio. This is supported by the existence of interlocutors in different organic units that assure the appropriate implementation of the operational risk management.

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

With regard to the monitoring of operational risk in June 2022, the profile of the loss events maintained an inversely proportional relationship between the frequency and severity of the losses, typical of Operational Risk, where, on the one hand, 20% of the events with financial impact represent about 80% of the total net loss.

In June 2022, a significant reduction was observed of the events related to external fraud, both in terms of quantity and in terms of value.

Operational Risk Typologies by Frequency and Severity
June 2022



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

Monitoring

Under the Operational Risk Management System of Banco Montepio, the key risk indicators (KRI) seek to monitor the factors of exposure associated with the main risks, enabling the measurement and follow-up of the risk appetite and anticipate the occurrence of losses through preventive actions.

To this end, the defined limits were regularly monitored, and action plans were promoted in the cases where these limits were surpassed.

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

Self-assessment of Operational Risks

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

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

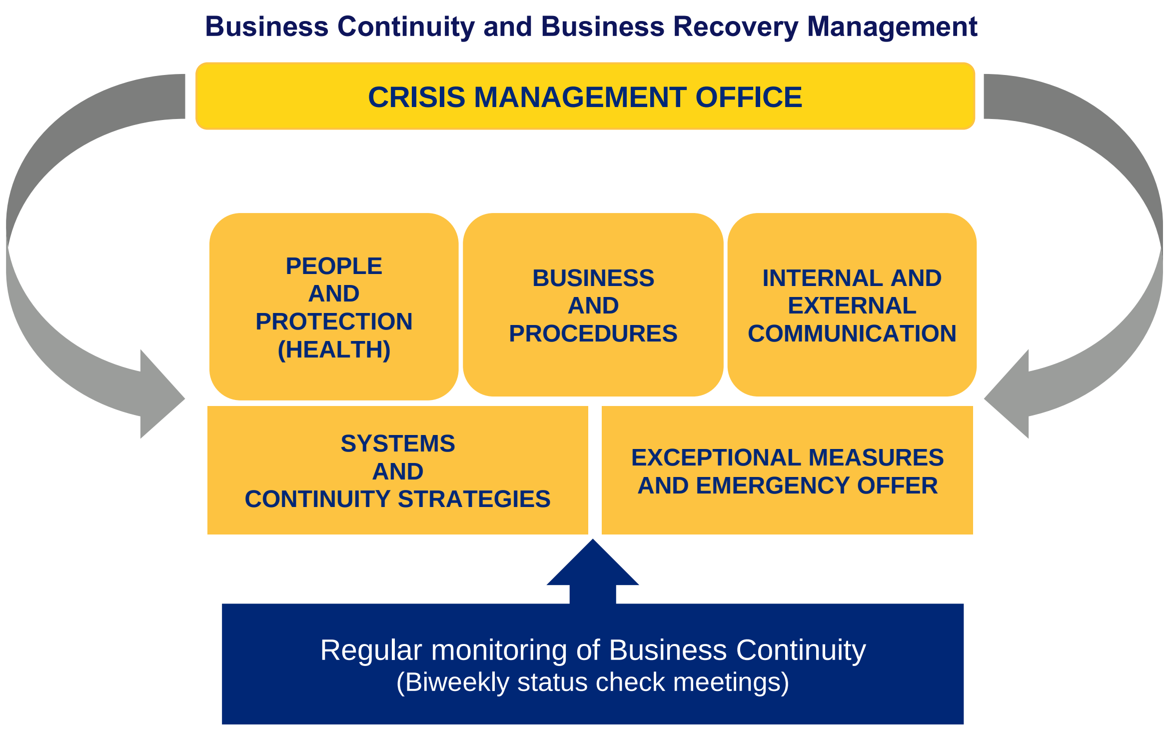
Business Continuity Management

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

Banco Montepio maintained an ongoing monitoring of the rules issued of the Directorate General for Health, considering the necessary adaptation to them whenever required.

The Crisis Management Office, which is responsible for the management of the crisis, for the management and implementation of the Operational Continuity Plans and for the coordination of the business recovery teams, continued to operate in terms of operational continuity and monitoring of business recovery until the end of July 2022.

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



INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The internal capital adequacy process (ICAAP) is an essential component in the risk management of the Group, which seeks to ensure an analysis of the evolution occurred in the practices of qualitative and quantitative assessment of the risks to which the Group is exposed, the appraisal of the internal controls and effects which enable mitigating the exposure to risk, the simulation of adverse situations with impacts on the solvency of the Group and the assessment of the adequacy of internal capital.

Banco Montepio's ICAAP exercise is conducted at a consolidated level with the following main objectives:

- Promote ICAAP as a tool to support strategic decision-making in the Group;
- Stimulate a culture of risk that fosters the participation of the entire organisation in the management of the internal capital (management body, business areas and internal control functions);
- Assure the adequacy of the internal capital in relation to its risk profile and its risk and business strategies;
- Assure an appropriate identification, quantification, control, and mitigation of the material risks to which the Group is exposed;
- Assure 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.

At a first stage, this entails identification, according to quantitative and qualitative criteria, of the material risks faced by the Group's activity, based on an internal risk taxonomy, in alignment with Banco de Portugal Instruction 18/2020. All the risks identified as material and the risks considered in Basel Pillar I, regardless of being considered material or not, are integrated in the ICAAP.

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

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

The result of the capital adequacy assessment is supplemented by the values obtained through reverse stress tests and under stress test scenarios. The objective is to assess the Group's capacity to absorb unexpected losses, where potential contingency plans should be identified to deal with any insufficiency of internal capital, duly aligned with other capital planning exercises, namely the Funding and Capital Plan and the Recovery Plan.

In light of the defined strategic plan that is reviewed periodically, no significant changes are foreseen in the materiality of the different types of risk. Additionally, the Funding and Capital Plan foresees measures that will enable strengthening the Group's solvency levels.

STRESS TESTS

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

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

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

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

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

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

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

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

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

RISK RATINGS

Rating events relative to the first half of 2022

In a press release dated 9 March 2022, the financial rating agency Fitch Ratings revised upwards the Outlook of Banco Montepio's risk rating (Long-Term Issuer Default Rating (IDR)) from negative to positive.

As a result of this revision, the Outlook on the 'AA-' rating of the Mortgage Covered Bonds issued by Banco Montepio was also revised to positive by Fitch Ratings, according to a press release dated 10 March 2022.

In April 2022, the financial rating agency DBRS Ratings GmbH (DBRS Morningstar) revised upwards the Trend of all ratings for Banco Montepio from negative to stable.

These upward revisions reflect Banco Montepio's significant progress in the reduction of non-performing assets, the strengthening of capital ratios to levels above regulatory requirements, and also the successful fulfilment of the objectives of the operational adjustment plan aimed at strengthening its balance sheet, productivity levels and competitive position, namely as regards the optimisation of the branch network and staff, which will contribute to a sustained improvement in profitability and efficiency.

The risk ratings attributed to Banco Montepio by the agencies as at 30 June 2022 and 31 December 2021 are presented in the table below:

Rating Agencies	Covered Bonds (CPT) (1)		Long-term (2)		Deposits		Outlook	
	31 December 2021	**30 June 2022**	31 December 2021	**30 June 2022**	31 December 2021	**30 June 2022**	31 December 2021	**30 June 2022**
Fitch Ratings	AA-	**AA-**	B-	**B-**	B	**B**	Negative	**Positive**
Moody's Investors Service	Aa3	**Aa3**	b3	**b3**	B1	**B1**	Stable	**Stable**
DBRS Ratings Limited	BBB (high)	**--(3)**	B	**B**	B (high)	**B (high)**	Negative	**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.

(3) Banco Montepio requested DBRS Morningstar to cease attributing the credit rating to the Mortgage Bonds, as disclosed by the financial rating agency in a statement of 29 April 2022.

07 REGULATORY INFORMATION

CONSOLIDATED FINANCIAL STATEMENTS

Banco Montepio

Interim Consolidated Balance Sheet on 30 June 2022 and 31 December 2021

(Euro thousand)

	Notes	Jun 2022	Dec 2021
Assets			
Cash and deposits at central banks	18	1 810 861	2 967 996
Loans and deposits to credit institutions payable on demand	19	48 561	67 360
Other loans and advances to credit institutions	20	170 403	229 065
Loans and advances to customers	21	11 920 990	11 667 688
Financial assets held for trading	22	17 581	7 582
Financial assets at fair value through profit or loss	23	151 939	203 427
Financial assets at fair value through other comprehensive income	24	121 772	123 338
Hedging derivatives	25	5 260	5 411
Other financial assets at amortized cost	26	4 127 844	3 004 196
Investments in associated companies	27	3 661	3 952
Non-current assets held for sale	28	11	38 862
Non-current assets held for sale - discontinued operations	59	87	429
Investment properties	29	84 746	102 933
Other tangible assets	30	242 236	231 610
Intangible assets	31	43 577	40 150
Current tax assets	32	7 428	6 714
Deferred tax assets	32	447 858	459 871
Other assets	33	637 395	552 576
Total Assets		19 842 210	19 713 160
Liabilities			
Deposits from central banks	34	2 902 643	2 902 003
Deposits from other credit institutions	35	361 066	555 412
Deposits from customers	36	13 035 664	12 786 886
Debt securities issued	37	1 462 147	1 617 125
Financial liabilities held for trading	22	12 706	7 470
Hedging derivatives	25	480	335
Non-current liabilities held for sale - discontinued operations	59	142	329
Provisions	38	31 803	34 133
Current tax liabilities	-	7 274	2 351
Other subordinated debt	39	211 289	217 265
Other liabilities	40	276 035	226 718
Total Liabilities		18 301 249	18 350 027
Shareholders' Equity			
Share capital	41	2 420 000	2 420 000
Legal reserve	42	193 266	193 266
Fair value reserves	43	5 937	9 267
Other reserves and Retained earnings	43	(1 119 210)	(1 278 873)
Consolidated net income for the period attributable to the Shareholder		23 328	6 570
Total Equity Attributable to Shareholders		1 523 321	1 350 230
Non-controlling Interests	45	17 640	12 903
Total Shareholders' Equity		1 540 961	1 363 133
Total Liabilities and Shareholders' Equity		19 842 210	19 713 160

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Banco Montepio

Interim Consolidated Income Statement for the six months periods ended on 30 June 2022 and 2021

(Euro thousand)

	Notes	Jun 2022	Jun 2021
Interest and similar income	2	146 009	144 737
Interest and similar expense	2	25 386	30 483
Net interest income	2	120 623	114 254
Dividends from equity instruments	3	951	1 747
Net fee and commission income	4	59 627	54 907
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	5	(3 614)	(6 546)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	6	1 233	526
Net gains/(losses) arising from exchange differences	7	23 084	2 739
Net gains/(losses) arising from sale of other financial assets	8	13 550	19 089
Other operating income/(expense)	9	(36 996)	(27 178)
Total operating income		178 458	159 538
Staff costs	10	72 769	79 522
General and administrative expenses	11	31 098	31 993
Depreciation and amortization	12	17 513	17 817
		121 380	129 332
Impairment of loans and advances to customers and to credit institutions	13	3 217	55 065
Impairment of other financial assets	14	1 850	2 994
Impairment of other assets	15	10 329	9 513
Other provisions	16	(3 493)	(6 864)
Operating income		45 175	(30 502)
Share of profits/(losses) booked under the equity method	17	(167)	(233)
Profit/(loss) before income tax		45 008	(30 735)
Income Tax			
Current	32	(8 651)	50
Deferred	32	(12 829)	(1 215)
Profit/ (loss) after income tax from continuing operations		23 528	(31 900)
Profit/ (loss) from discontinued operations	58	(8)	(752)
Consolidated net income after income tax		23 520	(32 652)
Consolidated net income for the period attributable			
to the shareholders		23 328	(33 002)
Non-controlling Interests	45	192	350
Consolidated net profit / (loss) for the year		23 520	(32 652)
Earnings per share (in Euro)			
From continuing operations			
Basic		0.0097	(0.0132)
Diluted		0.0097	(0.0132)
From discontinued operations			
Basic		(0.0001)	(0.0005)
Diluted		(0.0001)	(0.0005)

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 of 2022 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 96 (notes 22, 23, 24, 26)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Financial assets held for trading	30 787	7 582	17 581
(b)	Financial assets at fair value through other comprehensive income	229 610	123 338	121772
(c)	Other financial assets at amortised cost	2 813 935	3 004 196	4 127 844
(d)	Financial assets at fair value through profit or loss*	289 795	203 427	151939
(e)	Securities portfolio and other financial assets* (a + b + c + d)	3 364 127	3 338 543	4 419 136
(f)	Total net assets	19 460 408	19 713 160	19 842 210
	% Securities portfolio and other financial assets (e / f)	17.3%	16.9%	22.3%

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

Other investments

Definition	Total assets excluding 'Cash and deposits at central banks and loans and advances to credit institutions', 'Loans to customers, 'Financial assets held for trading', 'Financial assets at fair value through other comprehensive income', 'Other financial assets at amortised cost', and 'Financial assets at fair value through profit or loss'.
Relevance	Assess the relative weight of this item compared to Loans to customers and Securities portfolio from an assets' structure perspective.
Reference to FSNO	Page 96 (notes 18, 19, 20, 21, 22, 23, 24, 26)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Total net assets	19 460 408	19 713 160	19 842 210
(b)	Cash and deposits at central banks and loans and advances to credit institutions	2 905 833	3 264 421	2 029 825
(c)	Net loans to customers	11657 532	11667 688	11920 990
(d)	Financial assets held for trading	30 787	7 582	17 581
(e)	Financial assets at fair value through other comprehensive income	229 610	123 338	121772
(f)	Other financial assets at amortised cost	2 813 935	3 004 196	4 127 844
(g)	Financial assets at fair value through profit or loss	289 795	203 427	151939
(h)	Other investments (a - b - c - d - e - f - g)	1532 916	1442 508	1472 259
	% of Other investments (h / a)	7.9%	7.3%	7.4%

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 96 (notes 37, 39)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Debt securities issued	1276 239	1617 125	1462 147
(b)	Other subordinated debt	211159	217 265	211289
(c)	Debt issued (a + b)	1487 398	1834 390	1673 436
(d)	Total liabilities	18 109 663	18 350 027	18 301249
	% of Debt issued (c / d)	8.2%	10.0%	9.1%

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 96 (notes 34, 35, 36, 37, 39)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Total liabilities	18 109 663	18 350 027	18 301 249
(b)	Central bank resources and OCI	3 592 686	3 457 415	3 263 709
(c)	Customer resources	12 623 152	12 786 886	13 035 664
(d)	Debt securities issued	1 276 239	1 617 125	1 462 147
(e)	Other subordinated debt	211 159	217 265	211 289
(f)	Complementary resources (a - b - c - d - e)	406 427	271 336	328 440
	% of Complementary resources (f / a)	2.2%	1.5%	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 49)

Components and calculus

		Jun-21	Dec-21	Jun-22
(a)	Securities investment funds	157 911	175 839	169 798
(b)	Real estate investment funds	468 951	545 128	607 526
(c)	Pension funds	275 296	292 638	276 420
(d)	Capitalization Insurance	898	30 729	30 052
	Off-balance sheet resources (a + b + c + d)	903 056	1 044 334	1 083 796

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-21	Dec-21	Jun-22
(a)	Interest received from loans to customers	127 376	254 724	119 770
(b)	Interest paid on customers' deposits	6 016	10 286	3 118
	Commercial net interest income (a - b)	**121 360**	**244 438**	**116 652**

OPERATING COSTS

Definition	Sum of staff costs, general and administrative expenses and depreciation and amortisations.
Relevance	Assess the evolution of the operating costs underlying the banking activity.
Reference to FSNO	Page 97 (notes 10, 11, 12)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Staff costs	79 522	164 154	72 769
(b)	General and administrative expenses	31993	64 679	31098
(c)	Depreciation and amortisation	17 817	35 292	17 513
	Operating costs (a + b + c)	**129 332**	**264 125**	**121 380**

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

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Commercial net banking income	121360	244 438	116 652
(b)	Net commissions	54 907	116 336	59 627
(c)	Operating costs	129 332	264 125	121380
	Results from the commercial activity (a + b - c)	**46 935**	**96 649**	**54 899**

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 96 (notes 21, 36, 37)

Components and calculus

(thousand euros)

	Jun-21	Dec-21	Jun-22
(a) Net loans to customers	11 657 532	11 667 688	11 920 990
(b) Customer resources	12 623 152	12 786 886	13 035 664
(c) Debt securities issued	1 276 239	1 617 125	1 462 147
Net loans to customers / On-balance sheet customer resources (a / (b + c))	83.9%	81.0%	82.2%

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

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Total operating income	159 538	379 044	178 458
(b)	Results from financial operations (i + ii + iii)	(3 281)	10 770	20 703
(i)	Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(6 546)	(263)	(3 614)
(ii)	Net gains / (losses) from financial assets at fair value through other comprehensive income	526	2 037	1 233
(iii)	Net gains / (losses) from foreign exchange differences	2 739	8 996	23 084
(c)	Other income (i + ii)	(8 089)	6 634	(23 446)
(i)	Net gains / (losses) arising from the sale of other financial assets	19 089	29 778	13 550
(ii)	Other operating income / (expenses)	(27 178)	(23 144)	(36 996)
(d)	Operating costs, excluding specific impacts 1)	125 233	249 439	121 446
	Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	73.3%	69.0%	67.0%

1) Excluding the amount related to Personnel Costs and General administrative expenses generated by the operational adjustment measures, of €+4.1Mn in Jun-21, €+14.7Mn in Dec-21 and €-0.1Mn in Jun-22.

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-21	Dec-21	Jun-22
(a)	Impairment of loans and advances to customers and to credit institutions (annualized[1])	111 042	54 333	6 488
(b)	Average gross loans to customers[2]	12 421 165	12 364 618	12 264 285
	Cost of credit risk (a / b)	**0.9%**	**0.4%**	**0.1%**

1) Annualized values considering the total number of days elapsed and total days of the year.
2) Average balance for period (Jun-21: 365 days / Dec-21: 365 days / Jun-22: 365 days).

Ratio of loans and interest overdue by more than 90 days

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of credit and interest overdue for more than 90 days in relation to the total loan portfolio.
Reference to FSNO	(note 21)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Loans and interest overdue by more than 90 days	502 824	361 418	433 447
(b)	Gross loans to customers	12 317 610	12 189 465	12 435 814
	Ratio of loans and interest overdue by more than 90 days (a / b)	**4.1%**	**3.0%**	**3.5%**

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-21	Dec-21	Jun-22
(a)	Impairment for credit risk (balance sheet)	660 078	521 777	514 824
(b)	Loans and interest overdue by more than 90 days	502 824	361 418	433 447
	Coverage of loans and interest overdue by more than 90 days (a / b)	**131.3%**	**144.4%**	**118.8%**

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 53)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Stock of Non-performing exposures	1 143 984	975 302	956 858
(b)	Gross loans to customers	12 317 610	12 189 465	12 435 814
	Non-performing exposures / Gross loans to customers (a / b)	9.3%	8.0%	7.7%

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 53)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Stock of Non-performing exposures	1 143 984	975 302	956 858
(b)	Impairment for credit risk (balance sheet)	660 078	521 777	514 824
(c)	Gross loans to customers	12 317 610	12 189 465	12 435 814
	Non-performing exposures net of Impairment for credit risk / Gross loans to customers (a-b)/c	3.9%	3.7%	3.6%

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 53)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Impairment for credit risk (balance sheet)	660 078	521 777	514 824
(b)	Stock of Non-performing exposures	1 143 984	975 302	956 858
	Coverage of Non-performing exposures by Impairment for credit risk (a / b)	57.7%	53.5%	53.8%

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 53)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Impairment for credit risk (balance sheet)	660 078	521 777	514 824
(b)	Associated collaterals and financial guarantees	436 651	414 074	395 032
(c)	Stock of Non-performing exposures	1 143 984	975 302	956 858
	Coverage of Non-performing exposures by Impairment for credit risk and associated collaterals and financial guarantees ((a + b) / c)	95.9%	96.0%	95.1%

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 53)

Components and calculus

(thousand euros)

		Jun-21	Dec-21	Jun-22
(a)	Stock of Forborne exposures	728 640	623 791	687 932
(b)	Gross customer loans	12 317 610	12 189 465	12 435 814
	Forborne exposures / Gross loans to customers (a / b)	5.9%	5.1%	5.5%

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, which were produced based on the standards defined by the Basel Committee on Banking Supervision, in the agreements known as Basel II and Basel III.

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

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

IFRS: International Financial Reporting Standards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OCR: Overall capital requirements.

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

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

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

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

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

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

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

Outlook: forward-looking perspective.

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

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

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

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

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

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

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

RWA: Risk-Weighted Assets.

Securities portfolio: sum of the balance sheet headings of Financial assets held for trading, Financial assets at fair value through other comprehensive income, Other financial assets at amortised cost, and Financial assets at fair value through profit or loss.

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

TLTRO: Targeted Longer-Term Refinancing Operations.

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

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

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

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

PART II

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

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

Banco Montepio

Interim Consolidated Income Statement for the six months periods ended on 30 June 2022 and 2021

(Euro thousand)

	Notes	Jun 2022	Jun 2021
Interest and similar income	2	146 009	144 737
Interest and similar expense	2	25 386	30 483
Net interest income	2	120 623	114 254
Dividends from equity instruments	3	951	1 747
Net fee and commission income	4	59 627	54 907
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	5	(3 614)	(6 546)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	6	1 233	526
Net gains/(losses) arising from exchange differences	7	23 084	2 739
Net gains/(losses) arising from sale of other financial assets	8	13 550	19 089
Other operating income/(expense)	9	(36 996)	(27 178)
Total operating income		178 458	159 538
Staff costs	10	72 769	79 522
General and administrative expenses	11	31 098	31 993
Depreciation and amortization	12	17 513	17 817
		121 380	129 332
Impairment of loans and advances to customers and to credit institutions	13	3 217	55 065
Impairment of other financial assets	14	1 850	2 994
Impairment of other assets	15	10 329	9 513
Other provisions	16	(3 493)	(6 864)
Operating income		45 175	(30 502)
Share of profits/(losses) booked under the equity method	17	(167)	(233)
Profit/(loss) before income tax		45 008	(30 735)
Income Tax			
Current	32	(8 651)	50
Deferred	32	(12 829)	(1 215)
Profit/ (loss) after income tax from continuing operations		23 528	(31 900)
Profit/ (loss) from discontinued operations	58	(8)	(752)
Consolidated net income after income tax		23 520	(32 652)
Consolidated net income for the period attributable			
to the shareholders		23 328	(33 002)
Non-controlling Interests	45	192	350
Consolidated net profit / (loss) for the year		23 520	(32 652)
Earnings per share (in Euro)			
From continuing operations			
Basic		0.0097	(0.0132)
Diluted		0.0097	(0.0132)
From discontinued operations			
Basic		(0.0001)	(0.0005)
Diluted		(0.0001)	(0.0005)

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

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

(Euro thousand)

	Notes	Jun 2022 Continuing Operations	Discontinued operations	Total	Shareholders	Non-controlling interests
Items that may be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	43	(4 717)	-	(4 717)	(4 717)	-
Taxes related to fair value changes	32	1 449	-	1 449	1 449	-
Exchange difference arising from the consolidation	43	27 441	-	27 441	21 931	5 510
		24 173	-	24 173	18 663	5 510
Items that will not be reclassified to the Income Statement						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	43	(62)	-	(62)	(62)	-
Remeasurements of post-employment benefits and long term	48	130 686	-	130 686	130 686	-
		130 624	-	130 624	130 624	-
Other comprehensive income/(loss) for the period		154 797	-	154 797	149 287	5 510
Consolidated net income for the period		23 528	(8)	23 520	23 328	192
Total consolidated comprehensive income/(loss) for the period		178 325	(8)	178 317	172 615	5 702

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

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

(Euro thousand)

	Notes	Jun 2021 Continuing Operations	Discontinued operations	Total	Shareholders	Non-controlling interests
Items that may be reclassified to the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	43	(640)	-	(640)	(640)	-
Loans and advances to customers	43	(103)	-	(103)	(103)	-
Own credit risk	43	(18)	-	(18)	(18)	-
Taxes related to fair value changes	32	276	-	276	276	-
Exchange difference arising from the consolidation	43	(408)	-	(408)	(631)	223
		(893)	-	(893)	(1 116)	223
Items that will not be reclassified to the Income Statement						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	43	37 662	-	37 662	37 662	-
Actuarial gains /(losses) fot the period recorded againist retained earnings	43	(39 312)	-	(39 312)	(39 312)	-
Remeasurements of post-employment benefits and long term	48	62 418	-	62 418	62 418	-
Taxes	32	(413)	-	(413)	(413)	-
		60 355	-	60 355	60 355	-
Other comprehensive income/(loss) for the period		59 462	-	59 462	59 239	223
Consolidated net income for the period		(31 900)	(752)	(32 652)	(33 002)	350
Total consolidated comprehensive income/(loss) for the period		27 562	(752)	26 810	26 237	573

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Consolidated Balance Sheet on 30 June 2022 and 31 December 2021

(Euro thousand)

	Notes	Jun 2022	Dec 2021
Assets			
Cash and deposits at central banks	18	1 810 861	2 967 996
Loans and deposits to credit institutions payable on demand	19	48 561	67 360
Other loans and advances to credit institutions	20	170 403	229 065
Loans and advances to customers	21	11 920 990	11 667 688
Financial assets held for trading	22	17 581	7 582
Financial assets at fair value through profit or loss	23	151 939	203 427
Financial assets at fair value through other comprehensive income	24	121 772	123 338
Hedging derivatives	25	5 260	5 411
Other financial assets at amortized cost	26	4 127 844	3 004 196
Investments in associated companies	27	3 661	3 952
Non-current assets held for sale	28	11	38 862
Non-current assets held for sale - discontinued operations	59	87	429
Investment properties	29	84 746	102 933
Other tangible assets	30	242 236	231 610
Intangible assets	31	43 577	40 150
Current tax assets	32	7 428	6 714
Deferred tax assets	32	447 858	459 871
Other assets	33	637 395	552 576
Total Assets		19 842 210	19 713 160
Liabilities			
Deposits from central banks	34	2 902 643	2 902 003
Deposits from other credit institutions	35	361 066	555 412
Deposits from customers	36	13 035 664	12 786 886
Debt securities issued	37	1 462 147	1 617 125
Financial liabilities held for trading	22	12 706	7 470
Hedging derivatives	25	480	335
Non-current liabilities held for sale - discontinued operations	59	142	329
Provisions	38	31 803	34 133
Current tax liabilities	-	7 274	2 351
Other subordinated debt	39	211 289	217 265
Other liabilities	40	276 035	226 718
Total Liabilities		18 301 249	18 350 027
Shareholders' Equity			
Share capital	41	2 420 000	2 420 000
Legal reserve	42	193 266	193 266
Fair value reserves	43	5 937	9 267
Other reserves and Retained earnings	43	(1 119 210)	(1 278 873)
Consolidated net income for the period attributable to the Shareholder		23 328	6 570
Total Equity Attributable to Shareholders		1 523 321	1 350 230
Non-controlling Interests	45	17 640	12 903
Total Shareholders' Equity		1 540 961	1 363 133
Total Liabilities and Shareholders' Equity		19 842 210	19 713 160

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

Interim Consolidated Statement of Cash Flows
for the six months periods ended on 30 June 2022 and 2021

(Euro thousand)

	Jun 2022	Jun 2021 restated
Cash arising from operating activities		
Interest income received	128 128	136 429
Interest expense paid	(28 519)	(39 197)
Commission received	73 764	66 451
Commission paid	(14 156)	(11 544)
Costs with staff and suppliers	(101 065)	(109 613)
Recovery of loans and interest	3 439	2 546
Other payments and receivables	72 430	21 736
Income tax payment	(4 443)	(1 211)
	129 578	65 597
(Increases)/Decreases in operating assets		
Loans and advances to credit institutions and customers	(218 153)	(124 260)
(Purchase)/Sale of financial assets held for trading	43 449	36 059
(Purchase)/Sale of financial assets at fair value through other comprehensive income	(1 600)	53 567
(Purchase)/Sale of other assets at amortized cost	(1 175 982)	(448 332)
Other assets	85 537	48 349
	(1 266 749)	(434 617)
Increases/(decreases) in operating liabilities		
Deposits from customers	249 883	119 729
Deposits from credit institutions	(193 666)	(106 783)
Deposits from central banks	-	1 500 000
	56 217	1 512 946
	(1 080 954)	1 143 926
Cash from investing activities		
Dividends received (note 3)	951	1 747
Dividends paid	(965)	-
Sale of fixed assets and investment properties (note 30 and 31)	(20 462)	(9 701)
	(20 476)	(7 954)
Cash from financing activities		
Repayment of cash bonds and subordinated debt (notes 37 and 39)	(93 300)	(23 873)
Finance lease agreements	(4 288)	(5 036)
	(97 588)	(28 909)
Effects of exchange rate changes on cash and cash equivalents	23 084	2 739
Net change in cash and cash equivalents	(1 175 934)	1 109 802
Cash and cash equivalents at the beginning of the period		
Cash and deposits at central banks (note 18)	2 967 996	1 466 250
Loans and deposits to credit institutions payable on demand (note 19)	67 360	33 660
	3 035 356	1 499 910
Cash and cash equivalents at the end of the period		
Cash and deposits at central banks (note 18)	1 810 861	2 553 842
Loans and deposits to credit institutions payable on demand (note 19)	48 561	55 870
	1 859 422	2 609 712

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Banco Montepio

interim Consolidated Statement of Changes in Equity
for the six months periods ended on 30 June 2022 and 2021

(Euro thousand)

	Share capital (Note 41)	Other equity instruments (Note 43)	General and Legal reserves (Note 42)	Retained earnings (Note 43)	Consolidated net income/(loss) for the period	Equity attributable to Shareholders	Non-controlling interests (Note 45)	Total Shareholders Equity
Balance on 1 January 2021	**2 420 000**	**(28 295)**	**193 266**	**(1 186 425)**	**(80 686)**	**1 317 860**	**9 299**	**1 327 159**
Other comprehensive income:	-	37 177	-	(58 624)	80 686	59 239	223	59 462
Exchange difference arising from consolidation	-	-	-	(631)	-	(631)	223	(408)
Appropriation to retained earnings of net income of the previous period	-	-	-	(80 686)	80 686	-	-	-
Remeasurements in the period (note 48)	-	-	-	62 418	-	62 418	-	62 418
Taxes (note 32)	-	-	-	(413)	-	(413)	-	(413)
Changes in fair value (note 43)	-	36 901	-	(39 312)	-	(2 411)	-	(2 411)
Taxes on changes in fair value (note 32 and 43)	-	276	-	-	-	276	-	276
Consolidated net income for the period	-	-	-	-	(33 002)	(33 002)	350	(32 652)
Total comprehensive income/(loss) for the period	-	37 177	-	(58 624)	47 684	26 237	573	26 810
Other consolidation reserves	-	-	-	(3 224)	-	(3 224)	-	(3 224)
Balance on 30 June 2021	**2 420 000**	**8 882**	**193 266**	**(1 248 273)**	**(33 002)**	**1 340 873**	**9 872**	**1 350 745**
Other comprehensive income:	-	385	-	(29 741)	-	(29 356)	2 256	(27 100)
Exchange difference arising from consolidation	-	-	-	10 172	-	10 172	2 256	12 428
Appropriation to retained earnings of net income of the previous period	-	-	-	-	-	-	-	-
Remeasurements in the period (note 48)	-	-	-	(34 993)	-	(34 993)	-	(34 993)
Taxes (note 32)	-	-	-	(5 120)	-	(5 120)	-	(5 120)
Changes in fair value (note 43)	-	568	-	200	-	768	-	768
Taxes on changes in fair value (note 32 and 43)	-	(183)	-	-	-	(183)	-	(183)
Consolidated net income for the period	-	-	-	-	39 572	39 572	775	40 347
Total comprehensive income/(loss) for the period	-	385	-	(29 741)	39 572	10 216	3 031	13 247
Other consolidation reserves		-	-	(859)		(859)		(859)
Balance on 31 december 2021	**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)	-	159 187	(6 570)	149 287	5 510	154 797
Exchange difference arising from consolidation	-	-	-	21 931	-	21 931	5 510	27 441
Appropriation to retained earnings of net income of the previous period	-	-	-	6 570	(6 570)	-	-	-
Remeasurements in the period (note 48)	-	-	-	130 686	-	130 686	-	130 686
Changes in fair value (note 43)	-	(4 779)	-		-	(4 779)	-	(4 779)
Taxes on changes in fair value (note 32 and 43)	-	1 449	-	-	-	1 449	-	1 449
Consolidated net income for the period	-	-	-	-	23 328	23 328	192	23 520
Total comprehensive income/(loss) for the period	-	(3 330)	-	159 187	16 758	172 615	5 702	178 317
Dividends paid	-	-	-	-	-	-	(965)	(965)
Other consolidation reserves	-	-	-	476	-	476	-	476
Balances on 30 June 2022	**2 420 000**	**5 937**	**193 266**	**(1 119 210)**	**23 328**	**1 523 321**	**17 640**	**1 540 961**

THE CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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 2022, 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 2022, 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. and a shareholding of 80.22% in Finibanco Angola, S.A. (Finibanco Angola).

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.

Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. – In liquidation

Law no. 79/IX/2020, of 23 March, established a transitional period for credit institutions with restricted authorization, constituted and authorized to operate in the Cape-Verdean financial system, to, if they wished, proceed by 31 December 2021 with the statutory and organizational changes necessary to start operating as banks with general authorization, under penalty of revocation of the respective authorization at the end of that period. As it was not Banco Montepio’s intention to proceed with the changes necessary to convert it into a bank with a general authorization, the necessary authorization process was started with Banco de Cabo Verde (Cape Verde Central Bank), under the legal terms, for the adoption of the voluntary dissolution resolution and consequent liquidation of Banco Montepio Geral Cabo Verde – In liquidation, which is expected to be completed during the year 2022. As at 30 June 2022, this entity is thus presented as a discontinued operation, with its assets and liabilities being presented under the captions of Non-current assets/Non-current liabilities held for sale – Discontinued operations, respectively.

Finibanco Angola, S.A.

Finibanco Angola, controlled in 80.22% by Montepio Holding, S.G.P.S., S.A. that, in turn, is 100% held by Banco Montepio, 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 loans and advances made to credit institutions, on the acquisition of securities and other assets, activities which it is duly authorized to carry out. Finibanco Angola also renders other banking services and realizes various types of foreign-currency operations.

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

Montepio Crédito, 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.

The remining entities of the consolidation perimeter are disclosed in note 57.

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 2022 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2022.

The consolidated financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 15 September 2022. The condensed interim consolidated financial statements herein presented relate to 30 June 2022. 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 2021.

The consolidated financial statements are presented in Euro, rounded to the nearest thousand.

All references made to standards in this document relate to the respective version in force.

The financial statements were prepared on the going concern basis under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss, 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, except in respect of the consolidated statement of cash flows for which they were adjusted in June 2021.

At the end of 2021, at the level of the condensed interim consolidated statement of cash flows, the Group proceeded with the reclassification of Cash and deposits at central banks from the caption Deposits held for monetary control purposes to the caption Cash and deposits at central banks.

Following this change, the Group corrected the comparatives as at 30 June 2021, with the restatement being presented as follows:

(Euro thousand)

	Jun 2021 restated	Ajustament	Jun 2021
Deposits held for monetary control purposes	-	1 110 212	(1 110 212)
Cash and cash equivalents at the beginning of the period			
Cash and deposits at central banks (note 18)	1 466 250	1 300 387	165 863
Loans and deposits to credit institutions payable on demand (note 19)	33 660	-	33 660
	1 499 910	**1 300 387**	**199 523**
Cash and cash equivalents at the end of the period			
Cash and deposits at central banks (note 18)	2 553 842	2 410 599	143 243
Loans and deposits to credit institutions payable on demand (note 19)	55 870	-	55 870
	2 609 712	**2 410 599**	**199 113**

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 2022 and 2021.

Subsidiaries

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

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

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

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

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, that does not impact the control position of a subsidiary, are always recognized against reserves.

Loss of control

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

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

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

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

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

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

Balances and transactions eliminated on consolidation

Intragroup balances and transactions, as well as any unrealized gains and losses arising from these transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized gains and losses arising from transactions with 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 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.
- 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 are held, 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. Sales that are closed to the maturity 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 this purpose, Banco Montepio considers as immaterial sales of up to 10% of the nominal value of the sales of the portfolio and as infrequent 4 sales per year, regardless of the time interval between the transactions.

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

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

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

SPPI assessment

When the business model 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.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 Group exercises the option, on initial recognition, to irrevocably designate in the category of financial assets at fair value through other comprehensive income the investments in equity instruments that are not classified as held for trading and which, in the case of not exercising said option, would be classified as financial assets at fair value through profit or loss. Impairment losses (and impairment reversals) are not recorded separately from other fair value changes.

c.2) Classification of financial liabilities

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

(i) Financial liabilities at amortized cost

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

(ii) Financial assets held for trading

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

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

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

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

c.3) Recognition and initial valuation of financial instruments

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

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

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

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

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

The Group recognizes in profit or loss the day one profit, generated primarily by the intermediation of derivative and foreign exchange financial products, since the fair value of these instruments, both on the date of initial recognition or subsequently, is determined based solely on observable market variables and reflects Banco Montepio's access to the wholesale financial market.

c.4) Subsequent valuation of financial instruments

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. On 30 June 2022, 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.5) Interest recognition

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

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

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

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

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

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

For derivative financial instruments, except for those classified as interest rate risk hedging instruments, the interest component is not separated from the changes in their fair value, being classified 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.6) Reclassifications between financial instrument categories

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

Modification of loans

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

- if the debtor is in financial difficulty, whether the modification only reduces the contractual cash flows to an amount that the debtor is expected to be able to pay;
- a significant new term such as profit sharing or an equity-based return that substantially affects credit risk has been introduced;

- a significant extension of the contract maturity when the debtor is not in financial difficulty;
- a significant change in interest rate;
- a change from the currency in which the credit was contracted;
- the inclusion of a collateral, a guarantee or another credit enhancement instrument that significantly affects the credit risk associated with the loan.

If the terms of the contract differ significantly, the 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 Group recalculates the gross book value based on the revised cash flows of the financial asset and recognizes a gain or loss from this modification in profit or loss. The new gross book value is recalculated by discounting the modified cash flows at the original effective interest rate.

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

c.7) <u>De-recognition that does not result from a modification</u>

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

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

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

Financial liabilities are derecognized when the underlying obligation is settled, expires or is cancelled.

c.8) Write-off policy

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

c.9) *Impairment of financial assets*

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

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

Impairment losses of loans and advances to customers and of 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 charges and reversals are recorded in the caption Other provisions in the income statement.

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

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

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

   The Group estimates cash flows considering the contractual term defined for the operations or the behavioural maturity. For the purpose of determining the cash flows, those arising from the sale of collateral received are also included, 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.10) Impairment model of loans and advances to customers

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

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

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

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

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

.10.1) *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.10.2) *Definition of default*

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

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

- Overdue loans above the materiality limits defined for more than 90 consecutive days. For this purpose, the following materiality limits are considered: (i) relative limit of 1%; (ii) absolute limit of Euro 100 for retail exposures and Euro 500 for non-retail exposures.
- Individually significant customers with individual impairment.
- Bankruptcy/insolvency customers.
- Customers with loans written off from assets in the Group.
- Transactions with restructuring due to financial difficulties, which meet the criteria defined for the identification of defaults (e.g., decrease in the fair value of the loan).

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

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

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

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

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

When evaluating the significant increase in credit risk, the Group also considers the existence of arrears of more than 30 days, as well as other indicators of Customer behaviour vis-à-vis the Group and/or the financial system (e.g., restructurings due to financial difficulties that do not meet the criteria for classification in Stage 3, overdue credit in the Bank of Portugal's Central Credit Register ("Central de Responsabilidades de Crédito").

c.10.4) *Additional Stage criteria and deterioration of credit ratings*

In the context of the recent pandemic crisis, and with the aim of anticipating the risk deterioration associated with exposures that benefitted from the moratoria, the following additional criteria were considered for Stage 2 and 3 classification levels:

Stage 2

- Customers for which the Bank, through a specific analysis of the credit quality of Customers that benefitted from a moratorium, concludes that it will be necessary to grant contractual amendments or refinancing that meet the classification criteria as restructured due to financial difficulties;
- Transactions with more than 0 days in arrears;
- Customers of the Corporate and Self-employed individuals ("ENI") segment: As at 31 December 2021, Customers that benefitted from a moratorium on capital and interest until September 2021 are classified in Stage 2;
- Customers of the Individuals segment: worsening of the behavioural scoring of Customers that benefitted from a moratorium until September 2021, considering the adjustment of certain input variables, namely related to the evolution of the customers' resources or with the professional situation of unemployed.

Stage 3

- Anticipation of the classification in stage 3 of Customers for which the Bank has concluded that it is likely that they will be marked in default via the criteria set out in the definition of default (e.g., urgent restructuring; bankruptcy/insolvency).

During the first half of 2022, the Bank recognized an overlay, based on a top-down approach, which consisted of deteriorating the credit ratings of Customers in the sectors of activity most exposed to the indirect impact of the military conflict taking place in Ukraine, as described in note 53.

c.10.5) *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, economic activity code and delay indicators.

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

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

The EAD represents the expected loss if the exposure and/or Customer enters default. The Group obtains the EAD values from the counterparty´s current exposure and from potential changes to its current value, permitted by the contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the EAD value includes both the amount of credit used as well as the expectation of the potential future value that may come to be used in accordance with the contract. For this purpose, credit conversion factors (CCF) are estimated based on internal historical data, which are adjusted to reflect forward-looking information.

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

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.

For the financial assets of individually significant counterparties/Customers classified in Stages 1 and 2, the expected credit loss (ECL) is attributed according to the collective analysis methodology, given that individually no impairment level is observed.

The criteria for the determination of impairment of individually significant loans

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

1. Economic Groups with a global exposure amount ≥ 0.5 m€ in which at least one of the participants is the holder of operations classified as Stage 3, with Customers with an exposure amount ≥ 0.1 m€ being selected;
2. Customers holding Stage 2 operations with an exposure amount ≥ 1.0 m€ and Customers with an exposure amount ≥ 1.0 m€ that are part of the same Economic Group;
3. Customers holding Stage 1 operations with an exposure amount ≥ 2.5 m€;
4. Customers corresponding to Shareholding Management Companies (SGPS) and/or Customers holding loans under Project Finance with an exposure amount ≥ 1.0 m€;
5. Other Customers when duly justified.

For the exposure of Customers or economic groups, all active credit operations (on- and off-balance sheet) are considered, excluding the operations written off.

The individual analysis is the responsibility of the Specialized Credit Analysis Department and in the evaluation of impairment losses the following factors are, essentially, considered:

- Total exposure of each Customer and/or economic group, internal rating of the Customer and/or economic group, the staging associated with each operation and the existence of signs of impairment;
- Economic and financial viability of the Customer or economic group and the respective ability to generate future cash flows to pay the debt;
- Existence of collaterals associated with each credit and their respective valuation;
- Customers' or guarantors' net assets;
- Situation of bankruptcy or insolvency of the Customers and/or guarantors;
- Expectation regarding the credit recovery period.

The recoverable amount is determined by the sum of the expected cash flows, estimated in accordance with the contractual conditions in force and according to the underlying collection expectations, discounted at the original effective interest rate of the contract. An impairment adjustment is made when the expected cash flows are lower than the contractual cash flows due by the Customer.

For the determination of the expected cash flows different recovery strategies are used, which may include the going concern method and/or the gone concern method of the Company:

- In case of the continuity of operations (going concern) a critical analysis is done of the Companies' business plans or other elements available for analysis, which should include information on past events, current conditions and projected future economic conditions (forward-looking scenarios), with these being representative of the current and future economic-financial situation of the Customer. For the calculation of the impairment of these Customers, the annually projected cash flows, after adjustment of the initially estimated assumptions and the application of haircuts, if necessary, and considering deviations of the real figures from those initially projected, are discounted at the original effective interest rate of the operations;

- In the case of the cessation of the activity (gone concern) the settlement through collaterals, if these exist, is assumed, with an exhaustive analysis being made of same, namely regarding the value of the mortgage/pledge, the valuation amount, the valuation date and the need for the application of haircuts in function of the ageing of the valuation or other factors, the deadline for the foreclosure/execution, and the deadline for the sale, as well as the associated maintenance, selling and procedural costs, as applicable. For the calculation of the impairment of these Customers, the annually projected cash flows, after adjustments, are discounted at the original effective interest rate of the operations;

- For each recovery strategy, the respective excepted credit loss is calculated, considering different forward-looking scenarios, weighted by the respective probability of occurrence;

- For specific cases, it is possible to use strategies that combine with either the going concern or the gone concern methods.

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

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

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

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

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

c.12) *Synthetic securitization*

The Group contracted an operation that configures a synthetic securitization structure. The operation started on 18 December 2020 and is based on a loan portfolio of Small and Medium-sized Enterprises (SMEs).

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

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

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

d) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Fair value hedging

In a fair value hedging operation of an asset or liability, the balance sheet value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in its fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognized in the income statement, together with changes in the fair value of the hedged assets or liabilities, attributable to the hedged risk. In cases where the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income, the changes in fair value are also recognized in other comprehensive income. If the hedge no longer meets the effectiveness requirement, but the risk management objective remains, the Group may adjust the hedge to comply with the eligibility criteria. If the hedge fails to meet the criteria required for hedge accounting (in the event that the hedge instrument expires, is sold, terminated or exercised, without having been replaced according to the entity's documented risk management objective), the derivative financial instrument is transferred to the trading book and hedge accounting is discontinued prospectively. If the hedged asset or liability corresponds to a fixed-income instrument, the revaluation adjustment is amortized via the income statement until its maturity using the effective interest rate method.

Cash flow hedging

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

e) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently of its legal form, evidencing a residual interest in the assets of an entity after deducting all its liabilities.

Transaction costs directly attributable to an equity instrument issuance are recognized in equity as a deduction from the amount of the issue. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs. Distributions made on account of equity instruments are deducted from equity as dividends when declared.

f) Financial and performance guarantees

Financial guarantees

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

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

Performance guarantees

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

g) Securities' loan and repurchase agreement transactions

Securities' loans

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

Repurchase agreements

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

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

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

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

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

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

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to their subsequent disposal, which are available for immediate sale and which sale is highly probable. Immediately before their classification as non-current assets held for sale, the measurement of all the non-current assets or of all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and their fair value less costs to sell, except for deferred tax assets, employee-benefit related assets, financial assets in the scope of IFRS 9 and non-current assets at fair value according to IAS 40 (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) 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 lessor 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). These commissions are received in advance and are deferred and recognized over the life of the operation;

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

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

l) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in the Group's consolidated financial statements. Fee and commission income arising from this activity are recognized in the income statement in the period to which they relate.

m) Other tangible assets

Other tangible assets are recorded at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for the Group. All repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred. Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful lives:

	Number of years
Buildings held for own use	50
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;
- Investment 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 plans

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.

In December 2016, the Group 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 48.

The actuarial calculation is made using the projected unit credit method and considering actuarial and financial assumptions, in accordance with the parameters required by IAS 19.

The liabilities are covered by the Pension Fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The Group´s net liability regarding the defined benefit pension plan and other benefits is calculated separately for each plan by estimating the amount of future benefits that each employee will receive in return for his/her service in the current and prior financial years. The benefit is discounted 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.

The Group recognizes in its income statement a net total amount that includes (i) the current service cost, (ii) the net interest income/(expense) from the pension plan, (iii) the effect of early retirement, (iv) past service costs and (v) the effects of any settlement or curtailment occurring during the financial period. The costs of early retirements correspond to an increase in liabilities due to the employee's retiring before reaching retirement age.

Other benefits not related to pensions, namely retired employees' health expenses and benefits attributed to spouses and descendants by death and expenses with house loans, are also considered in the calculation of the liabilities.

Payments to the Pension Fund are made by the Group to assure the solvency of the Fund. The liability related to pensions under payment must be funded at a minimum level of 100% and at 95% for past service costs of active employees.

Defined contribution plan

As at 30 June 2022 and 31 December 2021, the Group has a defined contribution plan for employees who were admitted after 3 March 2009. This plan, designated as contributory, receives monthly and equal contributions, based on the effective remuneration: 1.5% to be made by the Company and 1.5% to be made by the employee.

Variable remuneration of employees and members of the Board of Directors (bonus)

In accordance with IAS 19 - Employee benefits, the variable remuneration (profit-sharing, bonuses and other) attributed to employees and to the members of the Board of Directors is recognized in profit or loss in the year to which it relates.

Employment termination benefits

The occurrence that gives rise to this obligation is (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, the Group was an entity exempt from Corporate Income Tax (“IRC”), in accordance with paragraph a) of no. 1 of article 10 of the IRC Code. This exemption had been recognized under an Order of 3 December 1993 of the Secretary of State for Tax Affairs and confirmed by Law no. 10-B/96, of 23 March, approving the State Budget for 1996.

With effect from 1 January 2012, the Group is now subject to the regime established by the Corporate Income Tax Code (“CIRC”). Additionally, deferred taxes resulting from timing differences between the accounting net income and the net income accepted by the Tax Authorities for IRC assessment purposes are accounted for whenever there is a reasonable probability that those taxes will be paid or recovered in the future. Income tax recognized in the income statement includes the current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case the corresponding income tax is recognized in equity. Deferred taxes recognized in equity arise from the revaluation of financial assets at fair value through other comprehensive income and from cash-flow hedging derivatives. Only deferred taxes related to fair value hedging derivatives are subsequently recognized in profit or loss at the same moment the gains and losses that originated the deferred taxes are recognized.

Current tax corresponds to the tax assessed on the taxable income for the financial year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxes assessed in respect of previous financial periods. Deferred taxes are calculated for timing differences between the book values of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes, using the tax rates approved or substantially approved at the balance sheet date and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for intangible assets with an indefinite life, which are not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither the accounting nor the taxable income and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the future, and to the extent that the Group does not exercise control over the period of the reversal of the differences. Deferred tax assets are recognized when it is probable that future taxable income will be available to absorb the deductible timing differences for taxation purposes (including reportable taxable losses).

As established in IAS 12, paragraph 74, the Group offsets the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In the year 2018, Banco Montepio became the dominant company of the Group subject to Corporate Income Tax under the Special Taxation Regime of Groups of Companies (“Regime Especial de Tributação dos Grupos de Sociedades” (“RETGS”)), constituted by the Companies in which it holds a shareholding equal to or higher than 75% and which meet the conditions provided for in article 69 et sec of the IRC Code.

The Companies included in the RETGS calculate and record income tax as if they were taxed on a separate basis. The liabilities determined are, however, payable to the parent company of the tax group, the Group, which is responsible for the global calculation and self-assessment of the tax. Gains or losses arising from the application of this regime are recorded in each of the companies that originate them.

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 those situations, 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, Investment Banking, International Activity, Markets 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 considering the best information available as to the consequences of the event that led to its constitution. In cases where the discount effect is material, provisions correspond to the present value of the expected future payments, discounted at a rate that considers the risk associated with the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reversed through profit or loss in the proportion of the payments that cease to be probable. This caption also includes the impairment losses related to exposures that have an associated credit risk such as bank guarantees, and commitments assumed.

Contingent assets

A contingent asset is a possible asset that arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events that are not entirely under the control of the entity.

Contingent liabilities

A contingent liability is an obligation that is:

- Possible, which arises from past events and which existence will only be confirmed by the occurrence, or not, of one or more uncertain future events, which are not entirely under the control of the entity; or
- Present, which arises from past events, but is not recognized because:
    - It is unlikely that an outflow of resources incorporating economic benefits will be required to settle that obligation;
    - The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, being, in accordance with IAS 37, disclosed whenever the possibility of an outflow of resources encompassing economic benefits is not remote.

w) Insurance and reinsurance brokerage services

The Group is duly authorized by the Insurance and Pension Funds Supervisory Authority ("Autoridade de Supervisão de Seguros e Fundos de Pensões" - "ASF") to provide insurance brokerage services, under the category of Tied Insurance Broker, in accordance with article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, operating in the life and non-life insurance brokerage areas.

In the insurance brokerage services scope, the Group sells insurance contracts. As remuneration for the services rendered, the Group receives brokerage commissions on insurance and investment contracts, which are defined in agreements/protocols established between the Group and the Insurance Companies.

The commissions received for the insurance brokerage services have the following typology:

1. commissions that include a fixed and a variable component. The fixed component is calculated by applying a predetermined rate to the amount of the subscriptions made by the Group and the variable component is calculated based on predetermined criteria, with the total annual commission being the sum of the commissions calculated monthly;
2. commissions in the form of profit-sharing in the results of the insurance contracts, which are calculated annually and paid by the Insurance Companies in the beginning of the year following that to which they relate.

Commissions received for insurance brokerage services are recognized on an accrual basis. Fees paid in a different period from that to which they relate are recorded as a receivable in the caption Other assets with a corresponding entry in the caption Fee and commission income - For insurance brokerage services.

x) Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the Group by the weighted average number of ordinary shares outstanding. For the calculation of diluted earnings per share, when applicable, the weighted average number of ordinary shares outstanding is adjusted to reflect the effect of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The effect of the dilution translates into a reduction in earnings per share resulting from the assumption that convertible instruments are converted or that the options granted are exercised.

y) Subsequent events

The Group analyses events occurring after the balance sheet date, that is, favourable and/or unfavourable events that occur between the balance sheet date and the date on which the financial statements were authorized for issue. Within this scope, two types of events can be identified:

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

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

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

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

IFRS set forth a range of accounting treatments and require the Board of Directors to apply judgment and make the necessary estimates in deciding which treatment is most appropriate. These estimates were determined considering the best information available at the date of the preparation of the financial statements, considering the context of uncertainly and the economic environment resulting from the impact of the recent COVID-19 pandemic and 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 drivers and how each driver impacts the others.

d) *Probability of default:*

   The probability of default represents a determining factor in measuring expected credit losses. The probability of default corresponds to an estimate of the probability of default in a given time period, which is calculated based on historical data, assumptions and expectations about future conditions.

e) *Loss given default:*

   This corresponds to an estimate of the loss in a default scenario, being determined by the difference between the contractual and the expected cash flows that the Group expects to receive, through cash flows generated by the Customer's business or from the credit collateral. The calculation of the estimated loss given default is based, among other things, on the different recovery scenarios, historical information, the costs involved in the recovery process and the estimated valuation of the collateral associated with credit operations.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of the impairment losses recognized and presented in notes 20, 21, 24, and 26, with a consequent impact in the income statement of the Group.

Uncertainty of the current economic context caused by COVID-19 and the impacts arising from the military conflict in Ukraine led Banco Montepio, in accordance with the provisions of IFRS 9 and for the purposes of measuring credit impairment losses, to update the prospective information related to the macroeconomic data available on risk parameters, determining impacts at the level of the expected credit loss (see notes 13 and 53).

Fair value of derivative financial instruments and other financial assets measured at fair value

Fair values are based on listed market prices, if available, being, in their absence, determined based either by recent transaction prices, similar and realized under market conditions or based on discounting techniques applied to future cash flows which consider market conditions, time value, yield curve and volatility factors. These methodologies may require assumptions or judgments in the estimation of fair value.

Consequently, the use of different methodologies or of different assumptions or judgments in applying a particular model could result in financial results different from those reported in notes 22, 23, 24 and 25.

The detail of the fair value calculation of derivative financial instruments and other financial assets carried at fair value is presented in note 47.

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 57.

Income taxes

The Group is subject to the payment of corporate income taxes in several jurisdictions. Significant interpretations and estimates are required in determining the global amount of corporate income taxes. There are various transactions and calculations for which the assessment of the ultimate tax payable is uncertain during the ordinary course of business.

The Group complies with the guidelines of IFRIC 23 - Uncertainties related to the treatment of income tax related to the determination of taxable income, tax bases, tax losses to be carried forward, tax credits to be used and tax rates in scenarios of uncertainty regarding income tax treatment, with no material impact on its financial statements having resulted from the application of same.

Different interpretations and estimates could result in a different level of corporate income taxes, current and deferred, to those recognized in the financial year and presented in note 32.

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 2022, the tax rules resulting from Law no. 98/2019, of 4 September, were considered, with tax rules identical to those in force in financial years 2015 through 2019 having been considered insofar as Banco Montepio did not adhere to the definitive regime on impairment, as a result of which the limits set forth in Bank of Portugal Notice no. 3/95 and other specific rules must be considered for the purpose of determining the maximum amounts of impairment losses accepted for tax purposes.

The Portuguese Tax and Customs Authority is entitled to review the annual taxable income assessment made by the subsidiaries resident in Portugal, for a period of four years, save where any deduction or tax credit has been made, in which case the period is that of the exercise of that right. In the case of the subsidiary with registered office in Angola, the above-mentioned period is 3 years. Hence, corrections to the assessments may occur, mainly because of differences in interpretation of tax law. The Board of Directors considers it improbable that these will have a materially relevant effect on the financial statements.

Pensions and other post-employment and long-term benefits

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

Changes to these assumptions could have a significant impact on the amounts determined and presented in note 48.

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 28, 29 and 33.

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 38.

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 30.

2 Net interest income

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2022	**Jun 2021**
Interest and similar income		
Deposits from central banks and other loans and advances to credit institutions	14 322	3 623
Loans and advances to customers	119 770	127 376
Financial assets held for trading	41	4 156
Financial assets at fair value through profit or loss	55	66
Financial assets at fair value through other comprehensive income	525	463
Hedging derivatives	3 263	3 267
Other financial assets at amortized cost	8 033	5 780
Other interest and similar income	-	6
	146 009	144 737
Interest and similar expense		
Deposits from central banks and other credit institutions	4 226	2 475
Deposits from customers	3 118	6 016
Debt securities issued	4 179	4 926
Financial liabilities held for trading	-	3 820
Hedging derivatives	1 116	1 024
Other subordinated debt	9 435	9 673
Lease liabilities	371	380
Other interest and similar expense	2 941	2 169
	25 386	30 483
Net interest income	120 623	114 254

The caption Interest and similar income – Loans and advances to customers, as at 30 June 2022, includes, respectively, the amount of Euro 9,074 thousand and the amount of Euro 6,542 thousand (30 June 2021: Euro 8,120 thousand and Euro 5,251 thousand, respectively), related to commissions and to other gains/(losses), which are accounted for under the effective interest rate method, as referred to in the accounting policy described in note 1 c).

In the first half of 2022, in accordance with IAS 1 paragraph 82(a), the Group recorded interest on financial assets held for trading, namely that related to derivative financial instruments, under the caption Net interest income from assets and liabilities at fair value through profit or loss.

The caption Interest and similar income – Financial assets at fair value through profit or loss, as at 30 June 2022, includes the amount of Euro 55 thousand (30 June 2021: 66 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%, with the rate of the subsequent periods coinciding with the DFR average verified since the start of each one of the tranches.

The caption Interest and similar expense – Other interest and similar charges includes, as at 30 June 2022, the amount of Euro 2,506 thousand (30 June 2021: Euro 2,168 thousand) related to costs incurred with the synthetic securitization operation.

3 Dividends from equity instruments

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Financial assets at fair value through other comprehensive income	951	1 747
	951	1 747

As at 30 June 2022, this caption includes dividends received in the amount of Euro 505 thousand from the company Unicre and Euro 406 thousand from SIBS (30 June 2021: Euro 1,386 thousand received from the company Unicre, Euro 171 thousand from SIBS and Euro 161 thousand from Monteiro Aranha, S.A.).

4 Net fee and commission income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Fee and commission income		
From banking services	52 942	46 228
From transactions on behalf of third parties	11 886	10 683
From insurance brokerage services	4 595	5 201
Guarantees provided	1 739	1 916
Commitments to third parties	608	790
Operations with financial instruments	75	123
Other fee and commission income	1 919	1 510
	73 764	66 451
Fee and commission expense		
From banking services rendered by third parties	11 829	9 529
From transactions with securities	223	441
Other fee and commission expense	2 085	1 574
	14 137	11 544
Net fee and commission income	59 627	54 907

As at 30 June 2022 and 2021, the caption Insurance brokerage services has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Life insurance	2 178	2 895
Non-life insurance	2 417	2 306
	4 595	5 201

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 2022			Jun 2021		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	1 185	4 326	(3 141)	884	1 157	(273)
Issued by other entities	38	31	7	140	71	69
Shares	410	871	(461)	798	283	515
Investment units	67	321	(254)	306	227	79
	1 700	5 549	(3 849)	2 128	1 738	390
Derivative financial instruments						
Interest rate contracts	55 927	59 605	(3 678)	19 402	19 806	(404)
Exchange rate contracts	14 048	14 097	(49)	12 790	13 122	(332)
Futures contracts	5 750	3 850	1 900	2 399	2 431	(32)
Option contracts	1 657	1 614	43	395	351	44
Commodities contracts	195	216	(21)	223	125	98
	77 577	79 382	(1 805)	35 209	35 835	(626)
Financial assets at fair value through profit or loss						
Investment units	2 292	1 091	1 201	5 743	10 098	(4 355)
Loans and advances to customers	20	437	(417)	75	577	(502)
	2 312	1 528	784	5 818	10 675	(4 857)
Other financial assets at fair value through profit or loss						
Bonds and other fixed-income securities						
Issued by other entities	(73)	(1 171)	1 098	1 719	2 531	(812)
Shares	-	(23)	23	-	7	(7)
Loans and advances to customers	-	67	(67)	-	70	(70)
	(73)	(1 127)	1 054	1 719	2 608	(889)
Financial liabilities at fair value through profit or loss						
Deposits from customers	737	-	737	23	209	(186)
Debt securities issued	-	-	-	39	-	39
	737	-	737	62	209	(147)
Hedging derivatives						
Interest rate contracts	6 360	9 608	(3 248)	2 808	5 732	(2 924)
	6 360	9 608	(3 248)	2 808	5 732	(2 924)
Hedged financial liabilities						
Debt securities issued	2 713	-	2 713	2 507	-	2 507
	2 713	-	2 713	2 507	-	2 507
	91 326	94 940	(3 614)	50 251	56 797	(6 546)

Financial assets at fair value through profit or loss include, on 30 June 2022, in Investment units, a positive impact of Euro 1,201 thousand (30 June 2021: negative impact of Euro 4,355 thousand), determined by the positive effects of Fundo VIP (fund) of Euro 1,079 thousand, Fundo Valor Prime (fund) of Euro 471 thousand and of Fundo Discovery Portugal Real Estate (fund) of Euro 612 thousand, partially offset by the negative effects of Fundo Vega (fund) of Euro 522 thousand, of Fundo SC1 Fundo Capital de Risco (fund) of Euro 327 thousand and of Fundo Aquarius, FCR (fund) of Euro 116 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 2022			Jun 2021		
	Gains	Losses	Total	Gains	Losses	Total
Fixed-income securities						
Bonds						
Issued by public entities	18	1 058	(1 040)	1 158	632	526
Issued by other entities	2 273	-	2 273	-	-	-
	2 291	1 058	1 233	1 158	632	526

On 30 June 2022, the caption Bonds – Issued by public entities includes net losses obtained on the sale of Portuguese sovereign bonds in the amount of Euro 1,040 thousand. As at 30 June 2021, this caption included net gains generated on the sale of Portuguese sovereign bonds in the amount of Euro 106 thousand, of Greek sovereign bonds in the amount of Euro 50 thousand, and of German, Belgian, Italian and Spanish sovereign bonds in the amount of Euro 370 thousand.

7 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022			Jun 2021		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	35 477	12 393	23 084	21 131	18 392	2 739

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

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

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Disposal of other assets	9 432	4 459
Disposal of loans and advances to customers	4 118	(106)
Disposal of financial assets at amortized cost	-	14 736
	13 550	19 089

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.

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.

In the first half of 2021, Banco Montepio disposed of Euro 511 million in terms of nominal value of Portuguese sovereign debt classified in the hold to collect portfolio. This operation falls within the limits defined in Banco Montepio's internal regulation for this business model, being classified as infrequent, but significant in terms of value, having generated a capital gain of Euro 14,736 thousand.

9 Other operating income/(expense)

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Other operating income		
Reimbursement of expenses	3 122	3 502
Repurchase of own issues	2 106	-
Revaluation of investment properties	1 727	2 330
Management fees on demand deposits	1 656	1 390
Services provided	1 652	1 934
Rentals of investment properties	641	719
Income from the valuation of financial liabilities	19	-
Other	5 926	2 831
	16 849	12 706
Other operating expenses		
Contributions:		
Banking sector	12 258	10 232
Ex-ante to the Single Resolution Fund	8 355	7 687
National Resolution Fund	5 106	4 713
Deposits Guarantee Fund	154	26
Repurchase of own issues	11 921	-
Revaluation of investment properties	2 057	1 899
Taxes	1 852	827
Servicing and expenses with recovery and disposal of loans	1 535	1 842
Expenses with issuances	424	536
Donations and memberships	402	353
Other	9 781	11 769
	53 845	39 884
Other operating income/(expense)	(36 996)	(27 178)

On 30 June 2022, the caption Other operating income – Repurchase of own issues, in the amount of Euro 2,106 thousand, represents the income earned on the reacquisition of debt issued in the amount of Euro 93,300 thousand, as referred in note 37.

On 30 June 2022, the caption Other operating income – Other, includes income earned on the recovery of credit in the amount of Euro 556 thousand and with the restitution of taxes in the amount of 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 2022 and of 2021, 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 2022, Banco Montepio had settled Euro 9,867 thousand (30 June 2021: Euro 8,424 thousand) in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposits, as disclosed in note 20. For irrevocable payment commitments only cash collateral is accepted.

The caption Contribution to the National Resolution Fund corresponds to mandatory periodic contributions, in accordance with Decree-Law no. 24/2013. The periodic contributions are 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 in the amount of Euro 11,921 thousand, corresponds to an extraordinary 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 2022 (see note 1 b.4). This change results from (i) the formal confirmation 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 in the third quarter of 2022, 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 2022, the amount of Euro 1,469 thousand (30 June 2021: Euro 1,534 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 33), and legal costs.

10 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Remuneration	54 399	55 705
Mandatory social charges	7 899	16 249
Charges with the Pension Fund	8 254	4 062
Other staff costs	2 217	3 506
	72 769	79 522

On 30 June 2022, within the scope of the Employee Adjustment Programme, the captions of Charges with the Pension Fund and Other costs include, respectively, the amounts of Euro 1,355 thousand and Euro 1,856 thousand, related to the resulting charges arising from early retirement and mutual-agreement termination programmes.

In the period ended 30 June 2022 and in financial year 2021, neither the members of the Corporate bodies nor Other key management personnel received any variable remuneration. First-line managers are considered Other key management personnel.

The costs with remuneration and other benefits, including the respective social charges, attributed to the General Meeting Board, the Supervisory Board, the Board of Directors (including the members of the Audit Committee), the Board of Directors of Banco Montepio's subsidiaries and Other key management personnel of the Group are presented as follows:

(Euro thousand)

	Jun 2022					
	General Meeting Board	Supervisory Board	Board of Directors	Board of Directors of Banco Montepio's subsidiaries	Other key manage ment 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

(Euro thousand)

	Jun 2021					
	General Meeting Board	Supervisory Board	Board of Directors	Board of Directors of Banco Montepio's subsidiaries	Other key management staff	Total
Remuneration and other short-term benefits	7	145	1 659	584	2 567	4 962
Pension costs	-	-	374	1	142	517
Costs with healthcare benefits (SAMS)	-	-	10	4	54	68
Social Security charges	1	29	355	128	561	1 074
	8	174	2 398	717	3 324	6 621

As at 30 June 2022, loans granted to members of the Board of Directors of Banco Montepio (including the members of the Audit Committee) amounted to Euro 571 thousand (30 June 2021: Euro 614 thousand), to members of the Boards of Directors of Banco Montepio's subsidiaries, Euro 2,887 thousand (30 June 2021: Euro 2,742 thousand) and to key management personnel, Euro 2,819 thousand (30 June 2021: Euro 3,586 thousand).

11 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Rental costs	259	322
Specialized services		
Other specialized services	9 835	10 784
IT services	6 919	6 396
Independent work	1 137	1 683
Communication costs	2 301	3 369
Maintenance and repairs	2 833	2 683
Advertising costs	2 103	1 646
Water, energy and fuel	1 285	1 585
Transportation	1 075	843
Insurance	567	589
Consumables	303	266
Travel, accommodation and entertainment expenses	478	236
Training	510	124
Other general and administrative costs	1 493	1 467
	31 098	31 993

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 2022	Jun 2021
Intangible assets (note 31)		
Software	9 515	9 055
Other tangible assets (note 30)		
Real estate		
For own use	1 738	1 903
Leasehold improvements in rented buildings	201	316
Equipment		
IT equipment	1 322	1 409
Fixtures	821	866
Furniture	154	126
Transportation	190	120
Security equipment	62	74
Machinery and tools	31	27
Right-of-use assets		
Real estate	2 627	3 027
Motor vehicles	848	889
Other tangible assets	4	5
	7 998	8 762
	17 513	17 817

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 2022	Jun 2021
Other loans and advances to credit institutions (note 20)		
Charge for the period	60	583
Reversals for the period	(396)	(573)
	(336)	10
Loans and advances to customers (note 21)		
Charge for the period net of reversals	6 992	57 601
Recovery of loans and interest	(3 439)	(2 546)
	3 553	55 055
	3 217	55 065

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 2022	**Jun 2021**
Financial assets at fair value through other comprehensive income (note 24)		
Charge for the period net of reversals	193	1 173
Other financial assets at amortized cost (note 26)		
Charge for the period net of reversals	1 657	1 821
	1 850	2 994

15 Impairment of other assets

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2022	**Jun 2021**
Investments in associated companies (note 27)		
Charge for the period	106	-
	106	-
Non-current assets held for sale (note 28)		
Charge for the period	-	54
Reversals for the period	(11)	(98)
	(11)	(44)
Other tangible assets (note 30)		
Charge for the period	514	3 826
Reversals for the period	(265)	-
	249	3 826
Other assets (note 33)		
Charge for the period	11 392	8 786
Reversals for the period	(1 407)	(3 055)
	9 985	5 731
	10 329	9 513

16 Other provisions

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2022	**Jun 2021**
Guarantees and commitments (note 38)		
Charge for the period	12 144	11 723
Reversals for the period	(13 043)	(13 971)
	(899)	(2 248)
Outros riscos e encargos (note 38)		
Charge for the period	171	644
Reversals for the period	(2 765)	(5 260)
	(2 594)	(4 616)
	(3 493)	(6 864)

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 2022	Jun 2021
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(167)	(233)

18 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Cash	159 885	157 755
Deposits at central banks		
Bank of Portugal	1 632 817	2 788 426
Other central banks	18 159	21 815
	1 810 861	2 967 996

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 Loans and deposits to credit institutions repayable on demand

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Credit institutions in Portugal	9 508	6 431
Credit institutions abroad	19 369	46 573
Amounts to be collected	19 684	14 356
	48 561	67 360

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

As at 30 June 2022, Loans and advances at other credit institutions and central banks were remunerated at the average rate of -0.34% (31 December 2021: - 0.33%).

20 Other loans and advances to credit institutions

This caption is presented as follows:

	(Euro thousand)	
	Jun 2022	**Dec 2021**
Loans and advances to credit institutions in Portugal	8 185	8 690
Loans and advances to credit institutions abroad		
Term deposits	50 075	89 658
CSA's	14 179	25 139
Reverse repos	37 171	39 272
Very short-term loans and advances	16	44
Other loans and advances	61 166	66 726
	162 607	220 839
	170 792	229 529
Impairment for credit risk of other loans and advances to credit institutions	(389)	(464)
	170 403	229 065

As at 30 June 2022, the caption Term deposits, recorded under Other loans and advances to credit institutions abroad, includes the amount of Euro 9,867 thousand (31 December 2021: Euro 8,424 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.

The change in the caption Other loans and advances to credit institutions abroad – Term deposits corresponds, essentially, to very short-term investments in foreign currency.

Credit Support Annexes ("CSA's") are contracts that regulate the delivery, reception and monitoring of collateral delivered/received to cover the exposure of a counterparty of the contract to the other, as a result of open positions in over-the-counter derivatives. Despite the fact that collaterals under the CSA contracts can take the form of securities or cash, in the Group'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 Group negotiated with each one of the counterparties and are materialized through an effective transfer of cash, through TARGET2 transfers to each one of the counterparties in question, as a guarantee/security of Banco Montepio Group's exposure vis-à-vis the counterparty.

On this basis, and in the scope of the operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, as at 30 June 2022, the Group holds an amount of Euro 14,179 thousand (31 December 2021: Euro 25,139 thousand) related to other loans and advances to credit institutions given as collateral for the above-mentioned operations.

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

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

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	464	287
Charge for the period net of reversals	(336)	3 551
Exchange rate differences and others	261	(3 374)
Closing balance	389	464

On 30 June 2022, the Other loans and advances to banks were remunerated at the implicit average rate of 2.87% (31 December 2021: 0.70%).

21 Loans and advances to customers

This caption is presented as follows:

	(Euro thousand)	
	Jun 2022	**Dec 2021**
Corporate		
Loans not represented by securities		
Loans	3 266 980	3 069 650
Current account loans	393 519	383 186
Finance leases	416 058	433 157
Discounted bills	22 551	26 524
Factoring	210 209	197 770
Overdrafts	1 129	723
Other loans	350 289	361 695
Loans represented by securities		
Commercial paper	193 175	197 906
Bonds	311 234	300 700
Retail		
Mortgage loans	5 496 425	5 538 792
Finance leases	43 615	46 555
Consumer credit and other loans	1 215 067	1 184 526
	11 920 251	11 741 184
Foreign loans		
Corporate	39 459	42 042
Retail	2 595	3 287
	42 054	45 329
Value correction of assets subject to hedging operations		
Other loans	(36)	30
Past due loans and advances and interest		
Less than 90 days	40 098	41 504
More than 90 days	433 447	361 418
	473 545	402 922
	12 435 814	12 189 465
Impairment for credit risks	(514 824)	(521 777)
	11 920 990	11 667 688

As at 30 June 2022, the caption Loans and advances to customers includes the amount of Euro 2,750,959 thousand (31 December 2021 Euro 2,746,685 thousand) related to the issue of covered bonds realized by the Group, as referred to in note 37.

As at 30 June 2022, the loans and advances that the Group granted to its shareholders and to related parties amounted to Euro 9,629 thousand (31 December 2021: Euro 12,214 thousand), as described in note 50. 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 Department. The impairment for credit risks related to these contracts amounts to Euro 470 thousand as at 30 June 2022 (31 December 2021: Euro 362 thousand).

As at 30 June 2022, the caption Loans and advances to customers includes the amount of Euro 860,661 thousand (31 December 2021: Euro 994,467 thousand) related to loans and advances that were the object of securitization and that, in accordance with the accounting policy outlined in note 1 c), were not the object of derecognition, as described in note 51.

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 47.

The analysis of the caption Loans and advances to customers, by interest rate type, as at 30 June 2022 and 31 December 2021, is as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Variable-rate loans and advances	10 461 217	10 281 439
Fixed-rate loans and advances	1 974 597	1 908 026
	12 435 814	12 189 465

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

(Euro thousand)

	Jun 2022	Dec 2021
Asset-backed loans	319 080	277 161
Other guaranteed loans	61 230	56 699
Finance leases	5 061	5 362
Secured loans	33 000	33 000
Other loans and advances	55 174	30 700
	473 545	402 922

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

(Euro thousand)

	Jun 2022	Dec 2021
Corporate		
Construction/Production	52 130	55 818
Investment	247 168	190 187
Treasury	100 098	88 822
Other	18 295	17 667
Retail		
Mortgage loans	28 420	27 587
Consumer credit	19 794	16 366
Other	7 640	6 475
	473 545	402 922

The analysis of the caption Loans and advances to customers, by maturity and by credit type, as at 30 June 2022 and 31 December 2021, is as follows:

(Euro thousand)

	Jun 2022				
	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	177 931	647 979	8 494 527	319 080	9 639 517
Other guaranteed loans	333 376	141 261	234 353	61 230	770 220
Finance leases	22 426	219 366	216 881	5 061	463 734
Secured loans	66 339	232 506	205 564	33 000	537 409
Other loans and advances	213 522	167 302	587 936	55 174	1 023 934
	813 594	1 408 414	9 739 261	473 545	12 434 814

(Euro thousand)

	Dec 2021				
	Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Asset-backed loans	129 135	584 351	8 368 463	277 161	9 359 110
Other guaranteed loans	352 722	151 263	259 765	56 699	820 449
Finance leases	31 308	223 426	224 978	5 362	485 074
Secured loans	197 905	204 429	96 272	33 000	531 606
Other loans and advances	202 794	155 346	604 386	30 700	993 226
	913 864	1 318 815	9 553 864	402 922	12 189 465

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

(Euro thousand)

	Jun 2022			
	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	61 068	240 154	120 861	422 083
Outstanding interest	(8 516)	(26 383)	(22 638)	(57 537)
Residual value	18 344	46 395	30 388	95 127
	70 896	260 166	128 611	459 673

(Euro thousand)

	Dec 2021			
	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	61 350	250 327	128 459	440 136
Outstanding interest	(8 840)	(29 042)	(24 481)	(62 363)
Residual values	21 996	48 450	31 493	101 939
	74 506	269 735	135 471	479 712

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 2022	Dec 2021
Opening balance	521 777	779 514
Charge for the period net of reversals	6 992	55 602
Utilization	(24 261)	(280 507)
Exchange rate differences	5 458	4 843
Transfers and others	4 284	(39 192)
Stage 3 interest	574	1 517
Closing balance	514 824	521 777

The use of impairment corresponds to the loans and advances written off on 30 June 2022 and in financial year 2021.

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

(Euro thousand)

	Jun 2022	Dec 2021
Asset-backed loans and Finance leases	388 937	377 624
Other secured loans	81 555	83 897
Unsecured loans	44 332	60 256
	514 824	521 777

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

(Euro thousand)

	Jun 2022	Dec 2021
Asset-backed loans and Finance leases	8 528	165 936
Other secured loans	5 624	69 260
Unsecured loans	10 109	45 311
	24 261	280 507

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 2022, 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 705,423 thousand (31 December 2021: Euro 622,252 thousand) and present an impairment of Euro 257,930 thousand (31 December 2021: Euro 255,198 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 2022 and 31 December 2021, by credit type, is as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Corporate		
Loans not represented by securities		
Loans	94 276	104 069
Current account loans	34 311	3 241
Finance leases	655	3 503
Other loans	4 468	5 137
Retail		
Mortgage loans	4 338	11 602
Consumer credit and other loans	2 384	17 598
	140 432	145 150

As at 30 June 2022, and as regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 14,606 thousand, which corresponds to an impairment rate of 10.4% (31 December 2021: Euro 54,773 thousand, impairment rate of 37.7%). The decrease in the impairment rate compared with December 2021 is explained by the greater collateralization of the newly restructured contracts.

Synthetic securitization

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 legal maturity of the transaction is 25 March 2036 and the respective amount totals Euro 492,375 thousand as at 30 June 2022 (31 December 2021: Euro 358,661 thousand). As mentioned in accounting policy c.12), Banco Montepio contracted two guarantees from the EIB and the EIF to protect the senior and mezzanine tranches of the synthetic securitization operation, bearing, respectively, commissions of 0.3% and 4.5%, 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 2022	Dec 2021
Financial assets held for trading		
Securities		
Shares	1 225	-
Bonds	5 061	-
Investment Units	122	-
	6 408	-
Derivative instruments		
Derivative instruments with positive fair value	11 173	7 582
	17 581	7 582
Financial liabilities held for trading		
Derivative instruments		
Derivative instruments with negative fair value	12 706	7 470
	12 706	7 470

As provided for in IFRS 13, as at 30 June 2022 and 31 December 2021, the financial instruments measured in accordance with the valuation levels described in note 47, are as follows:

(Euro thousand)

	Jun 2022			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	1 225	-	-	1 225
Bonds	5 061	-	-	5 061
Investment Units	122	-	-	122
	6 408	-	-	6 408
Derivative instruments				
Derivative instruments with positive fair value	-	2 856	8 317	11 173
	6 408	2 856	8 317	17 581
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	2 863	9 843	12 706
	-	2 863	9 843	12 706

(Euro thousand)

	Dec 2021			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	-	-	-	-
Bonds	-	-	-	-
Investment Units	-	-	-	-
	-	-	-	-
Derivative instruments				
Derivative instruments with positive fair value	-	1 376	6 206	7 582
	-	1 376	6 206	7 582
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	949	6 521	7 470
	-	949	6 521	7 470

As at 30 June 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 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)

		Jun 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 financial period (1)	Total fair value	Changes in fair value in the financial period	Book value	Reimbursement amount at maturity date
Interest rate swap	Deposits from customers	43 340	-	(493)	(493)	(411)	(584)	(737)	42 523	43 107
Interest rate swap	Loans and advances to customers	1 014	4	(6)	(2)	20	(36)	(66)	956	986
Interest rate swap	-	647 808	9 883	(11 363)	(1 480)	(1 156)	-	-	-	-
Currency Swap (Short)	-	48 170	89	(59)	30	(78)	-	-	-	-
Currency Swap (Long)	-	47 917								
Futures (Short)	-	29 582	-	-	-	-	-	-	-	-
Futures (Long)	-	3 320								
Forwards (Short)	-	2 782	-	-	-	-	-	-	-	-
Forwards (Long)	-	2 784								
Options (Short)	-	77 440	1 197	(785)	412	(20)	-	-	-	-
Options (Long)	-	77 747								
		981 904	11 173	(12 706)	(1 533)	(1 645)	(620)	(803)	43 479	44 093

(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 2021 and the comparison with the respective assets and liabilities recorded at fair value, in the specific case of derivatives held for risk management, can be analysed as follows:

(Euro thousand)

		Dec 2021								
		Derivative					Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Positive fair value	Negative fair value	Total fair value	Changes in fair value in the financial period (1)	Total fair value	Changes in fair value in the financial period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	-	-	-	-	-	-	(9)	-	-
Interest rate swap	Deposits from customers	25 018	-	(82)	(82)	(82)	153	153	25 009	24 856
Interest rate swap	Loans and	1 068	4	(26)	(22)	43	30	22	1 004	1 041
Interest rate swap		682 386	7 529	(7 853)	(324)	4 026	-	-	-	-
Currency Swap (Short)	-	24 479	108	-	108	(110)	-	-	-	-
Currency Swap (Long)	-	24 597								
			-	-	-	-	-	-	-	-
Forwards (Short)	-	745	-	-	-	-	-	-	-	-
Forwards (Long)	-	745								
Options (Short)	-	55 709	(59)	491	432	434	-	-	-	-
Options (Long)	-	55 956								
		870 703	7 582	(7 470)	112	4 311	183	166	26 013	25 897

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

The fair value of the options corresponds to derivatives traded on organized markets, which market value is settled daily against the margin account and the fair value of the Forwards - Foreign exchange derivatives with short residual maturities, to be settled.

23 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Variable income securities		
Investment Units	142 871	193 659
Loans and advances to customers at fair value		
Loans not represented by securities	9 068	9 768
	151 939	203 427

The caption Variable-income securities – Investment units includes, as at 30 June 2022, the amount of Euro 63,867 thousand (31 December 2021: Euro 63,783 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 55.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 47, as follows:

(Euro thousand)

	Jun 2022			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment Units	-	-	142 871	142 871
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	9 068	9 068
	-	-	151 939	151 939

(Euro thousand)

	Dec 2021			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment Units	-	-	193 659	193 659
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	9 768	9 768
	-	-	203 427	203 427

As at 30 June 2022, 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 142,871 thousand (31 December 2021: Euro 193,659 thousand), of which Euro 64,854 thousand (31 December 2021: Euro 111,329 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 2022, 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 14,287 thousand (31 December 2021: Euro 19,366 thousand) having been determined.

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

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	193 659	337 226
Acquisitions	403	1 372
Remeasurements	(3 812)	(50 739)
Disposals	(47 379)	(94 200)
Closing balance	142 871	193 659

The movements occurred in level 3 of the Loans and advances to customers at fair value relate, in their entirety, to revaluations made in the first half of 2022 and financial year 2021.

24 Financial assets at fair value through other comprehensive income

This caption, as at 30 June 2022, is presented as follows:

(Euro thousand)

	Jun 2022				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	31 226	88	(1 535)	(57)	29 722
Foreign	41 427	-	(373)	(75)	40 979
Bonds issued by other entities					
Domestic	16 199	158	(559)	(553)	15 245
Foreign	1 226	-	(36)	(2)	1 188
Commercial paper	12 494	58	-	(58)	12 494
Títulos de rendimento variável					
Shares					
Domestic	5 124	9 985	-	-	15 109
Foreign	6 299	1 152	(416)	-	7 035
	113 995	11 441	(2 919)	(745)	121 772

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

This caption, as at 31 December 2021, is presented as follows:

(Euro thousand)

	Dec 2021				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	31 779	448	(22)	(62)	32 143
Foreign	41 889	314	-	(78)	42 125
Bonds issued by other entities					
Domestic	16 419	956	(422)	(1 453)	15 500
Foreign	1 328	-	(13)	(3)	1 312
Commercial paper	10 047	1 257	-	(1 257)	10 047
Variable income securities					
Shares					
Domestic	5 200	9 985	-	-	15 185
Foreign	6 228	1 214	(416)	-	7 026
	112 890	14 174	(873)	(2 853)	123 338

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

On 4 March 2021, the Banco Montepio Group participated in the public tender offer ("PTO") for the acquisition of shares to increase the shareholding launched by Sociedade Técnica Monteiro Aranha S.A. (the "Offeror"), carried out by B3 S.A. – Brasil, Bolsa, Balcão.

Within the scope of the aforementioned tender, the Group sold its entire shareholding in Monteiro Aranha S.A. (the "Company"), corresponding to 1,262,743 ordinary shares, equivalent to approximately 10.31% of the Company's share capital. The sale generated a cash inflow of Euro 25,944 thousand.

In financial year 2021, the Group sold its entire shareholding in Almina Holding S.A. (Almina), corresponding to 9,500 ordinary shares, equivalent to 19.0% of the share capital of Almina. The sale generated a cash inflow of Euro 67,600 thousand.

On 30 June 2022, the Bank maintained for the valuation of the SIBS, Unicre and ABANCA shares, the assumptions disclosed in the financial statements as at 31 December 2021.

As at 30 June 2022 and 31 December 2021, 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 2022				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	28 718	1 004	-	-	29 722
Foreign	40 979	-	-	-	40 979
Bonds issued by other entities				-	
Domestic	4 041	-	11 204	-	15 245
Foreign	-	1 188	-	-	1 188
Commercial paper	-	-	12 494	-	12 494
	73 738	2 192	23 698	-	99 628
Variable income securities					
Shares					
Domestic	5	-	14 300	804	15 109
Foreign	-	-	6 657	378	7 035
	5	-	20 957	1 182	22 144
	73 743	2 192	44 655	1 182	121 772

(Euro thousand)

	Dec 2021				
	Level 1	Level 2	Level 3	Financial instrments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	31 119	1 024	-	-	32 143
Foreign	42 125	-	-	-	42 125
Bonds issued by other entities					
Domestic	4 066	-	11 434	-	15 500
Foreign		1 312	-	-	1 312
Commercial paper	-	-	10 047	-	10 047
	77 310	2 336	21 481	-	101 127
Variable income securities					
Shares					
Domestic	-	-	14 300	885	15 185
Foreign		-	6 730	296	7 026
	-	-	21 030	1 181	22 211
	77 310	2 336	42 511	1 181	123 338

As provided for in IFRS 13, financial instruments are measured according to the valuation levels described in note 47.

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 4,466 thousand as at 30 June 2022 (31 December 2021: Euro 4,251 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the positive amount of Euro 10,512 thousand (31 December 2021: positive amount of Euro 12,695 thousand) recognized in fair value reserves.

In this caption, the Group has some securities measured at acquisition cost. It is the Group's understanding that the book value presented for financial instruments at cost does not differ materially from the fair value, with the respective fair value not having been determined given the reduced value of the positions.

The movements occurred in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	42 511	96 985
Acquisitions	12 494	15 076
Remeasurements	(303)	(789)
Disposals	(10 047)	(67 600)
Reimbursements	-	(1 161)
Closing balance	44 655	42 511

The movements occurred in impairment of financial assets at fair value through other comprehensive income are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	2 853	1 181
Change for the period	204	522
Reversals for the period	(11)	(10)
Utilization	(2 303)	(863)
Others	-	2 023
Transfers	(1)	-
Exchange variation	3	-
Closing balance	745	2 853

The nominal value of the assets pledged as collateral to the European Central Bank in the scope of this caption, for the purpose of liquidity providing operations amounts, as at 30 June 2022, to Euro 67,150 thousand after haircut (31 December 2021: Euro 67,877 thousand), as described in note 34.

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 Hedging derivatives

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Assets		
Interest rate swaps	5 260	5 411
Liabilities		
Interest rate swaps	480	335
Net value	4 780	5 076

Banco Montepio contracted an interest rate swap to hedge its interest rate risk arising from a bond issue at fixed rate. The accounting method depends on the nature of the hedged risk, namely whether the Group is exposed to fair value changes, or whether it is hedging future transactions. The Group performs periodic effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives' portfolio, by residual maturity, as at 30 June 2022 and 31 December 2021, is as follows:

(Euro thousand)

	Jun 2022			
	Remaining period			
	Notional		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	4 780	4 780
	750 000	750 000	4 780	4 780

(Euro thousand)

	Dec 2021			
	Remaining period			
	Notional		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	5 076	5 076
	750 000	750 000	5 076	5 076

As at 30 June 2022 and 31 December 2021, the fair value hedging operations can be analysed as follows:

(Euro thousand)

Jun 2022							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (1)	Changes in fair value of derivative in the financial period	Fair value of hedged element (2)	Changes in fair value of hedged element in the financial period (2)
Interest rate swap	Debt securities issued	Interest rate	750 000	4 780	(296)	(386)	2 713
			750 000	4 780	(296)	(386)	2 713

(1) Includes accrued interest.
(2) Attributable to hedged risk.

(Euro thousand)

Dec 2021							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (1)	Changes in fair value of derivative in the financial period	Fair value of hedged element (2)	Changes in fair value of hedged element in the financial period (2)
Interest rate swap	Debt securities issued	Interest rate	750 000	5 076	(5 077)	(3 099)	4 468
Currency rate swap	Shares	Currency	-	-	(143)	-	-
			750 000	5 076	(5 220)	(3 099)	4 468

(1) Includes accrued interest.
(2) Attributable to hedged risk.

26 Other financial assets at amortized cost

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Fixed income securities		
Bonds issued by public entities		
Domestic	1 081 727	669 851
Foreign	3 053 270	2 339 750
	4 134 997	3 009 601
Impairment for other financial assets at amortized cost	(7 153)	(5 405)
	4 127 844	3 004 196

The fair value of the portfolio of Other financial assets at amortized cost is disclosed in note 47.

Other financial assets at amortized cost are recognized in accordance with the accounting policy described in note 1 c). As at 30 June 2022, the loan obtained from the EIB is collateralized by Portuguese, Italian, Greek and Spanish sovereign bonds with a nominal value of Euro 357,324 thousand (31 December 2021: Euro 537,614 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 35.

As at 30 June 2022, the nominal value of the assets pledged as collateral to the European Central Bank under liquidity-providing operations amounts to Euro 3,433,192 thousand (31 December 2021: Euro 3,778,298 thousand) after applying a haircut, as described in note 34.

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 2022 and 31 December 2021.

As at 30 June 2022, the nominal value of the securities given in guarantee to the Deposits Guarantee Fund amounted to Euro 28,000 thousand (31 December 2021: Euro 24,000 thousand) as per note 46.

The movements in Impairment of other financial assets at amortized cost are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	5 405	8 966
Charge for the period net of reversals	1 657	(735)
Utilization and exchange rate differences	90	(2 826)
Transfers	1	-
Closing balance	7 153	5 405

27 Investments in associated companies

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
HTA - Hotés, Turismo e Animação dos Açores, S.A.	3 093	3 278
Montepio - Gestão de Activos Imobiliários, A.C.E.	674	674
Naviser - Transportes Marítimos Internacionais, S.A.	-	-
	3 767	3 952
Impairment of investments in associated companies	(106)	-
	3 661	3 952

The associates included in the Group's consolidation perimeter are listed in note 57. 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 2022						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	35 396	19 928	15 468	2 140	(836)	3 093
Montepio Gestão de Activos Imobiliários, A.C.E.	4 068	1 618	2 450	-	-	674
CESource, ACE	-	-	-	-	-	-
31 December 2021						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	37 455	21 061	16 394	7 989	14	3 278
Montepio Gestão de Activos Imobiliários, A.C.E.	3 613	1 163	2 450	-	-	674
CESource, A.C.E.	-	-	-	-	-	-

(Euro thousand)

	Percentage held		Book value		Profit/Loss	
	Jun 2022	Dec 2021	Jun 2022	Dec 2021	Jun 2022	Dec 2021
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20.0%	20.0%	2 987	3 278	(167)	3
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%	-	-	-	-

The movement in this caption is analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	3 952	3 872
Share of profit of associated companies	(167)	3
Other reserves and retained earnings	(18)	77
Closing balance	3 767	3 952

The Group analyses, on a regular basis, the impairment related to its investments in associates.

During 2021, NAVISER - Transportes Marítimos Internacionais, S.A. was dissolved and liquidated.

28 Non-current assets held for sale

As at 30 June 2022 and 31 December 2021, this caption was analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Properties and other assets resulting from the resolution of customer loan agreements	58	38 920
Impairment for non-current assets held for sale	(47)	(58)
	11	38 862

The assets included in this caption are accounted for in accordance with the accounting policy described in note 1 h). Note 58 presents additional information on Non-current assets held for sale.

The resolution of loans and advances to customers' agreements results from (i) the simple foreclosure, delivery with a repurchase option or delivery with a leasing option, being accounted for upon the celebration of the contract or with the promissory contract to deliver the asset and the respective irrevocable power of attorney issued by the Customer in the Group's name; or (ii) the adjudication of the assets as a result of a judicial guarantee execution process, being accounted for based on the title of adjudication or the adjudication request after having registered the first pledge.

The Group has implemented a plan aimed at the immediate sale of the non-current assets held for sale. According to the Group's expectation, it is intended that these assets be available for sale in a period under 1 year and that there is a strategy for their sale. Nevertheless, given current market conditions, in some situations it is not possible to materialize these sales within the expected time period.

On 29 December 2021, the Bank signed a promissory contract for the purchase and sale of a set of non-performing loans ("NPLs") with guarantee (Secured tranche) and a set of properties received in recovery of credit, including deposits in court. Although the conditions set out in IFRS 9 to ensure their derecognition from the balance sheet as at 31 December 2021 were not met, it was determined, however, that the conditions set out in IFRS 5 for their transfer to Non-current assets held for sale were met given that the sale of the operation was expected to occur in the short term, as so happened.

As at 31 December 2021, the global gross value and the impairment losses of the assets included in the Gerês Secured operation are detailed as follows:

(Euro thousand)

	Dec 2021				
	Loans and advances on balance	Price deposits	Property received in deed	Financial assets at fair value through profit or loss	Total
Gross value	82 336	1 314	1 613	114	85 377
Impairment	(45 568)	(904)	(69)	-	(46 541)
Net value	36 768	410	1 544	114	38 836

The movements occurring in non-current assets held for sale in the six-month period ended 30 June 2022 and during financial year 2021 are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	38 920	5 573
Acquisitions	427	-
Disposals	(39 289)	(5 489)
Transfers	-	38 836
Closing balance	58	38 920

The movements in impairment of non-current assets held for sale is analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	58	89
Charge for the period	-	75
Reversal for the period	(11)	(107)
Utilization and others	-	1
Closing balance	47	58

29 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 2022, the amount of rental income received related to investment properties totalled Euro 641 thousand (31 December 2021: Euro 1,416 thousand) and maintenance costs of leased and non-leased properties totalled Euro 1,449 thousand (31 December 2021: Euro 3,567 thousand).

The movements in this caption are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	102 933	125 893
Acquisitions	487	229
Revaluations	424	(570)
Disposals	(15 002)	(18 158)
Transfers	(4 096)	(4 461)
Closing balance	84 746	102 933

Note 53 presents additional information on Investment properties.

30 Other tangible assets

This caption is presented as follows:

	Jun 2022	Dec 2021
		(Euro thousand)
Investments		
Real estate		
For own use	194 296	193 034
Leasehold improvements in rented buildings	29 417	29 202
Equipment		
It equipment	91 198	88 893
Fixtures	31 610	31 425
Furniture	18 051	18 467
Security equipment	4 372	4 411
Machinery and tools	2 960	2 937
Transportation equipment	3 875	2 218
Other equipment	5	5
Works of art	2 870	2 870
Assets in operating leases	58	58
Righ-of-use assets		
Real estate	26 534	23 852
Motor vehicles	12 390	12 589
Other tangible assets	23 012	16 555
Work in progress	15 231	10 583
	455 879	437 099
Accumulated depreciation		
Charge for the period	(7 998)	(16 793)
Accumulated charge in previous periods	(204 625)	(187 813)
	(212 623)	(204 606)
Impairment for other tangible assets	(1 020)	(883)
	242 236	231 610

The caption Right-of-use assets corresponds, essentially, to real estate (branches and central buildings) and to the car fleet, being depreciated according to the lease term of each agreement, as indicated in accounting policy 1 i).

The movements in impairment of Other tangible assets are analysed as follows:

	Jun 2022	Dec 2021
		(Euro thousand)
Opening balance	883	12 259
Change for the period	514	5 912
Reversals for the period	(265)	(269)
Utilization and others	-	85
Exchange rate differences	165	-
Transfers	(277)	(17 104)
Closing balance	1 020	883

On 30 June 2022, a reinforcement of impairment was made in Euro 514 thousand (31 December 2021: Euro 5,912 thousand) related to branches closed and to parking areas and offices (above ground floor), as referred in note 15.

The caption Transfers relates to branches closed that were transferred to Other assets – Assets received in recovery of credit, as described in note 33.

31 Intangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Investment		
Software	188 892	175 730
Other tangible assets	3 219	3 146
Work in progress	7 326	7 326
	199 437	186 202
Accumulated depreciation		
Charge for the period	(9 515)	(18 499)
Accumulated charge in previous periods	(146 345)	(127 553)
	(155 860)	(146 052)
	43 577	40 150

32 Taxes

Deferred tax assets and liabilities, as at 30 June 2022 and 31 December 2021, can be analysed as follows:

(Euro thousand)

	Assets		Liabilities		Net	
	Jun 2022	Dec 2021	Jun 2022	Dec 2021	Jun 2022	Dec 2021
Deferred taxes not dependent on future profitability:						
Impairment on loans granted	42 001	42 625	-	-	42 001	42 625
Post-employment and long-term benefits	18 045	18 427	-	-	18 045	18 427
	60 046	61 052	-	-	60 046	61 052
Deferred taxes dependent on future profitability:						
Financial instruments	10 990	9 127	(9 114)	(10 045)	1 876	(918)
Other tangible assets	-	-	(6)	(44)	(6)	(44)
Provisions / Impairment:						
Impairment on loans granted	101 775	119 213	-	-	101 775	119 213
Other risks and charges	7 434	3 521	-	-	7 434	3 521
Impairment in securities and non-financial assets	4 453	5 833	(39)	-	4 414	5 833
Impairment in financial assets	2 839	4 469	(1 775)	-	1 064	4 469
Post-employment and long-term benefits	51 748	48 945	-	-	51 748	48 945
Other	2	3 456	-	-	2	3 456
Taxes losses carried forward	219 505	214 344	-	-	219 505	214 344
Net deferred tax assets/ (liabilities)	458 792	469 960	(10 934)	(10 089)	447 858	459 871

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 the referred REAID, in financial year 2021 and in the first half of 2022 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 43).

In this sense, under the terms of article 8 of the annex to Law no. 61/2014, of 26 August, Banco Montepio reinforced, on 30 June 2022, the special reserve in the amount of Euro 400 thousand, to which corresponds a tax credit of Euro 363 thousand (31 December 2021: special reserve of Euro 4,750 thousand, to which corresponds a tax credit of Euro 4,319 thousand) and which, as at 30 June 2022, 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 2022, the amount of Euro 2,199 thousand (31 December 2021: Euro 2,317 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 2022 and financial year 2021, deferred taxes dependant on the future profitability associated with Post-employment and long-term employee benefits include the amount of Euro 30,099 thousand related to employee benefits in excess of the existing limits.

In the first half of 2022 and financial year 2021, 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's financial statements have an underlying high expectation of recoverability. The assessment of the recoverability of deferred tax assets is based on the business plan used to draw up the budget and considers, namely, the expectations regarding the impacts of the pandemic at the level of the financial markets, economic activity, and credit risk.

The recovery of the profitability, liquidity and capital levels of the Banco Montepio Group, is sought from four strategic focuses, having as the first condition the sustainability of the capital position, the growth in strategic business areas, with lower capital consumption and lower risk, the improvement of the efficiency and profitability, with a focus on cost control, and the simplification of the organizational structure and processes.

In this context, the prospects of sustainable improvements in the profitability levels derive from the following principles:

- Reduction of operating costs, eliminating redundancies, taking advantage of synergies, and simplifying the organizational structure.
- Increase in the commercial network business with growth in credit portfolios with less risk and less capital consumption, based on an appropriate management of return on capital, exploring the potential for growth in the complementary margin in cross-selling and new business areas, and leveraging the potential of the Customer base of the Banco Montepio Group, benefiting from the unique positioning of an almost bicentennial and mutualistic institution.
- The strategy outlined reflects a favourable effect at the level of net interest income, as well as of commissions, the latter evidencing the impacts of the management of the price list to adjust same to Banco Montepio Group's value proposal for each segment, defined in function of its life cycle and financial profile, as well as in terms of the growth of its "first bank" quota, leading to the progressive increase of the Customer base with a greater transactionality and level of commitment.
- Funding cost management, considering the adequacy of the liquidity position and sources of financing vis-à-vis market conditions. The increase in the deposits' portfolio reflects the objective of strengthening customer resources as the main source of financing for the activity, together with the gradual reduction in the cost of deposits, namely through the mix between demand and time deposits.
- Deleveraging in non-strategic assets with the objective of enhancing the profitability of the assets, either through the sustained decline in non-performing credit based on the improvement of credit recovery processes and the sale of portfolios, or through the reduction of properties held for trading.
- 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 2022 and 31 December 2021, the Banco Montepio Group recognized all deferred tax assets; hence, there are no deferred tax assets to be recognized.

In addition, a sensitivity analysis was carried out considering a scenario in which profit or loss before tax grown at a rate 10% lower than that considered in the aforementioned projections, with no impact at the level of deferred taxes being determined.

The deferred tax assets associated with tax losses carried forward, by expiry year, are presented as follows:

(Euro thousand)

Expiry Date	Jun 2022	Dec 2021
2026	10 405	11 239
2029	46 542	46 542
2030	127 998	127 998
2032	15 629	15 629
2033	18 931	12 936
	219 505	214 344

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.

Tax recognized in net income/(loss) and in reserves during the first half of 2022 and financial year 2021 originated as follows:

(Euro thousand)

	Jun 2022		Dec 2021	
	Recognized in net income/ (loss)	Recognized to reserves and retained earnings	Recognized in net income/ (loss)	Recognized to reserves and retained earnings
Financial instruments	1 753	1 449	172	93
Impairment / Provisions	(16 079)	-	(45 637)	-
Post-employment and long-term benefits	(2 174)	-	5 734	(5 533)
Tax losses carried forward	3 903	-	18 777	-
Other	(232)	-	(161)	-
Deferred taxes/ recognized as profit/ (losses)	(12 829)	1 449	(21 115)	(5 440)
Current taxes	(8 651)	-	(4 144)	-
	(21 480)	1 449	(25 259)	(5 440)

The reconciliation of the effective tax rate, as regards the amount recognized in the income statement, can be analysed as follows:

(Euro thousand)

	Jun 2022		Jun 2021	
	%	Value	%	Value
Profit/ (Loss) before income tax		45 008		(30 735)
Income tax based on the current nominal tax rate	(21.0)	(9 451)	(21.0)	6 454
Banking sector extraordinary contribution	(4.6)	(2 070)	6.7	(2 055)
Post-employement benefits and Pension Fund	(3.0)	(1 351)	(5.0)	1 525
Taxable provisions/impairment	(6.0)	(2 721)	6.9	(2 121)
Autonomous taxation	(0.8)	(377)	1.4	(436)
Corrections to previous period	-	-	(6.9)	2 113
Effect of differences in income tax for the period	(14.7)	(6 623)	30.4	(9 341)
Deductions / (add-backs) for taxable income purposes (*)	4.3	1 920	(8.4)	2 578
Other	(1.8)	(807)	(0.4)	118
Income tax for the period	(47.7)	(21 480)	3.8	(1 165)

(*) Corresponds to losses calculated by investment funds included in the perimeter and other consolidarion adjustments.

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.

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 the first half of 2022 and financial year 2021, it estimated its taxes based on the regime that was in force until 31 December 2018. The entity Montepio Crédito adopted the new tax regime for impairment.

The Tax Authority can review Banco Montepio's taxable income during a period of four years, except in the event of the carry-forward of tax losses, as well as any other deduction or tax credit, in which case the 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 2018 tax period, with the inspection of the 2019 tax period being currently underway.

In 2018, Banco Montepio became the dominant company of the Tax Group subject to corporate income tax under the 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 7,428 thousand (31 December 2021: Euro 6,714 thousand) relates, essentially, to IRC recoverable, additional payments on account, special payments on account and payments on account.

33 Other assets

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Assets received in recovery of credit	553 844	603 714
Post-employment benefits	133 056	9 776
Other debtors	35 101	39 323
Sundry debtors	45 396	37 410
Price deposits	11 229	11 492
Bonifications to be received from the Portuguese State	12 003	10 521
Deferred costs	7 337	4 374
Other amounts receivable	4 165	2 809
	802 131	719 419
Impairment for assets received in recovery for credit	(138 067)	(140 124)
Impairment for other assets	(26 669)	(26 719)
	637 395	552 576

The caption Assets received in recovery of credit is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Assets received in recovery of credit	553 844	603 714
Impairment for assets received in recovery of credit	(138 067)	(140 124)
	415 777	463 590

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 2022, the caption Assets received in recovery of credit includes the amount of Euro 1,767 thousand (31 December 2021: Euro 1,675 thousand) related to equipment resulting from the resolution of loans and advances to customers' contracts and which are fully impaired.

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 2022, properties for which promissory contracts to buy and sell, in the amount of Euro 15,668 thousand (31 December 2021: Euro 29,531 thousand), have already been celebrated.

The movements in the first half of 2022 and financial year 2021 in Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	603 714	694 438
Acquisitions	7 766	28 380
Disposals	(56 842)	(145 866)
Others movements	(1 179)	(3 107)
Transfers	385	29 869
Closing balance	553 844	603 714

The movement in impairment of Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	140 124	132 536
Charge for the period	10 051	26 596
Reversals for the period	(1 119)	(910)
Utilization and others	(11 266)	(35 133)
Transfers	277	17 035
Closing balance	138 067	140 124

The movement Transfers refers to branches closed that were transferred to Other tangible assets as described in note 30.

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 2022 and 31 December 2021, the caption Other debtors is analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Supplementary capital contributions	14 910	14 910
Other	20 191	24 413
	35 101	39 323

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 2022 and 31 December 2021.

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, determined in accordance with the legal provisions applicable to low-interest loans. These amounts do not bear interest and are claimed monthly.

As at 30 June 2022 and 31 December 2021, the caption Recoverable grants receivable from the Portuguese State are presented as follows:

		(Euro thousand)
	Jun 2022	**Dec 2021**
Bonifications overdue and not yet claimed	2 125	2 061
Bonifications claimed from State not yet settled	9 318	7 909
Bonifications processed and not yet claimed	560	551
	12 003	10 521

The movements in the impairment of Other assets are analysed as follows:

		(Euro thousand)
	Jun 2022	**Dec 2021**
Opening balance	26 719	29 099
Charge for the period	1 341	3 325
Reversals for the period	(288)	(3 608)
Utilization	(1 103)	(1 193)
Other	-	(904)
Closing balance	26 669	26 719

As at 30 June 2022, the impairment of Other assets includes the exposures of Supplementary capital contributions (Euro 14,910 thousand), Deposits in court (Euro 4,959 thousand), Guarantee commissions (Euro 477 thousand), Factoring operations (Euro 498 thousand) and Other debtors (Euro 5,825 thousand).

The expectations regarding receipts associated with Deposits in court are regularly evaluated by the Credit Recovery Department, 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 Deposits in court is adjusted whenever necessary.

34 Deposits from central banks

As at 30 June 2022 and 31 December 2021, this caption includes deposits obtained from the European System of Central Banks, which are collateralized by the pledge of securities from the portfolio of financial assets at fair value through other comprehensive income and the portfolio of other financial assets at amortized cost, as described in notes 24 and 26.

For the financing lines under the TLTRO III programme, the effective interest rate used in the first half of 2022 and financial year 2021 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 2022, these funds consist of six operations with maturities as follows: in March 2023, in the amount of Euro 279,569 thousand, in June 2023, in the amount of Euro 884,734 thousand, in September 2023, in the amount of Euro 187,352 thousand, in December 2023, in the amount of Euro 9,883 thousand, in March 2024, in the amount of Euro 1,486,444 thousand and in December 2024, in the amount of Euro 54,661 thousand.

The operations are remunerated at the Bank of Portugal rates in force as at the contract date.

35 Deposits from other credit institutions

This caption is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	36 262	-	36 262	34 620	-	34 620
	36 262	-	36 262	34 620	-	34 620
Deposits from credit institutions abroad						
EIB loan	-	300 007	300 007	-	300 007	300 007
Deposits repayable on demand	19 028	-	19 028	24 521	-	24 521
Sales operations with repurchase agreement	-	-	-	-	190 741	190 741
Other deposits	5 769	-	5 769	5 523	-	5 523
	24 797	300 007	324 804	30 044	490 748	520 792
	61 059	300 007	361 066	64 664	490 748	555 412

The EIB loan, in the amount of Euro 300,000 thousand, has as its main objective the financing of SMEs, has a term of twelve years, a grace period of four years and constant amortizations and a rate of 0.019%.

The amount of the EIB loan is collateralized by Portuguese, Spanish, Italian and Greek sovereign bonds in the nominal amount of Euro 357,324 thousand (31 December 2021: Euro 537,614 thousand by Portuguese, Greek, Spanish, Dutch and Italian sovereign bonds), recorded in the caption Other financial assets at amortized cost, as described in note 26.

36 Deposits from customers

This caption is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	6 740 877	35	6 740 912	6 407 275	55	6 407 330
Term deposits	-	6 135 315	6 135 315	-	6 224 784	6 224 784
Saving accounts	-	135 464	135 464	-	134 123	134 123
Other deposits	24 557	-	24 557	20 496	-	20 496
Adjustments from operations at fair value options	(584)	-	(584)	153	-	153
	6 764 850	6 270 814	13 035 664	6 427 924	6 358 962	12 786 886

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. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

On 30 June 2022, deposits from customers were remunerated at the average rate of 0.05% (31 December 2021: 0.08%).

37 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

(Euro thousand)

	Jun 2022	Dec 2021
Covered bonds	1 123 190	1 215 119
Securitizations	338 957	402 006
	1 462 147	1 617 125

The fair value of the debt securities issued is presented in note 47.

The financial liabilities at fair value through profit or loss included in this caption are revalued in accordance with the accounting policy described in note 1 b), with a gain having been recognized in the first half of 2021 in the amount of Euro 39 thousand related to changes in fair value.

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 2022 and 31 December 2021.

As at 30 June 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	300 164	-	November 2016	November 2023	Quartely	Euribor 3M + 0.80%	Aa3/AA-
Covered bonds - 8S	500 000	500 130	-	December 2016	December 2026	Quartely	Euribor 3M + 0.90%	Aa3/AA-
Covered bonds - 9S	250 000	250 132	-	May 2017	May 2024	Quartely	Euribor 3M + 0.85%	Aa3/AA-
Covered bonds - 10S	750 000	754 867	754 867	October 2017	October 2022	Anually	Fixed at 0.875%	Aa3/AA-
Covered bonds - 11S	500 000	368 323	368 323	November 2019	November 2024	Anually	Fixed at 0.875%	Aa3/AA-
	2 300 000	2 173 616	1 123 190					

As at 31 December 2021, the main characteristics of the covered bonds issues in circulation are as follows:

(Euro thousand)

Description	Nominal value	Value at amortized cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 6S	300 000	300 101	-	November 2016	November 2023	Quartely	Euribor 3M + 0.80%	A1/AA-/BBBh
Covered bonds - 8S	500 000	500 062	-	December 2016	December 2026	Quartely	Euribor 3M + 0.90%	A1/AA-/BBBh
Covered bonds - 9S	250 000	250 077	-	May 2017	May 2024	Quartely	Euribor 3M + 0.85%	A1/AA-/BBBh
Covered bonds - 10S	750 000	754 033	754 033	October 2017	October 2022	Anually	Fixed at 0.875%	A1/AA-/BBBh
Covered bonds - 11S	500 000	461 086	461 086	November 2019	November 2024	Anually	Fixed at 0.125%	A1/AA-/BBBh
	2 300 000	2 265 359	1 215 119					

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 2022, the value of the loans collateralizing these issues amounted to Euro 2,750,959 thousand (31 December 2021: Euro 2,746,685 thousand), according to note 21.

The movements in Debt securities issued during the period ended 30 June 2022 and during financial year 2021, are analysed as follows:

(Euro thousand)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements [(a)]	Balance on 30 June
Covered bonds	1 215 119	-	-	(93 300)	1 371	1 123 190
Securitisations	402 006	-	(63 049)	-	-	338 957
	1 617 125	-	(63 049)	(93 300)	1 371	1 462 147

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variation.

(Euro thousand)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 December
Cash bonds	3 123	-	(2 960)	-	(163)	-
Covered bonds	1 218 375	-	-	-	(3 256)	1 215 119
Securitisations	77 690	362 028	(37 712)	-	-	402 006
	1 299 188	362 028	(40 672)	-	(3 419)	1 617 125

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at fair value option and exchange variation.

In accordance with the accounting policy described in note 1 c), the purchase of debt securities issued by the Group is written off from liabilities and the difference between the acquisition cost and the respective book value is recognized in the income statement.

As at 30 June 2022, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description	Issue date	Maturity	Interest rate	Book value
COVERED BONDS - 10S	17/10/2017	17/10/2022	Anuual fixed rate of 0.875%	750 000
PELICAN MORTGAGES n.º 3	30/03/2007	15/09/2054	Euribor 3M + 0.13%	28 259
PELICAN FINANCE no 2 A	06/12/2021	25/01/2035	Euribor 1M + 0.7%	246 109
PELICAN FINANCE no 2 B	06/12/2021	25/01/2035	Euribor 1M +1.35%	17 850
PELICAN FINANCE no 2 C	06/12/2021	25/01/2035	Euribor 1M + 2.25%	15 091
PELICAN FINANCE no 2 D	06/12/2021	25/01/2035	Euribor 1M + 4.25%	16 643
PELICAN FINANCE no 2 E	06/12/2021	25/01/2035	Fixed rate 6.4%	15 005
COVERED BONDS - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
				1 588 957
			Adjustments of hedging operations	386
			Covered Bonds - 11S repurchases	(130 400)
			Accrual based accounting, deferred income and costs	3 204
				1 462 147

As at 31 December 2021, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Description	Issue date	Maturity	Interest rate	Book value
COVERED BONDS - 10S	17/10/2017	17/10/2022	Annual fixed rate of 0.875%	750 000
PELICAN MORTGAGES n.º 3	30/03/2007	15/09/2054	Euribor 3M + 0.13%	30 618
AQUA FINANCE no 4 B	11/07/2017	23/06/2035	Euribor 3M + 2.65%	9 174
PELICAN FINANCE no 2 A	06/12/2021	25/01/2035	Euribor 1M + 0.7%	287 155
PELICAN FINANCE no 2 B	06/12/2021	25/01/2035	Euribor 1M +1.35%	20 711
PELICAN FINANCE no 2 C	06/12/2021	25/01/2035	Euribor 1M + 2.25%	17 521
PELICAN FINANCE no 2 D	06/12/2021	25/01/2035	Euribor 1M + 4.25%	19 350
PELICAN FINANCE no 2 E	06/12/2021	25/01/2035	Fixed rate 6.4%	17 477
COVERED BONDS - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
				1 652 006
			Adjustments of hedging operations	3 099
			Covered Bonds - 11S repurchases	(37 100)
			Accrual based accounting, deferred income and costs	(880)
				1 617 125

38 Provisions

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Provisions for guarantees and commitments	22 095	21 262
Provisions for other risks and charges	9 708	12 871
	31 803	34 133

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 2022	Dec 2021
Opening balance	21 262	21 218
Charge for the period	12 144	27 742
Reversal for the period	(13 043)	(28 678)
Utilization	(10)	-
Exchange rate differences	1 742	980
Closing balance	22 095	21 262

The movements in provisions for other risk and charges are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	12 871	17 436
Charge for the period	171	4 032
Reversal for the period	(2 765)	(7 717)
Utilization	(733)	(880)
Exchange rate differences	152	-
Other	12	-
Closing balance	9 708	12 871

39 Other subordinated debt

As at 30 June 2022 and 31 December 2021, the main characteristics of subordinated debt, are analysed as follows:

(Euro thousand)

issue	Issue date	Maturity date	Issue amount	Interest rate	Jun 2022	Dec 2021
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%	102 532	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	6 453	6 691
					211 289	217 265

The movements in Other subordinated debt during the first half of 2022 and financial year 2021, were as follows:

(Euro thousand)

	Jun 2022			
	Balance at 1 January	Issued	Other movements (a)	Balance on 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	1 983	52 027
MONTEPIO EMTN SUB 2019/2029	107 825	-	(5 293)	102 532
MONTEPIO EMTN SUB 2020/2030	52 705	-	(2 428)	50 277
FINIBANCO VALOR INVEST 2010	6 691	-	(238)	6 453
	217 265	-	(5 976)	211 289

(a) Includs accrued interest

(Euro thousand)

	Dec 2021			
	Balance at 1 January	Issued	Other movements (a)	Balance on 31 December
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	50 044
MONTEPIO EMTN SUB 2019/2029	107 824	-	1	107 825
MONTEPIO EMTN SUB 2020/2030	52 705	-	-	52 705
FINIBANCO VALOR INVEST 2010	6 323	-	368	6 691
	216 896	-	369	217 265

(a) Includes accrued interest

The main characteristics of the “Finibanco Valor Invest 2010” issue are as follows:

- Interest rate: fixed rate of 7% on the first 4 interest payment dates and on the following interest payment dates, a variable rate corresponding to the Euribor rate for the period of 6 months plus 2.75%, with a minimum of 5%;
- Maturity: Not applicable (not subject to mandatory refund);
- Refund amount: Refund at nominal value. As a result of applicable laws or regulations, including any European Union Directives or Regulations, which establish a legal regime for the recovery and liquidation of credit institutions (Directive 2015/59/EU of the European Parliament and of the Council, of 15 May 2014 and Law no. 23-A/2015, of 26 March), or any implementation of those in Portugal, the amounts may be used to cover the issuer's losses, and may be called upon to absorb losses.

40 Other liabilities

This caption is presented as follows:

		(Euro thousand)
	Jun 2022	**Dec 2021**
Domestic and foreign operations pending settlement	162 029	93 598
Sundry creditors	45 963	45 975
Post-employment benefits	257	-
Staff costs payable	26 809	35 757
Other expenses	15 500	13 817
Lease liabilities	6 995	8 945
Administrative public sector	12 605	12 085
Suppliers	5 437	16 064
Deferred income	440	477
	276 035	226 718

As at 30 June 2022, the caption Staff charges payable includes the amount of Euro 16,627 thousand (31 December 2021: Euro 18,374 thousand), related to holiday pay and subsidy. Additionally, as at 30 June 2022, this caption also includes the amount of Euro 2,733 thousand (31 December 2021: Euro 2,573 thousand) related to end-of-career awards and the amount of Euro 664 thousand (31 December 2021: Euro 8,266 thousand) for the employee adjustment programme.

As at 30 June 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 2022	**Dec 2021**
Up to 1 year	1 670	1 316
1 to 5 years	5 247	7 629
More than 5 years	78	-
	6 995	8 945

41 Share capital

As at 30 June 2022 and 31 December 2021, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

The shareholder structure of Banco Montepio's share capital as at 30 June 2022 and 31 December 2021 is as follows:

	Jun 2022		**Dec 2021**	
	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%

42 Legal reserve

In accordance with article 97 of the Legal Framework of Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" – "RGICSF"), approved by the Decree-Law no. 298/92, of 31 December and amended by the Decree-Law no. 201/2002, Banco Montepio shall reinforce the legal reserve annually with, at least, 10% of the annual net profits, up to the limit equal to the amount of the share capital or to the sum of the free reserves and retained earnings, if higher. This reserve cannot, normally, be distributed.

As at 30 June 2022 and 31 December 2021, the legal reserve amounts to Euro 193,266 thousand.

43 Fair value reserves, Other reserves and Retained earnings

This caption is presented as follows:

		(Euro thousand)
	Jun 2022	**Dec 2021**
Fair value reserves		
Fair value reserve		
Financial assets at fair value through other comprehensive income		
Debt instruments	(2 199)	2 518
Equity instruments	10 721	10 783
	8 522	13 301
Taxes		
Financial assets at fair value through other comprehensive income	(2 585)	(4 034)
	(2 585)	(4 034)
	5 937	9 267
Other reserves and retained earnings		
Special regime for deferred tax assets	5 150	4 750
Post-employment benefits	(143 100)	(273 786)
Consolidation exchange reserves	(81 420)	(103 351)
Other reserves and retained earnings	(899 840)	(906 486)
	(1 119 210)	(1 278 873)

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 2022					
	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 30 June
Fixed income securities						
Bonds issued by Portuguese public entities	426	(1 899)	-	21	5	(1 447)
Bonds issued by foreign public entities	314	(690)	-	-	3	(373)
Bonds issued by other entities						
Domestic	534	(1 777)	-	(58)	900	(401)
Foreign	(13)	(22)	-	(2)	1	(36)
Commercial Paper	1 257	-	115	(2 513)	1 199	58
	2 518	(4 388)	115	(2 552)	2 108	(2 199)
Variable income securities						
Shares						
Domestic	9 985	-	-	-	-	9 985
Foreign	798	-	-	(62)	-	736
	10 783	-	-	(62)	-	10 721
	13 301	(4 388)	115	(2 614)	2 108	8 522

(Euro thousand)

	Dec 2021					
	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	973	(533)	(21)	(13)	20	426
Bonds issued by foreign public entities	1 200	(322)	-	(786)	222	314
Bonds issued by other entities						
Domestic	(346)	301	1 438	(192)	(667)	534
Foreign	(12)	(6)	-	(5)	10	(13)
Commercial Paper	-	-	2 514	-	(1 257)	1 257
	1 815	(560)	3 931	(996)	(1 672)	2 518
Variable income securities						
Shares						
Domestic	7 935	300	-	1 750	-	9 985
Foreign	(35 283)	(1 253)	14	37 320	-	798
	(27 348)	(953)	14	39 070	-	10 783
	(25 533)	(1 513)	3 945	38 074	(1 672)	13 301

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Amortised cost of financial assets at fair value through other comprehensive income	113 995	112 890
Recognised accumulated impairment	(745)	(2 853)
Amortised cost of financial assets at fair value through other comprehensive income net of impairment	113 250	110 037
Market value of financial assets at fair value through other comprehensive income	121 772	123 338
Potential realised gains/ (Losses) recognised in the fair value reserve	8 522	13 301

The movement in the first half of 2022 and financial year 2021 in retained earnings is presented in the Consolidated statement of changes in equity.

As described in note 32, 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 2022	Dec 2021
Especial reserve		
2021 (Negative net income of 2020)	4 750	4 750
2022 (Negative net income of 2021)	400	-
	5 150	4 750

In the first half of 2022, Banco Montepio constituted a Special reserve in the amount of Euro 400 thousand (31 December 2021: Euro 4,750 thousand), which corresponds to a tax credit of Euro 363 thousand (31 December 2021: Euro 4,319 thousand), as described in note 32.

The caption Consolidation foreign exchange reserves records the exchange differences associated with the conversion of the Finibanco Angola, S.A. financial statements into Euros.

As described in policy 1 b), the consolidation of the financial statements of subsidiary companies in foreign currency is preceded by their conversion into Euros based on the exchange rate disclosed by the Banco Nacional de Angola in the case of Finibanco Angola, S.A., with the conversion to Euros of assets and liabilities expressed in foreign currency being based on the exchange rate at the balance sheet date, while the income and expenses calculated are translated at the average exchange rate for the month in which they are recognized.

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	(103 351)	(112 892)
Increases/(decreases) by valuations	21 931	9 541
Opening balance	(81 420)	(103 351)

As at 30 June 2022, the AOA/EUR exchange rate used in converting the financial statements of Finibanco Angola, S.A. to Euros was 446.129 (31 December 2021: 629.015).

44 Distribution of dividends

In the first half of 2022 and financial year 2021, Banco Montepio did not distribute dividends.

45 Non-controlling interests

This caption is presented as follows:

(Euro thousand)

	Balance sheet		Income Statement	
	Jun 2022	Dec 2021	Jun 2022	Jun 2021
Finibanco Angola, S.A.	17 640	12 903	192	350

The movements in this caption are analysed as follows:

		(Euro thousand)
	Jun 2022	**Dec 2021**
Opening balance	12 903	9 299
Foreign exchange differences	5 510	2 479
Dividends	(965)	-
	17 448	11 778
Net income attributable to non-controlling interests	192	1 125
	17 640	12 903

			Percentage held by non-controlling interests	
Name	**Home office**	**Segment**	**Jun 2022**	**Dec 2021**
Finibanco Angola, S.A.	Luanda	Banca	19.78%	19.78%

46 Guarantees and other commitments

This caption is presented as follows:

		(Euro thousand)
	Jun 2022	**Dec 2021**
Guarantees granted	494 523	479 831
Commitments to third parties	1 538 099	1 569 331
Deposit and custody of securities	8 355 443	7 757 554
	10 388 065	9 806 716

The amounts of Guarantees granted, and Commitments assumed to third parties are analysed as follows:

		(Euro thousand)
	Jun 2022	**Dec 2021**
Garantees granted		
Guarantees	422 506	428 523
Letters of credit	72 017	51 308
	494 523	479 831
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	627 079	694 072
Securities subscription	903	903
Term liability to the Guarantee Deposits Fun	22 768	22 768
Potential liability with the Investor's Indemnity System	5 774	6 007
Revocable commitments		
Revocable credit facilities	881 575	845 581
	1 538 099	1 569 331

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 2022 and 31 December 2021, 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 2022, 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 28,000 thousand (31 December 2021: Euro 24,000 thousand), as described in note 26.

As at 30 June 2022 and 31 December 2021, 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.

47 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as is the case with many products sold to Customers, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to their financial characteristics and the discount rates used include both the market interest rate curve and the current conditions of the pricing policy of the Group.

Therefore, the fair value obtained is influenced by the parameters used in the valuation model that, necessarily, have some degree of judgement and reflect, exclusively, the value attributed to the different financial instruments. However, it does not consider prospective factors, like the future business evolution. Consequently, the values presented cannot be understood as an estimate of the economic value of the Group.

Financial instruments recorded in the balance sheet at fair value

Financial instruments accounted for in the balance sheet at fair value were classified by levels in accordance with IFRS 13, as follows:

Debt and equity instruments

- Level 1: In addition to financial instruments admitted to trading on a regulated market, bonds and investment units in harmonized funds, valued based on active market prices/quotations, disclosed through trading platforms, are included in this category.

  The aforementioned financial instruments are traded on an active market whenever the financial instruments in question are quoted through multi-contributed sources for bonds and the primary exchange for shares.

- Level 2: Financial instruments that are not traded on an active market or valued using valuation techniques supported by observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect (derivatives), and valuation assumptions similar to those that an unrelated party would use in estimating the fair value of the same financial instrument, are considered Level 2. The classification of fair value in Level 2 is made according to the following rules:

  a) Financial instruments shall be classified in level 2 if they are:

     i. valued based on models using observable market data (such as interest rate curves or exchange rates). Market interest rates are calculated based on information disseminated by financial content providers, for example Bloomberg, namely those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. The same interest rate curves are also used to project non-deterministic cash flows, such as indexers; or

     ii. valued using indicative third-party purchase prices, based on observable market data.

  b) For financial instruments that do not have a 30-day history available in the system, the fair value level shall be assigned based on the available history.

- Level 3: Financial instruments are classified in level 3 whenever they do not meet the criteria to be classified in level 1 or level 2, or fair value is determined based on unobservable data in active markets, using techniques and assumptions that market participants would use to assess the same instruments, namely:

  a) financial instruments not admitted to trading on a regulated market that are valued using valuation models and for which there is no generally accepted consensus on the criteria to be used, namely:

     i. valuation prepared in accordance with the Net Asset Value of non-harmonized funds, updated and disclosed by the respective management companies;

     ii. valuation prepared in accordance with indicative prices disclosed by the entities that participated in the issuance of certain financial instruments, without an active market; or

     iii. valuation prepared in accordance with the realization of impairment tests, using the performance indicators of the underlying operations (e.g., degree of protection by subordination of the tranches held, delinquency rates of underlying assets, evolution of ratings, etc.).

  b) financial instruments valued through indicative purchase prices based on theoretical valuation models disclosed by specialized third parties.

Derivative financial instruments

Operations involving financial derivatives, in the form contracts in respect of exchange rate, interest rate, share or share indices, inflation or a combination of these are traded over the counter (OTC) and in organized markets (especially stock markets). For OTC derivative operations (swaps and options), their valuation is based on generally accepted methods, always favouring market values.

- Level 1: This classification includes futures, options and other derivative financial instruments traded on a regulated market.

- Level 2: This level includes derivative financial instruments traded on unregulated (OTC) markets that do not have an optional component.

  The valuation of these derivatives is made by discounting the cash flows from operations, using as a discounting base the market interest rate curves deemed appropriate for the currency in force at the time of the calculation. Interest rates are obtained from Bloomberg or Reuters

  Market interest rates are calculated based on information disseminated by financial content providers - Bloomberg or Reuters - specifically those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. Interest rate curves are also used to project non-deterministic cash flows such as indexers.

- Level 3: This level includes options and derivatives traded on an unregulated (OTC) market, incorporating optional elements.

Options are valued based on statistical models that consider the market values of the underlying assets and their volatilities (assuming that they are not directly observable in the market). The theoretical models used in the valuation of derivatives classified in level 3 are presented as follows:

i. For simple options, the Black-Scholes, Black, Ho and other models are used, considering the applicable volatility surfaces 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 negative in 0.76% for live operations as at 30 June 2022 (31 December 2021: negative in 0.60%).

For the remaining deposits 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 2022, the average discount rate was a negative 2.49% (31 December 2021: a negative 0.60%).

For Loans and advances to other credit institutions a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term operations was applied. Considering the short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

- *Other financial assets at amortized cost*

  These financial instruments are accounted for at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for associated factors, predominantly the credit and liquidity risks, determined in accordance with the respective market conditions and periods.

- *Loans and advances to customers without a defined maturity date and Deposits from customers repayable on demand*

  Considering the short-term maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the book value is a reasonable estimate of their fair value.

- *Loans and advances to customers with a defined maturity date*

  The fair value of these financial instruments is calculated by discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. For loans in default, the value, net of impairment, of these operations is a reasonable estimate of their fair value, given the economic valuation performed for the calculation of this impairment for individually significant Customers. The discount rate used reflects the current conditions applied by the Group to similar instruments for each of the homogeneous classes of this type of instrument and with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial period) and the spread used at the reporting date, calculated based on the average production of the last quarter. As at 30 June 2022, the average discount rate was 3.87% for mortgage loans (31 December 2021: 2.20%), 8.91% for private individual loans (31 December 2021: 7.19%) and 4.94% for the remaining loans (31 December 2021: 3.38%), 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 2022 was a negative 0.22% (31 December 2021: a negative 0.04%).

- *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 outstanding		Discounted Cash Flow Method [2]	Interest rate curves Comparable assets [3] Spreads
Derivatives - Hedge accounting	Swaps [1]		Discounted Cash Flow Method [2]	Interest rate curves Implied Volatilities Probability of default for CVA and DVA calculation
Financial liabilities at amortized cost	Term deposits Debt securities issued		Discounted Cash Flow Method [2]	Interest rate curves Spreads

(1) In derivative valuations, an adjustment to the valuation is made to take into account counterparty credit risk when the exposure is the Bank's or the credit risk of the Bank's when the exposure is the counterparty's (generally referred to by the abbreviations CVA - Credit Valuation Adjustment and DVA - Debit Valuation Adjustment).

(2) Cash-flow discounting method (net present value): this model uses the cash flows of each instrument, established in the different contracts, and discounts them to calculate their present value.

(3) Comparable assets (prices of similar assets): comparable financial instrument prices or market benchmarks are used to calculate yield from the purchase price to its current valuation, making subsequent adjustments to take into account possible differences between the revalued instrument and the reference instrument. It can also be assumed that the price of one instrument equals that of another.

Valuation adjustments for Credit Risk

Counterparty Credit Risk Valuation Adjustments ("CVA") and the Bank's Credit Risk Valuation Adjustments ("DVA") are incorporated in the valuation of OTC derivatives as a result of the risk associated with the credit exposure of the counterparty and its own, respectively.

The CVA value is calculated considering the expected exposure for each counterparty in each future term, with the CVA by counterparty being calculated by summing the various CVA values of the various future terms. The adjustments are then determined by estimating the counterparty's exposure at default (EAD), the respective probability of default (PD) and the loss given default (LGD) for all derivative financial instruments traded under the same contract negotiated with the Group with a netting clause (of the same netting set). Similarly, the DVA corresponds to the product of the negative expected exposure at default by the probability of default and by Banco Montepio Group's LGD.

The PD and LGD values are calibrated using market data, for the effect using the counterparty's rating and sector or historical information on the probability of default.

Changes in CVA/FVA and DVA/FVA adjustments are accounted for as gains or losses on assets and liabilities held for trading in the profit or loss. The detail of the movements of the CVA and DVA adjustments is presented as follows:

CVA and DVA Movements

(Euro thousand)

	Jun 2022		Dec 2021	
	CVA	**DVA**	**CVA**	**DVA**
Adjustment	56	467	239	671
Of which : Derivatives expiry	(1)	(265)	111	(62)

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 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	-0.578150	1.700000	1.295000	-0.145000	-0.075670
7 days	-0.578150	0.076380	1.295000	-0.145000	-0.075670
1 month	-0.504200	1.895000	1.375000	-0.150000	-0.350000
2 months	-0.397100	2.205000	1.545000	-0.210000	-0.300000
3 months	-0.257850	2.375000	1.695000	-0.140000	-0.330000
6 months	0.126500	3.125000	2.195000	0.090000	-0.310000
9 months	0.435800	3.515000	2.745000	0.400000	-0.190000
1 year	0.673850	3.575000	2.965000	0.530000	-0.170000
2 years	1.165000	3.418000	1.206000	0.837500	0.056300
3 years	1.334500	3.315000	1.310000	0.972000	0.080000
5 years	1.557000	3.224000	1.286000	1.254000	0.128800
7 years	1.716000	3.193000	1.229000	1.497000	0.193800
10 years	1.925500	3.203000	1.196000	1.749500	0.292500
15 years	2.143500	3.256000	1.168000	1.976500	0.438800
20 years	2.113500	3.095000	1.168000	1.976500	0.438800
30 years	1.922500	2.883200	1.168000	1.976500	0.438800

As at 31 December 2021, 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	-0.500000	0.135000	0.210000	-0.755000	-0.110000
7 days	-0.478356	0.076250	0.230000	-0.695000	-0.081500
1 month	-0.478356	0.140000	0.240000	-0.650000	-0.250000
2 month	-0.478356	0.150000	0.250000	-0.650000	-0.220000
3 month	-0.478356	0.180000	0.390000	-0.650000	-0.220000
6 month	-0.478356	0.290000	0.610000	-0.650000	-0.240000
9 month	-0.478356	0.410000	0.670000	-0.650000	-0.150000
1 year	-0.485000	0.530000	0.840000	-0.670000	-0.150000
2 years	-0.295000	0.947000	1.232000	-0.487500	-0.006300
3 years	-0.145000	1.186000	1.338000	-0.375000	-0.001300
5 years	0.016000	1.383000	1.328000	-0.230000	0.016300
7 years	0.130000	1.491000	1.275000	-0.080000	0.043800
10 years	0.303000	1.602000	1.241000	0.090000	0.106300
15 years	0.492000	1.730000	1.216000	0.232500	0.223800
20 years	0.548000	1.734000	1.216000	0.232500	0.223800
30 years	0.479000	1.710300	1.216000	0.232500	0.223800

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 2022**	**Dec 2021**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.0387	1.1326	9.512	9.25	9.08	8.98	8.94
EUR/GBP	0.8582	0.84028	7.87	7.87	7.945	7.88	7.9
EUR/CHF	0.996	1.0331	8.165	7.92	7.63	7.46	7.39
EUR/JPY	141.54	130.38	13.61	13.252	13.1	12.578	12.368
EUR/AOA	422.8538	635.751	-	-	-	-	-

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 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

	Jun 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	-	-	1 810 861	1 810 861	1 810 861
Loans and deposits to credit institutions payable on demand	-	-	48 561	48 561	48 561
Other loans and advances to credit institutions	-	-	170 403	170 403	170 403
Loans and advances to customers	956	-	11 920 034	11 920 990	11 829 236
Financial assets held for trading	17 581	-	-	17 581	17 581
Financial assets at fair value through profit or loss	151 939	-	-	151 939	151 939
Financial assets at fair value through other comprehensive income	-	121 772	-	121 772	121 772
Hedging derivatives	5 260	-	-	5 260	5 260
Other financial assets at amortized cost	-	-	4 127 844	4 127 844	3 804 055
	175 736	121 772	18 077 703	18 375 211	17 959 668
Financial liabilities					
Deposits from central bank	-	-	2 902 643	2 902 643	2 902 643
Deposits from other credit institutions	-	-	361 066	361 066	315 225
Deposits from customers	42 523	-	12 993 141	13 035 664	13 095 397
Debt securities issued	-	-	1 462 147	1 462 147	1 451 092
Financial liabilities held for trading	12 706	-	-	12 706	12 706
Hedging derivatives	480	-	-	480	480
Other subordinated debt	-	-	211 289	211 289	208 636
	55 709	-	17 930 286	17 985 995	17 986 179

(Euro thousand)

	Dec 2021				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial Assets					
Cash and deposits at central banks	-	-	2 967 996	2 967 996	2 967 996
Loans and deposits to credit institutions payable on demand	-	-	67 360	67 360	67 360
Other loans and advances to credit institutions	-	-	229 065	229 065	229 065
Loans and advances to customers	1 004	-	11 666 684	11 667 688	11 570 592
Financial assets held for trading	7 582	-	-	7 582	7 582
Financial assets at fair value through profit or loss	203 427	-	-	203 427	203 427
Financial assets at fair value through comprehensive income	-	123 338	-	123 338	123 338
Hedging derivatives	-	-	38 862	38 862	38 836
Other financial assets at amortized cost	5 411	-	-	5 411	5 411
Outros ativos financeiros ao custo amortizado	-	-	3 004 196	3 004 196	2 981 738
	217 424	123 338	17 974 163	18 314 925	18 195 345
Financial liabilities					
Deposits from central bank	-	-	2 902 003	2 902 003	2 902 003
Deposits from other credit institutions	-	-	555 412	555 412	542 920
Deposits from customers	25 009	-	12 761 877	12 786 886	12 795 865
Debt securities issued	-	-	1 617 125	1 617 125	1 616 593
Financial liabilities held for trading	7 470	-	-	7 470	7 470
Hedging derivatives	335	-	-	335	335
Other subordinated debt	-	-	217 265	217 265	218 957
	32 814	-	18 053 682	18 086 496	18 084 143

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 30 June 2022:

(Euro thousand)

	Jun 2022				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial Assets					
Cash and deposits at central banks	1 810 861	-	-	-	1 810 861
Loans and deposits to credit institutions payable on demand	48 561	-	-	-	48 561
Other loans and advances to credit institutions	-	-	170 403	-	170 403
Loans and advances to customers	-	956	11 828 280	-	11 829 236
Financial assets held for trading	6 408	2 856	8 317	-	17 581
Financial assets at fair value through profit or loss	-	-	151 939	-	151 939
Financial assets at fair value through other comprehensive income	73 743	2 192	44 655	1 182	121 772
Hedging derivatives	-	5 260	-	-	5 260
Other financial assets at amortized cost	3 721 372	82 683	-	-	3 804 055
	5 660 945	93 947	12 203 594	1 182	17 959 668
Financial Liabilities					
Deposits from central bank	2 902 643	-	-	-	2 902 643
Deposits from other credit institutions	-	-	315 225	-	315 225
Deposits from customers	-	42 523	13 052 874	-	13 095 397
Debt securities issued	-	-	1 451 092	-	1 451 092
Financial liabilities held for trading	-	2 863	9 843	-	12 706
Hedging derivatives	-	480	-	-	480
Other subordinated debt	-	-	208 636	-	208 636
	2 902 643	45 866	15 037 670	-	17 986 179

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2021:

(Euro thousand)

	Dec 2021				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial Assets					
Cash and deposits at central banks	2 967 996	-	-	-	2 967 996
Loans and deposits to credit institutions	67 360	-		-	
payable on demand			-		67 360
Other loans and advances to credit institutions	-	-	229 065	-	229 065
Loans and advances to customers	-	1 004	11 569 588	-	11 570 592
Financial assets held for trading	-	1 376	6 206	-	7 582
Financial assets at fair value through profit or loss	-	-	203 427	-	203 427
Financial assets at fair value through other comprehensive income	77 310	2 336	42 511	1 181	123 338
Hedging derivatives	-	-	38 836	-	38 836
Other financial assets at amortized cost	-	5 411	-	-	5 411
	2 981 738	-	-	-	2 981 738
	6 094 404	10 127	12 089 633	1 181	18 195 345
Financial Liabilities					
Deposits from central bank	2 902 003	-	-	-	2 902 003
Deposits from other credit institutions	-	-	542 920	-	542 920
Deposits from customers	-	-	12 795 865	-	12 795 865
Debt securities issued	-	-	1 616 593	-	1 616 593
Financial liabilities held for trading	-	949	6 521	-	7 470
Hedging derivatives	-	335	-	-	335
Other subordinated debt	-	-	218 957	-	218 957
	2 902 003	1 284	15 180 856	-	18 084 143

48 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 the payment by the Pension Fund of a pension calculated as per the preceding paragraph, proportional to the time of service rendered to the Group.

Additionally, pursuant to the ACT, the pension plan guarantees the Social-Medical Assistance Services ("SAMS") costs and the death subsidy.

The Group has no other mechanisms 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 2022	**Dec 2021**
Financial assumptions		
Salary growth rate	1.00% in the first 2 years and 0.75% for the remaining years	0.50%
Pension growth rate	0.50%	0.30%
Rate of return of the Fund	3.40%	1.40%
Discount rate	3.40%	1.40%
Revaluation rate		
Salary growth rate - Social Security	1.25%	1.25%
Pension growth rate	1.00%	1.00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 - 3 years
Actuarial valuation method	UCP	UCP

The assumptions used in calculating the present value of the liabilities are in accordance with the requirements defined by IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices, for high-quality corporate bonds, and (ii) duration of the liabilities. As at 30 June 2022, the average duration of the pension liabilities of the Group's employees is 16.2 years (31 December 2021: 17.5 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

(Euro thousand)

	Jun 2022	Dec 2021
Active	2 866	2 916
Retirees and survivors	1 578	1 552
	4 444	4 468

The liabilities for pensions and other benefits and respective coverage levels are presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(340 896)	(397 975)
Active	(280 434)	(388 409)
	(621 330)	(786 384)
Liabilities with healthcare benefits		
Pensioners	(23 144)	(27 493)
Active	(24 431)	(38 595)
	(47 575)	(66 088)
Liabilities with death benefits		
Pensioners	(1 718)	(2 236)
Active	(972)	(1 719)
	(2 690)	(3 955)
Total Liabilities	(671 595)	(856 427)
Coverages		
Pension Fund value	804 651	866 203
Net assets/ (liabilities) in the balance sheet	133 056	9 776
Accumulated actuarial remeasurements recognized in other comprehensive income	143 100	273 786

The evolution of liabilities with retirement pensions, health benefits and death subsidy can be analysed as follows:

(Euro thousand)

	Jun 2022				Dec 2021			
	Pension benefits	Healthcare benefits	Death benefits	Total	Pension benefits	Healthcare benefits	Death benefits	Total
Liabilities at the beginning of the period	786 384	66 088	3 955	856 427	800 011	70 833	4 039	874 883
Recognized in net income/(loss) (note 11)								
Current service cost	1 590	741	35	2 366	3 415	1 770	77	5 262
Interest cost	5 495	461	27	5 983	9 193	814	47	10 054
Early retirement, terminations by mutual agreement and other	5 956	-	-	5 956	4 365	-	-	4 365
Recognized in Equity (note 43)								
Actuarial gains /(losses)								
Changes in assumptions	(168 136)	(19 688)	(1 393)	(189 217)	(16 227)	(3 501)	(246)	(19 974)
Not related to Changes in assumptions	2 126	(27)	66	2 165	11 647	(3 687)	41	8 001
Other								
Pensions paid by the Fund	(12 369)	-	-	(12 369)	(24 993)	-	-	(24 993)
Pensions paid by Banco Montepio	(848)	-	-	(848)	(1 932)	-	-	(1 932)
Participant contributions	1 132	-	-	1 132	2 398	-	-	2 398
Other	-		-	-	(1 493)	(141)	(3)	(1 637)
Liabilities at the end of the period	621 330	47 575	2 690	671 595	786 384	66 088	3 955	856 427

The evolution of the Pension Fund's net asset value in financial year ended 30 June 2022 and 31 December 2021 can be analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Value of the Fund at beginning of the period	866 203	865 523
Recognized in net income/(loss)		
Share of net interest	6 051	9 843
Recognized in equity (note 43)		
Financial deviations	(56 366)	15 452
Other		
Contributions from Banco Montepio	1 132	2 398
Participant contributions	(12 369)	(24 993)
Montepio Valor disposal	-	(2 020)
Fund's value at the end of the period	804 651	866 203

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 2022 and 31 December 2021, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	Jun 2022				Dec 2021			
	Assets of the fund	%	Quoted	Unquoted	Assets of the fund	%	Quoted	Unquoted
Variable-income securities								
Shares	65 221	8%	65 221	-	54 100	6%	54 100	-
Shares investment funds	92 268	11%	-	92 268	123 063	14%	-	123 063
Bonds	552 419	69%	403 308	149 111	591 118	68%	479 693	111 425
Real estate	5 050	1%	-	5 050	5 393	1%	-	5 393
Real estate investment Funds	44 976	6%	-	44 976	44 590	5%		44 590
Venture capital Funds	2 128	0%	-	2 128	2 979	0%	-	2 979
Loans and advances to banks and other	42 589	5%	-	42 589	44 960	5%	-	44 960
	804 651	100%	468 529	336 122	866 203	100%	533 793	332 410

The assets of the Pension Fund related to securities, real estate and loans and advances to banks that are entities of the Group, are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Loans and advances in banks and other	31 504	39 211
Real estate	5 050	5 393
Bonds	2 097	2 118
	38 651	46 722

The evolution of the remeasurements in the balance sheet are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Actuarial gains/(losses) at the beginning of the period	273 786	301 211
Actuarial gains/(losses) in the financial period		
Changes in discount rate	(229 203)	(37 970)
Payroll update	14 826	-
Pension growth rate update	16 986	-
Deviation on the Pension Fund return	56 366	(15 452)
Other	2 165	8 001
Resulting from changes in plan conditions	8 174	17 996
Actuarial gains/(losses) recognized in other comprehensive income	143 100	273 786

The costs with retirement pensions, health benefits and death subsidy are analysed as follows:

(Euro thousand)

	Jun 2022	Jun 2021
Current service cost	2 366	2 687
Net interest income/(expense) on the liabilities coverage balance	(68)	106
Costs with early retirement, mutually agreed termination	5 956	7 339
Costs for the period	8 254	10 132

The evolution of net assets/(liabilities) in the balance sheet, in the period ended 30 June 2022 and financial year 2021, is analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
At the beginning of the period	9 776	(9 360)
Current service cost	(2 366)	(5 262)
Net interest income/(expense) on the liabilities coverage balance	68	(211)
Actuarial gains/(losses)	187 052	11 973
Financial gains/(losses)	(56 366)	15 452
Pensions paid by Banco Montepio	848	1 932
Early retirement, mutually agreed terminations and others	(5 956)	(4 365)
Montepio Valor disposal	-	(383)
At the end of the period	133 056	9 776

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 2022 Liabilities		Dec 2021 Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(24 282)	25 084	(35 232)	37 537
Salary growth rate (0.25% change)	14 188	(13 214)	23 723	(21 259)
Pension growth rate (0.25% change)	21 077	(20 162)	31 597	(30 094)
SAMS contribution (0.25% change)	2 352	(2 352)	3 417	(3 417)
Future mortality (1 year change)	(15 936)	15 753	(25 338)	25 345

As at 30 June 2022, the cost associated with the end-of-career awards amounted to Euro 2,733 thousand (31 December 2021: Euro 2,573 thousand), in accordance with the accounting policy described in note 1 s) and as per note 40.

49 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 2022 and 31 December 2021, the amount of the funds for which the Group acts as depository bank is analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Securities Investment Funds	169 798	175 839
Real estate Investment Funds	665 508	629 741
Pension Funds	276 420	292 638
Bank and insurance	30 052	30 729
	1 141 778	1 128 947

The amounts recognized in these captions are measured at fair value determined as at the balance sheet date.

50 Related parties

As defined in IAS 24, the Companies detailed in note 57, 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 2022, the list of related parties considered by Banco Montepio is presented as follows:

Majority shareholder
Montepio Geral Associação Mutualista

Board of Directors (after 25 July 2022)
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

Board of Directors (before 25 July 2022)
Chaim of the Board of Directors
Carlos Tavares
Non-executive members
Manuel Ferreira Teixeira
Amadeu Paiva
Carlos Ferreira Alves
José Nunes Pereira
Pedro Alves
Vítor Martins
Executive Committee
Chaim of the Executive Committee
Pedro Leitão
Executive members
Dulce Mota
Helena Soares de Moura
Jorge Baião
José Carlos Mateus
Leandro Graça Silva
Nuno Mota Pinto
Pedro Ventaneira
Audit Committee
Chaim of the Audit Committee
Manuel Ferreira Teixeira
Members
Amadeu Paiva
Carlos Ferreira Alves
José Nunes Pereira
Vitor Martins

Board of Directors of Other Related Parties
Alice Pinto
Alípio Dias
Álvaro Almeida
Amândio Coelho
Ana Sá Couto
António Gouveia
Carlos Beato
Dalila Teixeira
Edite Cheira
Fernanda Brázia
Fernando Amaro
Fernando Santo
Fernão Thomaz
Francisco Simões
Idália Serrão
Isabel Cidrais Guimarães
João Almeida Gouveia
João Andrade Lopes
João Carvalho das Neves
João Costa Pinto
João Neves
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 Van Zeller
Paulo Martins da Silva
Pedro Crespo
Pedro Líbano Monteiro
Pedro Ribeiro
Pedro Simão
Ricardo Carvalho
Rosa Rodrigues
Rui Heitor
Rui Pereira
Tereza Amado
Virgílio Lima
Vitor Filipe

Other Key Management Personnel

Alexandra Ponciano
Alexandra Rolo
Ana Mendonça Neves
António Carlos Machado
António Coelho
António Figueiredo Lopes
Armando Cardoso
Bruno Magalhães
Carla Sousa
Carlos Figueiral Azevedo
Conceição Barbosa
Daniel Caçador
Fabienne Lehuédé
Fernanda Correia
Fernando Alexandre
Fernando Teixeira
Filipa Costa
Helder Reis
Helena Valente
Hélio Marques
Inês Dargan
Jaquelina Rodrigues
Joana Correia
Joaquim Canhoto
Jorge Barros Luís
Luís Melo
Luís Sena
Manuel Castanho
Maria Eduarda Osório
Miguel Oliveira
Mónica Araújo
Nuno Cavilhas
Nuno Soares
Patricia Fernandes
Patrícia Medeiros
Paula Maia Fernandes
Paula Pinheiro
Paulo Amorim
Paulo Jorge Rodrigues
Paulo Trindade
Pedro Araújo
Pedro Pires
Ricardo Chorão

Other Related parties

Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
CESource, ACE
Clínica CUF Belém, S.A
Empresa Gestora de Imóveis da Rua do Prior S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique, Companhia de Seguros, S.A.
Montepio Residências para Estudantes, S.A.
Montepio Gestão de Activos - S.G.O.I.C., S.A.
Montepio Gestão de Ativos Imobiliários, ACE
Montepio Seguros, S.G.P.S., S.A.
Montepio Valor - Sociedade Gestora de Organismos de Investimento Coletivo, S.A.
Nova Câmbios - Instituição de Pagamento, S.A.
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.

Related entities resulting from the interest held in Finibanco Angola, S.A.

Banco de Negócios Internacional, S.A. (BNI)

As at 30 June 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)

	Jun 2022						
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	Total
Board of Directors (after 25 July 2022)	95	-	-	-	-	-	95
Board of Directors (before 25 July 2022)	476	-	-	-	-	-	476
Board of Directors of Other Related Parties	2 887	1	-	-	-	-	2 886
Other Related Parties	2 819	1	-	-	-	-	2 818
Bolsimo - Gestão de Activos, S.A.	1 184	380	-	-	22	10 820	11 646
CESource, A.C.E.	-	-	-	-	36	-	36
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	-	-	-	13	-	14
Lusitania, Companhia de Seguros, S.A.	-	-	1 943	453	100	46	1 636
Moçambique Companhia de Seguros, S.A.R.L.	-	-	250	-	-	-	250
Montepio Geral Associação Mutualista	1	5	-	-	1 702	120	1 818
Montepio Gestão de Activos - S.G.O.I.C, S.A.	-	-	1	-	5	-	6
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	-	1 111	-	1 111
Montepio Valor, S.G.O.I.C., S.A.	-	-	-	-	105	-	105
Montepio Residências para Estudantes, S.A.	-	-	-	-	4	-	4
NovaCâmbios - Instituição de Pagamento, S.A.	653	41	-	-	-	1 386	1 998
Residências Montepio, Serviços de Saúde, S.A.	1 513	42	-	-	19	750	2 240
	9 629	470	2 194	453	3 117	13 122	27 139

As at 31 December 2021, assets held by the Group in respect of related parties, pursuant to article 109, represented or not by securities, included in the captions Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other assets, Guarantees and commitments assumed and Provisions for guarantees and other commitments assumed, are presented as follows:

(Euro thousand)

	Dec 2021							
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Garantees and commitments provided	Provisions for garantees and commitments provided	Total
Board of Directors	588	-	-	-	-	-	-	588
Board of Directors of Other Related Parties	2 618	-	-	-	-	-	-	2 618
Other Related Parties	3 349	-	-	-	-	-	-	3 349
Bolsimo - Gestão de Activos, S.A.	3 346	300	-	-	22	8 681	-	11 749
CESource, A.C.E.	-	-	-	-	83	-	-	83
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	1	-	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	20	3	-	-	-	-	-	17
Lusitania, Companhia de Seguros, S.A.	-	-	2 079	747	-	46	-	1 378
Moçambique Companhia de Seguros, S.A.R.L.	-	-	250	-	-	-	-	250
Montepio Geral Associação Mutualista	5	7	-	-	3 949	120	-	4 067
Montepio Gestão de Activos - S.G.O.I.C, S.A.	-	-	1	-	5	-	-	6
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	-	607	-	-	607
Montepio Valor, S.G.O.I.C., S.A.	1	-	-		-	-		1
Montepio Residências para Estudantes, S.A.	-	-	-	-	4	-		4
NovaCâmbios - Instituição de Pagamento, S.A.	775	35	-	-	-	1 386	4	2 122
Residências Montepio, Serviços de Saúde, S.A.	1 511	16	-	-	29	750	-	2 274
	12 214	362	2 330	747	4 699	10 983	4	29 113

As at 30 June 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	Jun 2022 Deposits from customers	Jun 2022 Debt securities issued and Other subordinated liabilities	Jun 2022 Total
Board of Directors (after 25 July 2022)	691	-	691
Board of Directors (before 25 July 2022)	1 346	-	1 346
Board of Directors of Other Related Parties	3 015	-	3 015
Other Related Parties	2 798	-	2 798
Bolsimo - Gestão de Activos, S.A.	50	-	50
Clínica CUF Belém, S.A.	16	-	16
Empresa Gestora de Imóveis da Rua do Prior S.A	166	-	166
Fundação Montepio Geral	2 124	-	2 124
Fundo de Pensões - Montepio Geral	31 096	2 108	33 204
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 065	-	2 065
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	187	-	187
Lusitania Vida, Companhia de Seguros, S.A.	7 740	-	7 740
Lusitania, Companhia de Seguros, S.A.	2 543	-	2 543
Montepio Geral Associação Mutualista	134 517	200 289	334 806
Montepio Gestão de Activos - S.G.O.I.C., S.A.	2 560	-	2 560
Montepio Gestão de Activos Imobiliários, A.C.E.	2 617	-	2 617
Montepio Residências para Estudantes, S.A:	400	-	400
Montepio Seguros, S.G.P.S., S.A.	954	-	954
Montepio Valor, S.G.O.I.C., S.A.	3 659	-	3 659
NovaCâmbios - Instituição de Pagamento, S.A.	523	-	523
Residências Montepio, Serviços de Saúde, S.A.	113	-	113
SAGIES - Segurança e Higiene no Trabalho, S.A.	61	-	61
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 633	-	2 633
Sociedade Portuguesa de Administrações, S.A.	347	-	347
	202 221	202 397	404 618

As at 31 December 2021, the Group's liabilities in respect of related parties, pursuant to article 109, included in the captions Deposits from customers, Debt securities issued and Other subordinated debt, are analysed as follows:

(Euro thousand)

	Dec 2021		
Companies	**Deposits from customers**	**Debt securities issued and Other subordinated liabilities**	**Total**
Board of Directors	1 704	-	1 704
Board of Directors of Other Related Parties	3 281	-	3 281
Other Related Parties	2 795	-	2 795
Bolsimo - Gestão de Activos, S.A.	1 359	-	1 359
Clínica CUF Belém, S.A.	13	-	13
Empresa Gestora de Imóveis da Rua do Prior S.A	207	-	207
Fundação Montepio Geral	1 748	-	1 748
Fundo de Pensões - Montepio Geral	38 652	2 115	40 767
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1 923	-	1 923
H.T.A. - Hotéis, Turismo e Animação dos Açores, S.A.	124	-	124
Lusitania Vida, Companhia de Seguros, S.A.	20 221	-	20 221
Lusitania, Companhia de Seguros, S.A.	4 121	-	4 121
Montepio Geral Associação Mutualista	151 962	195 786	347 748
Montepio Gestão de Activos - S.G.O.I.C., S.A.	2 974	-	2 974
Montepio Gestão de Activos Imobiliários, A.C.E.	2 406	-	2 406
Montepio Residências para Estudantes, S.A:	396	-	396
Montepio Seguros, S.G.P.S., S.A.	721	-	721
Montepio Valor, S.G.O.I.C., S.A.	4 578	-	4 578
NovaCâmbios - Instituição de Pagamento, S.A.	451	-	451
Residências Montepio, Serviços de Saúde, S.A.	466	-	466
SAGIES - Segurança e Higiene no Trabalho, S.A.	85	-	85
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 756	-	2 756
Sociedade Portuguesa de Administrações, S.A.	357		357
	243 300	197 901	441 201

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)

	Jun 2022					
Companies	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

As at 30 June 2021, the Group's income and expenses with related parties, pursuant to article 109, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Staff costs, Other operating income/(expense) and General and administrative expenses, are analysed as follows:

(Euro thousand)

	Jun 2021					
Companies	Interest and similar income	Interest and similar expenses	Net fee and comission income/ (expense)	Staff costs	Other operating income/ (expense)	General administrative expenses
Board of Directors	-	1	1	-	-	-
Board of Directors of Other Related Parties	5	2	1	-	-	-
Other Related Parties	8	1	1	-	-	-
Bolsimo -Gestão de Activos, S.A.	112	-	-	(132)	-	-
CESource, A.C.E.	-	-	-	(290)	-	-
Fundo de Pensões - Montepio Geral	-	8	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 464	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	2	-	1	-	-	-
Iberpartners Cafés, S.G.P.S., S.A.	21	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	-	2 354	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	2 521	-	4	-
Montepio Geral Associação Mutualista	2	9 150	1 136	(5 423)	-	967
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	-	423	-	8	-
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	(1 129)	(1 534)	43
Montepio Residências para Estudantes, S.A.	-	-	-	(8)	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	-	-	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	26	-	28	-	2	-
Residências Montepio, Serviços de Saúde, S.A.	31	-	29	(57)	-	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	1	-	-	-	-
	207	9 163	7 959	(7 039)	(1 520)	1 010

In the period ended 30 June 2022 and financial year 2021, there were no transactions with the Group's Pension Fund.

51 Securitization of assets

As at 30 June 2022 and 31 December 2021, 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 these live securitization operations as at 30 June 2022.

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 2022, the securitization operations realized by the Group are presented as follows:

(Euro thousand)

Issue	Settlement date	Currency	Asset transferred	Loans and advances		Securities issued		
				Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages No. 3	March 2007	euro	Mortgage loans	762 375	106 785	762 375	110 977	28 259
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	384 514	1 028 600	415 448	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	63 839	236 500	66 018	-
Pelican Finance No.2	December 2021	euro	Mortgage loans	360 301	305 523	360 301	300 367	310 698
				2 387 776	860 661	2 387 776	892 810	338 957

* Includes nominal value, accrued interest and other adjustments.

As at 31 December 2021, the securitization operations realized by the Group are presented as follows:

(Euro thousand)

Issue	Settlement date	Currency	Asset transferred	Loans and advances		Securities issued		
				Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amount *
Pelican Mortgages No. 3	March 2007	euro	Mortgage loans	762 375	116 091	762 375	119 898	30 618
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	407 525	1 028 600	438 986	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	68 130	236 500	70 542	-
Pelican Finance No. 2	December 2021	euro	Mortgage loans	360 301	354 894	360 301	360 301	362 214
Aqua Finance No. 4	July 2017	euro	Consumer loans and others	200 200	47 827	200 200	54 374	9 174
				2 587 976	994 467	2 587 976	1 044 101	402 006

* 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 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					
Corporate					
Other loans	-	-	-	-	-
Retail					
Mortgage	105 986	383 155	62 950	-	552 091
Consumer loans and other	-	-	-	305 372	305 372
	105 986	383 155	62 950	305 372	857 463
Credit and overdue interest					
Less than 90 days	107	484	519	38	1 148
More than 90 days	692	875	370	113	2 050
	799	1 359	889	151	3 198
	106 785	384 514	63 839	305 523	860 661

Additionally, the detail of the securitized loans not derecognized, by securitization operation and contract nature, as at 31 December 2021, is presented as follows:

(Euro thousand)

	Non-derecognized securitization operations					
	Pelican Mortgage n.º 3	Pelican Mortgage n.º 4	Aqua Mortgage n.º 1	Pelican Finance n.º 2	Aqua Finance n.º 4	Total
Domestic loans and advances						
Corporate						
Other loans	-	-	-	-	14 324	14 324
Retail						
Mortgage	115 193	405 999	67 285	-	-	588 477
Consumer loans and other	-	-	-	354 875	31 143	386 018
	115 193	405 999	67 285	354 875	45 467	988 819
Credit and overdue interest						
Less than 90 days	96	546	540	15	49	1 246
More than 90 days	802	980	305	4	2 311	4 402
	898	1 526	845	19	2 360	5 648
	116 091	407 525	68 130	354 894	47 827	994 467

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 the first half of 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 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	100 888 702	72 629 880	2054	AAA	Aaa	AAA	n.a.	A+	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+	Ba3	BB	n.a.
	Class D	6 375 000	1 165 307	1 165 307	2054	BBB	Baa3	BBB	n.a.	BBB-	Ba3	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+	A+	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.	B-	n.a.	n.a.	n.a.
	Class X	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	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.

As at 31 December 2021, the securities issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount euros	Current nominal amount euros	Group's interest held (nominal amount) euros	Maturity	Rating (initial)				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+	B3	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.
Aqua Finance n.º 4	Class A	140 000 000	-	-	2035	n.a.	A3	n.a.	AL	n.a.	A1	n.a.	AA
	Class B	15 000 000	9 174 340	-	2035	n.a.	Ba2	n.a.	BBBL	n.a.	Baa3	n.a.	AH
	Class C	45 200 000	45 200 000	45 200 000	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

At each interest payment date, Tagus and Sagres have the possibility of partially redeeming the bonds, redemption which is realized sequentially and in function of the degree of subordination of the bonds.

The Bank has an operation that configures a synthetic securitization structure. The operation started on 18 December 2020 and is based on a loan portfolio of Small and Medium-sized Enterprises (SMEs). The legal maturity of the operation is 25 March 2036 and the respective amount totals Euro 492,375 thousand as at 30 June 2022 (31 December 2021: Euro 358,661 thousand). This operation has an estimated average maturity of 2.85 years.

52 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 2022, the Banco Montepio Group had (i) a domestic network of 261 branches (including 7 branches for corporate clients of BEM) and (ii) a bank in Angola with 20 branches.

The information by operating segments as at 30 June 2022 reflects the organizational and management model of the Banco Montepio Group, which follows the approved strategic guidance. The control over the performance of the activities carried out by the Group follows the allocation between the operating segments, with the respective management information considering the accounting policies underlying the preparation of the financial statements, as well as the internal management criteria. It is the responsibility of the Strategic Planning and Control Department to develop, produce and report management information related to the performance of the various operating segments and the respective control in relation to the objectives defined, reporting hierarchically to the Chief Financial Officer (CFO). The Executive Committee monitors the performance of the operating segments of the internal organizational model in a timely manner, as well as that of the respective budgetary control. The management information is reported to the Executive Committee and to the Board of Directors according to the model established, as well as to the competent organic units.

In evaluating the performance by business area, the Group considers the following operating segments:

1) Retail Banking, which includes the sub segments of Individuals, Self-employed Individuals, Small and Medium Enterprises allocated to this segment and Micro businesses;

2) Social Economy, which incorporates the Customers allocated to the Social Economy and Public Sector business areas;

3) Specialized credit, which includes the consumer credit business primarily developed by the subsidiary Montepio Crédito;

4) Asset Management, which reflects the activity of Montepio Valor, presented in the financial statements under Discontinued operations;

5) Corporate and Investment Banking, which includes the Large Companies, the Small and Medium Enterprises allocated to this segment and the Financial Institutions, as well as the activity presently developed in the Investment Banking area carried out by Banco de Empresas Montepio (BEM);

6) International Activity, which incorporates the contribution of Montepio Geral Cabo Verde – In Liquidation, presented in the financial statements as a Discontinued Operation, and Finibanco Angola;

7) Markets, which includes the operations related to the Own Securities' Portfolio, the Loans and Advances to Credit Institutions and Wholesale Funding;

8) Non-core, which includes the operations related to the management of real estate held for trading and of non-performing loans; and

9) 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: (i) Finibanco Angola, S.A. and (ii) Banco Montepio Geral – Cabo Verde – In Liquidation, Sociedade Unipessoal, S.A.

Description of the operating segments

On a consolidated basis, each of the reportable segments includes income and costs related to the following activities, products, Customers, and Group structures:

Retail Banking

This operating segment corresponds to all the activity developed by the Group in Portugal with Individuals, Self-employed Individuals, Small and Medium Enterprises allocated to this segment and micro businesses, commercially designated as the Individuals and Small Businesses segment, fundamentally originated by the branch network, electronic channels and promotor network. The financial information of this segment includes, among others, products and services, such as mortgage loans, individual 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.

Asset Management

This operating segment incorporates the activity developed by the subsidiary Montepio Valor until 30 December 2021, date on which the subsidiary was disposed of (see note 58).

Corporate and Investment Banking

This operating segment includes the activity developed by the Group with Small, Medium and Large companies, through the commercial structure dedicated to this segment. It also includes the institutional Customers' business, namely the financial sector. Of note among the products and services provided are treasury and investment financing, commercial discounting, provision of guarantees, leasing, factoring, renting, foreign operations, such as documentary credits, cheques and remittances, deposits, payment and reception services, cards, as well as custodianship services.

The Corporate Banking business includes the Corporate segment in Portugal which operates, in the scope of the Group's cross-selling strategy, as a distribution channel for products and services of other Group Companies.

In addition, this operating segment includes the activity developed in the Investment Banking area by Banco de Empresas Montepio (Banco BEM).

International Activity

This segment reflects the contribution of Montepio Geral Cabo Verde – In Liquidation and of Finibanco Angola.

Markets

This segment includes the operations related to the Own Securities' Portfolio, the Loans and Advances to Credit Institutions and Wholesale Funding.

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 units that integrate the International Area are: (i) Finibanco Angola, S.A. and (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A – In Liquidation.

The financial and economic elements related to the international area are those presented in the financial statements.

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	10 488	19 059	5 628	(2 861)	**146 009**
Interest and similar expense	7 418	578	8 087	**16 083**	2 219	1 374	18 653	1 774	(14 717)	**25 386**
NET INTEREST INCOME	**70 567**	**1 580**	**2 022**	**74 169**	**21 224**	**9 114**	**406**	**3 854**	**11 856**	**120 623**
Dividends from equity instruments	-	-	-	**-**	-	-	-	-	951	**951**
Net fee and commission income	50 374	872	2 087	**53 333**	5 449	1 628	487	(246)	(1 024)	**59 627**
Net gains/(losses) arising from financing operations	-	-	5 767	**5 767**	(112)	1 849	18 968	-	(5 769)	**20 703**
Other operating income/(expense)	149	(105)	(790)	**(746)**	(685)	(1 116)	(11 921)	12 169	(21 147)	**(23 446)**
OPERATING INCOME	**121 090**	**2 347**	**9 086**	**132 523**	**25 876**	**11 475**	**7 940**	**15 777**	**(15 133)**	**178 458**
Staff costs	31 445	1 384	3 390	**36 219**	3 254	3 675	782	2 754	26 085	**72 769**
General and administrative expenses	6 926	220	2 407	**9 553**	858	1 740	1 130	968	16 849	**31 098**
Depreciation and amortization	486	2	454	**942**	343	834	-	1	15 393	**17 513**
OPERATIONAL COSTS	**38 857**	**1 606**	**6 251**	**46 714**	**4 455**	**6 249**	**1 912**	**3 723**	**58 327**	**121 380**
Total provisions and impairment	(10 327)	(1 602)	513	**(11 416)**	(4 185)	4 298	1 570	23 353	(1 717)	**11 903**
Share of profit/(loss) of associated companies under the equity	-	-	-	**-**	-	-	-	-	(167)	**(167)**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**92 560**	**2 343**	**2 322**	**97 225**	**25 606**	**928**	**4 458**	**(11 299)**	**(71 910)**	**45 008**
Taxes	23 603	597	786	**24 986**	6 582	(41)	(3 314)	(2 392)	(4 341)	**21 480**
Non-controlling interests	-	-	-	**-**	-	192	-	-	-	**192**
Net income/(loss) from discontinued operations	-	-	-	**-**	-	(8)	-	-	-	**(8)**
NET INCOME/LOSS	**68 957**	**1 746**	**1 536**	**72 239**	**19 024**	**769**	**7 772**	**(8 907)**	**(67 569)**	**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. – In Liquidation, and Montepio Valor, S.G.O.I.C., S.A., which impact on the various captions of the Income Statement is disclosed in note 58.

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 50.

As at 30 June 2021, the reporting by operating segment, is presented as follows:

(Euro thousand)

	Banco Montepio - Consolidated										
	Commercial Banking										
	Retail	Social Economy	Specialized credit	Asset management	Subtotal	Investment Banking	International Activity	Markets	Non-Core segments	Other segments	Total
Interest and similar income	80 956	2 122	10 033	-	**93 111**	21 572	4 955	14 038	7 974	3 087	**144 737**
Interest and similar expense	12 038	373	251	-	**12 662**	2 492	1 029	21 674	3 416	(10 790)	**30 483**
NET INTEREST INCOME	**68 918**	**1 749**	**9 782**	**-**	**80 449**	**19 080**	**3 926**	**(7 636)**	**4 558**	**13 877**	**114 254**
Dividends from equity instruments	-	-	-	-	**-**	-	-	-	-	1 747	**1 747**
Net fee and commission income	46 082	738	2 432	-	**49 252**	4 556	748	850	(1 470)	971	**54 907**
Net gains/(losses) arising from financing operations	-	-	(10)	-	**(10)**	(1 105)	1 437	(3 805)	-	202	**(3 281)**
Other operating income/(expense)	506	(19)	(2 023)	-	**(1 536)**	272	(833)	14 736	(768)	(19 961)	**(8 089)**
OPERATING INCOME	**115 506**	**2 468**	**10 181**	**-**	**128 155**	**22 803**	**5 279**	**4 145**	**2 320**	**(3 164)**	**159 538**
Staff costs	35173	1 553	3 325	-	**40 051**	2 960	2 238	752	3 070	30 451	**79 522**
General and administrative expenses	8 583	142	2 550	-	**11 275**	877	1 619	1 059	785	16 378	**31 993**
Depreciation and amortization	598	2	480	-	**1 080**	334	597	1	1	15 804	**17 817**
OPERATIONAL COSTS	**44 354**	**1 697**	**6 355**	**-**	**52 406**	**4 171**	**4 454**	**1 812**	**3 856**	**62 633**	**129 332**
Total provisions and impairment	(1 248)	(23)	1 396	-	**125**	1 070	(980)	3 381	63 749	(6 637)	**60 708**
Share of profit/(loss) of associated companies under the equity	-	-	-	-	**-**	-	-	-	-	(233)	**(233)**
PROFIT/(LOSS) BEFORE TAX AND NON-CONTROLLING INTERESTS	**72 400**	**794**	**2 430**	**-**	**75 624**	**17 562**	**1 805**	**(1 048)**	**(65 285)**	**(59 393)**	**(30 735)**
Taxes	18 462	203	717	-	**19 382**	4 370	38	(267)	(15 778)	(6 580)	**1 165**
Non-controlling interests	-	-	-	-	**-**	-	350	-	-	-	**350**
Net income/(loss) from discontinued operations	-	-	-	(10)	**(10)**	-	42	-	-	(784)	**(752)**
NET INCOME/LOSS	**53 938**	**591**	**1 713**	**(10)**	**56 232**	**13 192**	**1 459**	**(781)**	**(49 507)**	**(53 597)**	**(33 002)**
Assets	8 564 760	198 147	566 943	6 086	**9 335 936**	2 009 694	296 726	6 269 961	1 781 444	(233 353)	**19 460 408**
Liabilities	11 068 619	756 341	507 353	1 156	**12 333 469**	525 008	238 897	5 080 084	-	(67 795)	**18 109 663**
Investments in associated companies	-	-	-	-	**-**	-	-	3 762	-	-	**3 762**

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	International	Total
Interest and similar income	135 521	10 488	146 009
Interest and similar expense	25 161	225	25 386
Inter-Segment	1 149	(1 149)	-
Net interest income	111 509	9 114	120 623
Dividends from equity instruments	951	-	951
Net fee and commission income	57 999	1 628	59 627
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	1 849	23 084
Net gains/(losses) arising from sale of other financial assets	13 550	-	13 550
Other operating income/(expense)	(35 880)	(1 116)	(36 996)
Operating income	166 983	11 475	178 458
Staff costs	69 094	3 675	72 769
General and administrative expenses	29 358	1 740	31 098
Depreciation and amortization	16 679	834	17 513
	115 131	6 249	121 380
Impairment of loans and advances to customers to credit institutions	(2 037)	5 254	3 217
Impairment of other financial assets	1 566	284	1 850
Impairment of other assets	10 329	-	10 329
Other provisions	(2 253)	(1 240)	(3 493)
Operating profit/(loss)	44 247	928	45 175
Share of profit/(loss) of associated companies under the equity method	(167)	-	(167)
Profit/(loss) before taxes and non-controlling interests	44 080	928	45 008
Current taxes	8 692	(41)	8 651
Deferred taxes	12 829	-	12 829
Profits/(losses) from discontinued operations	-	(8)	(8)
Non-controlling interests	-	192	192
Consolidated net income/(loss) for the financial period attributable to the Shareholders	22 559	769	23 328

As at 30 June 2022, the net contribution of the main geographical areas to the balance sheet is presented as follows:

(Euro thousand)

Balance Sheet	Activity - Domestic	Activity - International	Total
Cash, deposits and advances and loans to credit institutions	1 907 286	122 539	2 029 825
Loans and advances to customers	11 865 621	55 369	11 920 990
Investments in financial assets and associated companies	4 349 922	78 135	4 428 057
Non-current assets held for sale	11	-	11
Investment properties	84 746	-	84 746
Non-current assets held for sale - discontinued operations	-	87	87
Other assets	1 328 225	50 269	1 378 494
Total Assets	19 535 811	306 399	19 842 210
Deposits from central banks and other credit institutions	3 262 085	1 624	3 263 709
Deposits from customers	12 843 684	191 980	13 035 664
Debt securities issued and Other subordinated debt	1 673 436	-	1 673 436
Non-current liabilities held for sale - discontinued operations	-	142	142
Other liabilities	313 955	14 343	328 298
Total Liabilities	18 093 160	208 089	18 301 249
Non-controlling interests	-	17 640	17 640
Total Equity attributable to the Shareholders	1 442 651	80 670	1 523 321
Total Shareholders' Equity	1 442 651	98 310	1 540 961
Total Liabilities and Shareholder's Equity	19 535 811	306 399	19 842 210

As at 30 June 2021, the net contribution of the main geographical areas to the income statement is presented as follows:

(Euro thousand)

Income Statement	Activity		
	Domestic	International	Total
Interest and similar income	139 782	4 955	144 737
Interest and similar expense	29 978	505	30 483
Inter-Segment	524	(524)	-
Net interest income	110 328	3 926	114 254
Dividends from equity instruments	1 747	-	1 747
Net fee and commission income	54 158	749	54 907
Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss	(6 546)	-	(6 546)
Net gains/(losses) arising from financial assets at fair value through other comprehensive income	526	-	526
Net gains/(losses) arising from foreign exchange differences	1 302	1 437	2 739
Net gains/(losses) arising from sale of other financial assets	19 089	-	19 089
Other operating income/(expense)	(26 345)	(833)	(27 178)
Operating income	154 259	5 279	159 538
Staff costs	77 284	2 238	79 522
General and administrative expenses	30 374	1 619	31 993
Depreciation and amortization	17 220	597	17 817
	124 878	4 454	129 332
Impairment of loans and advances to customers to credit	55 770	(705)	55 065
Impairment of other financial assets	3 381	(387)	2 994
Impairment of other assets	9 513	-	9 513
Other provisions	(6 976)	112	(6 864)
Operating profit/(loss)	(32 307)	1 805	(30 502)
Share of profit/(loss) of associated companies under the equity	(233)	-	(233)
Profit/(loss) before taxes and non-controlling interests	(32 540)	1 805	(30 735)
Current taxes	(88)	38	(50)
Deferred taxes	1 215	-	1 215
Profits/(losses) from discontinued operations	(10)	(742)	(752)
Profits/(losses) from discontinued operations: intersegment	(784)	784	-
Non-controlling interests	-	350	350
Consolidated net income/(loss) for the financial period attributable to the Shareholders	(34 461)	1 459	(33 002)

As at 31 December 2021, the net contribution of the main geographical areas to the balance sheet is presented as follows:

(Euro thousand)

Balance Sheet	Activity - Domestic	Activity - International	Total
Cash, deposits and advances and loans to credit institutions	3 148 491	115 930	3 264 421
Loans and advances to customers	11 625 843	41 845	11 667 688
Investments in financial assets and associated companies	3 311 620	36 286	3 347 906
Non-current assets held for sale	38 862	-	38 862
Investment properties	102 933	-	102 933
Non-current assets held for sale - discontinued operations	-	429	429
Other assets	1 257 209	33 712	1 290 921
Total Assets	19 484 958	228 202	19 713 160
Deposits from central banks and other credit institutions	3 456 571	844	3 457 415
Deposits from customers	12 646 186	140 700	12 786 886
Debt securities issued and Other subordinated debt	1 834 390	-	1 834 390
Non-current liabilities held for sale - discontinued operations	-	329	329
Other liabilities	259 037	11 970	271 007
Total Liabilities	18 196 184	153 843	18 350 027
Non-controlling interests	-	12 903	12 903
Total Equity attributable to the Shareholders	1 288 774	61 456	1 350 230
Total Shareholders' Equity	1 288 774	74 359	1 363 133
Total Liabilities and Shareholders' Equity	19 484 958	228 202	19 713 160

53 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 potential losses for the Group.

The control and the efficient management of risk play a key role in the balanced and sustained development of Banco Montepio. In addition to contributing to the optimization of the profitability/risk binomial of the various lines of business, they also ensure the maintenance of an adequate risk profile in terms of solvency and liquidity.

The monitoring of these risks is centralized in the Risk Department, the unit responsible for the risk management function of the Group, which regularly informs the 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 Department is responsible for promoting that all Group Companies, including those located abroad, implement risk management systems that are coherent with each other and in accordance with the requirements set forth in the Internal Regulation of the Banco Montepio risk management function, in the Banco Montepio Group's Risk Management Policy and in the remaining applicable internal policies and regulations, without prejudice to the respective legal and regulatory framework. The Risk Department is responsible for monitoring the risk management activity of Group Companies, on a consolidated and individual basis, ensuring the consistency of the risk concepts used, the methodologies for risk identification, measurement and control, the supporting standards and respective risk profile monitoring processes, as well as the compliance with the applicable regulatory and prudential requirements, namely on a consolidated basis. These activities should be directly assured by the risk management functions of those entities, except in those cases where Banco Montepio's Board of Directors decides that the development of these responsibilities by Banco Montepio's Risk Department is more effective and efficient.

Credit risk

Credit Risk is 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.

Self-employed individuals (“Empresários em nome individual” – “ENI”) and Micro businesses are considered retail, being therefore subject to the respective scoring models.

There are also behavioural scoring models for retail portfolios, which are used to monitor the credit portfolio as well as to evaluate new credit proposals, being coupled with software-based scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large Companies, distinguished by activity sectors, such as the tertiary sector, or by ageing of the Company's activity, namely start-up Companies.

Regardless of the typology of the applicable model, any proposal, contract or credit Customer is classified into a single risk scale class, in ascending order of Probability of Default, with this scale being composed of 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 in order to minimize the risk of adverse selection, with risk classes for rejection having been defined.

Intervention limits are also defined for the different decisions, by operation amount and global Customer exposure, type of operation/collateral and assigned risk class. In this context, higher hierarchical positions must approve operations with higher exposures. The levels and limits are approved by the Board of Directors, and the highest decision level corresponds to the Board of Directors. At the intermediate levels the collegial intervention of at least two persons is compulsory, one belonging to the commercial network and the other to the Credit Analysis Department, a body independent of the commercial structure. The Risk Department is the unit responsible for the development of the credit risk models (scoring and rating), and for the monitoring of Banco Montepio 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.10.4).

As part of the calculation of the estimated impairment losses, sensitivity analyses were carried out on the macroeconomic variables considered in the forward-looking models and the following results were obtained:

1. Macroeconomic projection degradation scenario of 10%: impact of 3.11% of total impairment of the loan portfolio;
2. Macroeconomic projection improvement scenario of 10%: impact of -2.93% 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 6.56% of total impairment of the loan portfolio;
2. Parameter improvement scenario of 5%: impact of -6.54% 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:

	2021	2022	2023
Unemployment Rate (2)			
Base Scenario	6.76%	5.89%	5.61%
Worst-case Scenario	6.76%	11.22%	10.66%
Best-case Scenario	6.76%	5.84%	5.44%
GDP Growth Rate (2)			
Base Scenario	3.76%	3.95%	2.13%
Worst-case Scenario	3.76%	-1.04%	2.70%
Best-case Scenario	3.76%	5.92%	2.17%
Growth Rate of Direct Investment in Assets (3)			
Base Scenario	1540.00%	27.08%	-13.66%
Worst-case Scenario	1540.00%	8.33%	8.33%
Best-case Scenario	1540.00%	20.83%	-1.72%
Private Consumption Expenditure Growth Rate (2)			
Base Scenario	6.31%	3.11%	2.10%
Worst-case Scenario	6.31%	-0.56%	2.30%
Best-case Scenario	6.31%	4.67%	1.84%
Government Balance Growth Rate as a Percentage of GDP (1)			
Base Scenario	15.70%	54.39%	41.28%
Worst-case Scenario	15.70%	-8.79%	46.92%
Best-case Scenario	15.70%	67.57%	52.90%
PSI Index Growth Rate (4)			
Base Scenario	21.14%	-1.41%	2.29%
Worst-case Scenario	21.14%	-23.44%	12.06%
Best-case Scenario	21.14%	8.10%	0.38%

(1) Source: Eurostat; Projections: Moody's Analytics
(2) Source: National Institute of Statistics; Projections: Moody's Analytics
(3) Source: International Monetary Fund; Projections Moody's Analytics
(4) Source: SIX Financial Information; Projections Moody's Analytics

In order to address the uncertainty associated with the current economic context, largely influenced by the military conflict taking place in Ukraine, and the respective potential impact on the quantification of the impairment of the customer loan portfolio, the Group reviewed the probabilities of occurrence of macroeconomic scenarios, with the following percentages currently being considered:

1. Baseline scenario, with 55% probability of occurrence (60% in December 2021);

2. Pessimistic scenario, with 35% probability of occurrence (20% in December 2021);

3. Optimistic scenario, with 10% probability of occurrence (20% in December 2021).

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 46 thousand with reference to 30 June 2022).

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 2,448,780 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 2022	Dec 2021
Loans and deposits at credit institutions payable on demand	48 561	67 360
Other loans and advances to credit institutions	170 403	229 065
Loans and advances to customers	11 920 990	11 667 688
Financial assets held for trading	16 234	7 582
Financial assets at fair value through profit or loss	9 068	9 768
Financial assets at fair value through other comprehensive income	99 628	101 128
Hedging derivatives	5 260	5 411
Other financial assets at amortized cost	4 127 844	3 004 196
Other assets	81 939	76 406
Guarantees granted	494 523	479 831
Irrevocable credit lines	627 079	694 072
Revocable credit lines	881 575	845 581
	18 483 104	17 188 088

The analysis of the main credit risk exposures by sector of activity, as at 30 June 2022, can be analysed as follows:

(Euro thousand)

	Jun 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		Hedging derivatives	Other financial assets at amortised cost		Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Grosse value	Impairment	Grosse value	Impairment	Book value	Book value	Grosse value	Impairment	Book value	Grosse value	Impairment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	116 564	5 224	-	-	5 052	50	-	-	-	1 610	6 270	71
Extractive Industries	-	-	-	18 759	236	-	-	-	-	-	2 398	-	1 424	2 634	14
Manufacturing industries	-	-	-	1 175 165	96 821	-	530	5 016	15	-	484	-	25 466	98 356	2 002
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	101 137	8 476	-	-	-	-	-	-	-	985	9 606	32
Water supply	-	-	-	75 574	1 412	-	-	-	-	-	-	-	2 105	2 904	13
Construction	-	-	-	453 619	57 527	-	151	-	-	-	-	-	112 414	87 930	8 280
Wholesale and retail trade	-	-	-	933 503	73 697	-	8 000	-	-	-	-	-	47 284	137 425	1 468
Transport and storage	-	-	-	399 332	15 891	-	-	-	-	-	-	-	6 163	17 188	581
Accommodation and catering activities	-	-	-	602 319	21 926	-	-	-	-	-	-	-	10 214	29 040	391
Information and Communication	-	-	-	65 670	2 764	-	-	-	-	5 260	-	-	2 937	18 581	242
Financial and insurance activities	48 561	170 792	389	458 018	92 375	11 173	-	9 479	496	-	-	-	224 625	21 748	131
Real estate activities	-	-	-	596 153	28 497	-	78	-	-	-	-	-	16 045	90 854	1 090
Consulting, scientific, technical and similar	-	-	-	249 769	6 396	-	-	-	-	-	-	-	18 514	34 535	205
Administrative and supporting service activities	-	-	-	123 163	3 409	-	129	-	-	-	-	-	5 343	25 951	171
Public administration and defence, compulsory social security	-	-	-	29 885	566	5 061	-	70 833	132	-	4 132 115	7 153	113	404	9
Education	-	-	-	66 569	2 064	-	-	-	-	-	-	-	201	5 522	24
Healthcare services and social support	-	-	-	302 720	5 706	-	-	4 064	23	-	-	-	2 187	19 609	207
Artistic activities, shows and recreational	-	-	-	60 120	2 654	-	-	-	-	-	-	-	10 045	6 180	481
Other services	-	-	-	180 656	28 346	-	126	-	-	-	-	-	3 289	12 342	5 965
Retail						-									
Mortgage Loans	-	-	-	5 663 784	34 068	-	-	1 191	2	-	-	-	-	-	-
Others	-	-	-	763 335	26 769	-	54	4 738	27	-	-	-	3 559	-	718
	48 561	**170 792**	**389**	**12 435 814**	**514 824**	**16 234**	**9 068**	**100 373**	**745**	**5 260**	**4 134 997**	**7 153**	**494 523**	**627 079**	**22 095**

The analysis of the mains credit risk exposures by sector of activity, as at 31 December 2021, can be analysed as follows:

(Euro thousand)

Activity	Dec 2021														
	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		Hedging derivatives	Other financial assets at amortised cost		Guarantees provided	Irrevocable lines of credit	Provisions for off-balance sheet liabilities
	Book value	Grosse value	Impair ment	Grosse value	Impairme nt	Book value	Book value	Grosse value	Impair ment	Book value	Grosse value	Impair ment	Off-balance sheet value		Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	104 781	5 223	-	-	5 126	53	-	-	-	947	6 286	-
Extractive Industries	-	-	-	16 232	589	-	-	-	-	-	-	-	1 314	2 535	124
Manufacturing industries	-	-	-	1 030 727	87 057	-	845	-	-	-	-	-	24 544	117 864	8
Electricity generation and distribution, gas, steam and air conditioning	-	-	-	84 765	5 208	-	-	3 995	444	-	-	-	1 073	11 002	1 661
Water supply	-	-	-	67 766	1 310	-	-	-	-	-	-	-	1 926	6 056	5
Construction	-	-	-	447 676	65 506		470	-	-	-	-	-	102 402	96 886	13
Wholesale and retail trade	-	-	-	859 602	74 691	-	5 163	-	-	-	-	-	40 742	149 636	7 666
Transport and storage	-	-	-	393 291	19 558	-	-	-	-	-	-	-	6 099	16 871	1 540
Accommodation and catering activities	-	-	-	595 740	26 944	-	-	-	-	-	-	-	8 966	27 879	188
Information and Communication	-	-	-	63 083	2 431	-	-	-	-	5 411	-	-	1 725	24 559	569
Financial and insurance activities	67 360	229 529	464	492 837	94 249	7 582		9 388	1 560	-		-	231 750	19 212	122
Real estate activities	-	-	-	617 246	27 599		87	-	-	-	-	-	17 080	115 413	273
Consulting, scientific, technical and similar	-	-	-	245 467	6 700	-	2 614	-	-	-	-	-	15 958	32 293	1 006
Administrative and supporting service activities	-	-	-	122 026	4 107	-	263	-	-	-	-	-	5 497	26 529	289
Public administration and defence, compulsory social security	-	-	-	37 629	573		-	74 408	141	-	3 009 601	5 405	112	311	913
Education	-	-	-	63 399	2 485	-	-	-	-	-	-	-	200	4 783	13
Healthcare services and social support	-	-	-	279 399	8 262	-	-	4 091	24	-	-	-	1 653	18 184	36
Artistic activities, shows and recreational	-	-	-	60 403	3 108	-	-	-	-	-	-	-	10 775	8 305	399
Other services	-	-	-	154 284	17 379	-	126	-	-	-	-	-	3 382	9 468	683
Retail															5 023
Mortgage Loans	-	-	-	5 679 811	38 526	-	-	1 315	2	-	-	-	-	-	-
Others	-	-	-	773 301	30 272	-	200	5 658	629	-	-	-	3 686	-	731
	67 360	**229 529**	**464**	**12 189 465**	**521 777**	**7 582**	**9 768**	**103 981**	**2 853**	**5 411**	**3 009 601**	**5 405**	**479 831**	**694 072**	**21 262**

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 494,523 thousand (31 December 2021: Euro 479,831 thousand), the irrevocable credit facilities amounting to Euro 627,079 thousand (31 December 2021: Euro 694,072 thousand) and the revocable credit facilities in the amount of Euro 881,575 thousand (31 December 2021: Euro 845,581 thousand), broken down between collective and individual analysis, is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
Impacts by stage	**Grosse value**	**Impairment**	**Net value**	**Grosse value**	**Impairment**	**Net value**
Collective analysis	**10 806 501**	**184 088**	**10 622 413**	**10 598 513**	**191 867**	**10 406 646**
Stage 1	8 985 332	24 674	8 960 658	8 780 406	21 695	8 758 711
Stage 2	1 532 973	39 555	1 493 418	1 519 143	42 375	1 476 768
Stage 3	288 196	119 859	168 337	298 964	127 797	171 167
Individual analysis	**3 632 490**	**352 831**	**3 279 659**	**3 610 437**	**351 172**	**3 259 265**
Stage 1	2 250 976	12 997	2 237 979	1 982 421	11 761	1 970 660
Stage 2	589 982	16 678	573 304	836 536	26 603	809 933
Stage 3	791 532	323 156	468 376	791 480	312 808	478 672
	14 438 991	**536 919**	**13 902 072**	**14 208 950**	**543 039**	**13 665 911**

As at 30 June 2022 and 31 December 2021, the detail of the application of Stages to other financial assets is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
Impacts by stage	Grosse value	Impairment	Net value	Grosse value	Impairment	Net value
Amortizado cost (AC)	**4 134 997**	**7 153**	**4 127 844**	**3 009 601**	**5 405**	**3 004 196**
Stage 1	4 119 884	6 932	4 112 952	2 994 627	5 042	2 989 585
Stage 2	15 113	221	14 892	14 974	363	14 611
Fair value (FVOIC)	**100 373**	**745**	**99 628**	**103 980**	**2 853**	**101 127**
Stage 1	98 043	290	97 753	101 493	2 103	99 390
Stage 2	2 330	455	1 875	2 487	750	1 737
Loans to credit institution	**170 792**	**389**	**170 403**	**229 529**	**464**	**229 065**
Stage 1	169 985	364	169 621	219 726	319	219 407
Stage 2	807	25	782	9 803	145	9 658
	4 406 162	**8 287**	**4 397 875**	**3 343 110**	**8 722**	**3 334 388**

As at 30 June 2022 and 31 December 2021, the detail of the loans and advances subject to collective analysis, structured by segment and by Stage, is as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
Segment	Grosse value	Impairment	Net value	Grosse value	Impairment	Net value
Retail	**6 838 112**	**57 894**	**6 780 218**	**6 853 094**	**65 024**	**6 788 070**
Mortgage loans	5 769 700	27 706	5 741 994	5 775 736	35 356	5 740 380
Stage 1	4 926 955	854	4 926 101	5 030 978	608	5 030 370
Stage 2	771 248	5 367	765 881	652 167	6 286	645 881
Stage 3	71 497	21 485	50 012	92 591	28 462	64 129
Consumer credit	801 859	28 457	773 402	811 469	28 083	783 386
Stage 1	693 783	3 134	690 649	694 457	2 443	692 014
Stage 2	68 377	5 159	63 218	77 168	4 600	72 568
Stage 3	39 699	20 164	19 535	39 844	21 040	18 804
Credit cards	266 553	1 731	264 822	265 889	1 585	264 304
Stage 1	248 068	648	247 420	244 940	536	244 404
Stage 2	15 244	66	15 178	18 615	205	18 410
Stage 3	3 241	1 017	2 224	2 334	844	1 490
Corporate	**3 968 389**	**126 194**	**3 842 195**	**3 745 419**	**126 843**	**3 618 576**
Non-Construction	3 561 716	112 515	3 449 201	3 351 644	113 071	3 238 573
Stage 1	2 818 068	18 284	2 799 784	2 512 375	16 614	2 495 761
Stage 2	609 514	26 448	583 066	709 042	29 249	679 793
Stage 3	134 134	67 783	66 351	130 227	67 208	63 019
Construction	406 673	13 679	392 994	393 775	13 772	380 003
Stage 1	298 457	1 754	296 703	297 656	1 494	296 162
Stage 2	68 591	2 516	66 075	62 151	2 035	60 116
Stage 3	39 625	9 409	30 216	33 968	10 243	23 725
	10 806 501	**184 088**	**10 622 413**	**10 598 513**	**191 867**	**10 406 646**

As at 30 June 2022 and 31 December 2021, impairment is detailed as follows:

(Euro thousand)

	Jun 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	3 618 797	347 843	3 968 391	126 194	7 587 188	474 037	7 113 151
Retail - mortgage loans	6 417	822	5 769 699	27 706	5 776 116	28 528	5 747 588
Retail - other loans	7 276	4 166	1 068 411	30 188	1 075 687	34 354	1 041 333
	3 632 490	352 831	10 806 501	184 088	14 438 991	536 919	13 902 072

(Euro thousand)

	Dec 2021						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	3 593 093	345 196	3 745 418	126 843	7 338 511	472 039	6 866 472
Retail - mortgage loans	6 748	1 046	5 775 737	35 356	5 782 485	36 402	5 746 083
Retail - other loans	10 596	4 930	1 077 358	29 668	1 087 954	34 598	1 053 356
	3 610 437	351 172	10 598 513	191 867	14 208 950	543 039	13 665 911

As at 30 June 2022 and 31 December 2021, the transfer between Stages, related to loans and advances to customers (gross loans and advances and impairment) is presented as follows:

(Euro thousand)

	Jun 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	660 018	(654 792)	(5 226)	-
Transfer to stage 2	(631 634)	667 711	(36 077)	-
Transfer to stage 3	(28 789)	(49 395)	78 184	-
Write-Offs	(28)	(751)	(142 898)	(143 677)
Exposure of new net derecognition credits, refunds and other variations	473 914	(195 497)	95 301	373 718
Gross value at the end of financial period	11 236 308	2 122 955	1 079 728	14 438 991

(Euro thousand)

	Jun 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	3 935	(3 901)	(34)	-
Transfer to stage 2	(13 737)	15 596	(1 859)	-
Transfer to stage 3	(12 188)	(13 402)	25 590	-
Write-Offs	(28)	(751)	(142 898)	(143 677)
Exposure of new net derecognition credits, refunds and other variations	26 233	(10 287)	121 611	137 557
Impairment loss at the end of financial period	37 671	56 233	443 015	536 919

(Euro thousand)

	Dec 2021			
	Stage 1	Stage 2	Stage 3	Total
Gross value at beginning of the period	9 240 107	3 740 016	1 414 895	14 395 018
Transfer to stage 1	1 361 842	(1 355 795)	(6 047)	-
Transfer to stage 2	(403 420)	417 342	(13 922)	-
Transfer to stage 3	(35 271)	(156 412)	191 683	-
Write-Offs	(521)	(1 199)	(292 906)	(294 626)
Exposure of new net derecognition credits, refunds and other variations	600 090	(288 273)	(203 259)	108 558
Gross value at the end of financial period	10 762 827	2 355 679	1 090 444	14 208 950

(Euro thousand)

	Dec 2021			
	Stage 1	Stage 2	Stage 3	Total
Impairment loss at the beginning of the period	28 300	108 623	663 809	800 732
Transfer to stage 1	5 679	(5 656)	(23)	-
Transfer to stage 2	(10 791)	11 240	(449)	-
Transfer to stage 3	(9 423)	(38 552)	47 975	-
Write-Offs	(521)	(1 199)	(292 906)	(294 626)
Exposure of new net derecognition credits, refunds and other variations	20 212	(5 478)	22 199	36 933
Impairment loss at the end of financial period	33 456	68 978	440 605	543 039

As at 30 June 2022 and 31 December 2021, the fair value analysis of collaterals associated with the Group's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collateral	Jun 2022	Dec 2021
Individual analysis		
Securities and other financial assets	192 778	145 092
Real Estate - Mortgage loans	11 543	12 436
Real Estate - Construction and CRE	1 915 509	2 096 777
Other real estate	1 687 419	1 714 721
Other guarantees	428 211	458 920
Collective analysis - Stage 1		
Securities and other financial assets	771 734	416 670
Real Estate - Mortgage loans	10 820 705	11 134 569
Real Estate - Construction and CRE	586 680	503 130
Other real estate	912 936	795 665
Other guarantees	570 529	351 445
Collective analysis - Stage 2		
Securities and other financial assets	83 089	76 282
Real Estate - Mortgage loans	1 840 116	1 346 240
Real Estate - Construction and CRE	149 462	150 022
Other real estate	434 779	529 691
Other guarantees	43 502	37 392
Collective analysis - Stage 3		
Securities and other financial assets	4 554	3 044
Real Estate - Mortgage loans	142 521	169 224
Real Estate - Construction and CRE	44 078	36 889
Other real estate	73 259	68 177
Other guarantees	26 659	17 350
	20 740 063	**20 063 737**

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 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

	Jun 2022		Dec 2021	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate	6 126 859	378 213	5 853 034	369 900
Construction and CRE	1 460 329	95 824	1 485 477	102 139
Retail - Mortgage loans	5 776 116	28 528	5 782 485	36 402
Retail - Other loans	1 075 687	34 354	1 087 954	34 598
	14 438 991	536 919	14 208 950	543 039

The live loans and advances portfolio, by segment and by production year, as at 30 June 2022, is presented as follows:

(Euro thousand)

	Corporate			Construction and CRE			Retail - Mortage loans			Retail - Other loans		
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	573	29 619	2 147	609	51 756	18 280	37 145	1 033 528	6 734	19 750	16 174	326
2005	158	11 191	491	146	9 983	3 261	9 536	435 881	2 897	5 216	5 275	126
2006	225	21 036	1 954	149	17 045	5 402	11 517	542 234	4 445	13 549	18 686	3 283
2007	370	12 943	1 103	181	30 623	7 526	11 845	551 897	5 101	36 349	40 199	890
2008	1 149	34 821	2 120	347	16 024	2 808	6 224	289 053	2 643	57 299	74 417	559
2009	1 803	61 982	2 323	390	23 667	3 888	3 377	176 368	1 254	45 151	49 139	1 808
2010	1 641	66 648	3 201	292	26 281	5 595	3 409	202 433	1 299	32 887	22 312	599
2011	2 138	86 021	2 163	369	14 955	2 547	1 261	72 375	404	26 645	24 337	1 594
2012	2 086	68 910	4 740	360	23 808	6 836	769	44 720	261	19 068	12 045	479
2013	3 839	207 455	31 022	322	21 084	1 777	992	56 263	142	18 476	19 532	1 048
2014	4 921	297 239	32 282	1 068	63 385	3 545	1 184	70 419	151	21 640	26 360	2 293
2015	5 448	258 651	84 949	589	22 635	1 513	1 364	82 786	151	19 348	28 579	2 267
2016	6 995	440 638	20 346	954	66 993	5 409	1 949	139 562	438	31 056	43 916	1 871
2017	8 485	356 197	20 779	859	194 888	7 700	2 694	205 101	319	24 795	50 198	1 894
2018	10 791	405 699	49 775	1 601	77 192	2 783	2 838	227 599	464	36 908	86 294	2 298
2019	11 481	550 099	40 486	1 613	132 847	6 668	3 457	290 167	769	31 333	105 800	3 531
2020	13 873	929 335	43 217	1 819	232 030	5 578	3 769	353 713	438	30 205	140 895	4 268
2021	16 038	918 603	23 571	2 318	236 017	3 084	6 601	680 008	414	41 827	214 977	4 017
2022	12 847	1 369 772	11 544	1 686	199 116	1 624	2 939	322 009	204	18 071	96 552	1 203
	104 861	6 126 859	378 213	15 672	1 460 329	95 824	112 870	5 776 116	28 528	529 573	1 075 687	34 354

The live loans and advances portfolio, by segment and by production year, as at 31 December 2021, is presented as follows:

(Euro thousand)

	Corporate			Construction and CRE			Retail - Mortage loans			Retail -Other loans		
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	658	35 925	1 223	634	55 729	19 903	39 015	1 117 385	8 452	20 502	16 840	495
2005	185	12 526	609	160	13 124	3 710	9 898	462 546	3 916	5 366	5 285	149
2006	270	24 143	1 949	160	17 767	5 851	11 976	575 170	6 708	13 843	19 558	3 662
2007	482	24 389	1 216	206	33 797	9 277	12 354	585 519	6 820	37 374	41 690	933
2008	1 257	42 021	1 886	368	16 432	1 396	6 420	304 371	3 127	58 866	77 269	610
2009	2 001	79 867	2 795	419	24 498	3 889	3 486	186 193	1 434	46 504	51 000	1 873
2010	1 817	76 721	4 101	327	29 917	6 078	3 545	214 278	1 564	33 898	23 335	716
2011	2 435	95 891	3 294	383	15 688	2 234	1 309	76 413	468	27 462	25 403	1 760
2012	2 106	82 943	5 417	366	24 575	6 952	807	47 585	421	19 725	12 842	465
2013	4 283	248 629	30 948	388	24 554	1 726	1 038	60 129	243	19 219	21 000	1 238
2014	5 798	369 934	32 428	1 450	67 484	3 731	1 233	75 025	195	22 812	29 446	2 694
2015	6 025	304 369	83 867	670	26 935	1 669	1 452	90 178	146	20 538	33 623	2 875
2016	7 936	491 740	29 880	1 012	80 612	10 231	2 041	148 682	398	32 822	51 752	2 551
2017	10 616	411 499	25 428	1 004	242 770	8 248	2 818	219 124	332	26 731	59 478	2 068
2018	12 026	479 002	46 694	1 741	90 582	2 757	2 973	242 758	525	39 325	99 311	2 292
2019	12 441	650 128	40 062	1 964	172 173	7 429	3 604	307 446	900	33 189	120 526	3 372
2020	15 683	1 055 832	36 557	2 045	268 773	4 402	3 866	370 281	366	33 212	160 533	3 563
2021	19 794	1 367 475	21 546	2 515	280 067	2 656	6 686	699 402	387	43 925	239 063	3 282
	105 813	5 853 034	369 900	15 812	1 485 477	102 139	114 521	5 782 485	36 402	535 313	1 087 954	34 598

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 30 June 2022 and 31 December 2021, is analysed as follows:

(Euro thousand)

	Jun 2022									
	Corporate		Construction and CRE		Retail - Mortage loans		Retail - Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 813 387	271 206	805 410	76 637	6 417	822	7 276	4 166	3 632 490	352 831
Collective	3 313 472	107 007	654 919	19 187	5 769 699	27 706	1 068 411	30 188	10 806 501	184 088
	6 126 859	378 213	1 460 329	95 824	5 776 116	28 528	1 075 687	34 354	14 438 991	536 919

(Euro thousand)

	Dec 2021									
	Corporate		Construction and CRE		Retail - Mortage loans		Retail - Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 751 977	262 510	841 116	82 687	6 748	1 046	10 596	4 930	3 610 437	351 173
Collective	3 101 057	107 390	644 361	19 452	5 775 737	35 356	1 077 358	29 668	10 598 513	191 866
	5 853 034	369 900	1 485 477	102 139	5 782 485	36 402	1 087 954	34 598	14 208 950	543 039

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for the Companies, as at 30 June 2022 and 31 December 2021, is analysed as follows:

(Euro thousand)

	Jun 2022											
	Construction		Industry		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	354 841	63 734	574 207	76 149	239 008	40 482	468 536	23 683	1 982 205	143 795	3 618 797	347 843
Collective	406 674	13 678	859 788	30 487	970 110	36 617	250 499	5 925	1 481 320	39 487	3 968 391	126 194
	761 515	77 412	1 433 995	106 636	1 209 118	77 099	719 035	29 608	3 463 525	183 282	7 587 188	474 037

(Euro thousand)

	Dec 2021											
	Construction		Industry		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	356 536	61 460	483 925	63 910	231 249	43 334	499 788	22 442	2 021 595	154 051	3 593 093	345 197
Collective	393 774	13 771	793 257	30 043	910 601	34 477	251 260	6 183	1 396 526	42 368	3 745 418	126 842
	750 310	75 231	1 277 182	93 953	1 141 850	77 811	751 048	28 625	3 418 121	196 419	7 338 511	472 039

The amount of restructured loans and advances by stage and by segment, as at 30 June 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

	Jun 2022									
	Corporate		Construction and CRE		Retail - Mortage loans		Retail - Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Stage 2	72 007	3 888	13 370	584	30 273	252	7 201	526	122 851	5 250
Stage 3	399 146	190 865	137 936	43 881	29 658	9 261	16 100	8 674	582 840	252 681
	471 153	194 753	151 306	44 465	59 931	9 513	23 301	9 200	705 691	257 931

	Dec 2021									
	Corporate		Construction and CRE		Retail - Mortage loans		Retail - Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Stage 2	29 256	1 639	9 949	420	21 698	133	7 346	324	68 249	2 516
Stage 3	370 707	181 007	124 670	49 475	41 789	12 919	18 274	9 800	555 440	253 201
	399 963	182 646	134 619	49 895	63 487	13 052	25 620	10 124	623 689	255 717

The gross exposure of performing and non-performing loans and advances, as at 30 June 2022 and 31 December 2021, is analysed as follows:

(Euro thousand)

	Jun 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)	4 772 780	-	-	33 000	33 000	33 000	-	11 626	-	14 272	-	-	-
Outras exposições de crédito em balanço (b)	13 777 802	50 525	122 902	923 858	923 858	923 146	565 029	83 731	5 248	413 483	241 752	395 032	361 571
Off-balance sheet exposures (c)	2 003 177	4 487	38	124 645	124 645	124 645	487	7 298	1	14 797	4	-	-

(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 2021												
	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)	3 645 187	-	-	33 000	33 000	33 000	-	12 311	-	14 272	-	-	-
Outras exposições de crédito em balanço (b)	14 774 758	31 812	68 070	942 302	942 302	941 322	555 721	92 542	2 514	411 375	253 180	414 074	290 678
Off-balance sheet exposures (c)	2 019 484	1 341	280	117 002	117 002	117 002	419	6 738	2	14 524	21	-	-

(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 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€	4 520	588 461	14 600	775 105	90 085	12 337 021	237	6 613
>= 0,5 M€ and <1M€	508	354 704	295	194 369	582	361 439	1	500
>= 1 M€ and <5M€	522	1 133 364	178	301 780	66	101 741	-	-
>= 5 M€ and <10M€	83	576 869	13	94 387	2	14 683	-	-
>= 10 M€ and <20M€	44	589 715	2	28 578	-	-	-	-
>= 20 M€ and <50M€	19	533 143	3	116 000	-	-	-	-
>= 50M€	14	1 818 163	3	201 080	-	-	-	-
	5 710	5 594 419	15 094	1 711 299	90 735	12 814 884	238	7 113

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 2021, is presented as follows:

(Euro thousand)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	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 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
Segment/ Ratio	Number of properties	Total exposure	Impairment	Number of properties	Total exposure	Impairment
Corporate						
Without associated property (*)	-	4 805 804	263 003	-	4 507 606	258 625
< 60%	2 307	563 659	44 752	2 370	486 691	32 128
>= 60% and < 80%	658	359 910	29 389	688	387 690	35 152
>= 80% and < 100%	681	361 079	37 866	803	419 585	39 340
>= 100%	22	36 407	3 203	7	51 462	4 655
Construction and CRE						
Without associated property (*)	-	626 461	26 352	-	569 555	25 350
< 60%	953	405 307	19 717	980	448 088	22 800
>= 60% and < 80%	415	265 553	16 649	456	254 997	16 863
>= 80% and < 100%	601	133 867	22 856	634	186 439	27 184
>= 100%	72	29 142	10 250	66	26 398	9 944
Mortgage						
Without associated property (*)	-	34 879	1 838	-	36 076	2 586
< 60%	61 896	2 690 638	8 606	61 434	2 621 080	9 297
>= 60% and < 80%	22 013	1 924 350	5 954	22 990	1 968 716	8 728
>= 80% and < 100%	6 556	1 096 282	7 746	7 067	1 119 245	10 632
>= 100%	270	29 967	4 385	319	37 368	5 159

(*) 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 33), as at 30 June 2022 and 31 December 2021, are presented as follows:

(Euro thousand)

Assets	Jun 2022		
	Number of properties	Fair value of assets	Book value
Land	**1 298**	**252 080**	**229 907**
Urban	1 010	208 035	189 088
Rural	288	44 045	40 819
Buildings under construction	**407**	**59 425**	**52 829**
Commercial	61	6 750	6 476
Residential	248	52 161	45 850
Others	98	514	503
Constructed buildings	**1 288**	**147 922**	**133 041**
Commercial	600	83 382	75 623
Residential	345	58 253	50 514
Others	343	6 287	6 904
	2 993	459 427	415 777

(Euro thousand)

Assets	Dec 2021		
	Number of properties	Fair value of assets	Book value
Land	**1 451**	**280 007**	**253 865**
Urban	1 177	233 839	210 219
Rural	274	46 168	43 646
Buildings under construction	**394**	**59 515**	**52 918**
Commercial	43	5 391	5 185
Residential	253	53 440	47 083
Others	98	684	650
Constructed buildings	**1 524**	**175 028**	**156 807**
Commercial	715	99 905	89 625
Residential	410	67 672	59 226
Others	399	7 451	7 956
	3 369	514 550	463 590

The time elapsed since the receipt in recovery/execution of real estate, recorded in the caption Other assets (note 33), as at 30 June 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

Elapsed time since recovery/execution	Jun 2022				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**1 841**	**4 434**	**68 351**	**155 281**	**229 907**
Urban	246	3 493	63 598	121 751	189 088
Rural	1 595	941	4 753	33 530	40 819
Buildings under construction	**326**	**401**	**20 519**	**31 583**	**52 829**
Commercial	166	59	2 473	3 778	6 476
Residential	160	342	17 878	27 470	45 850
Others	-	-	168	335	503
Constructed buildings	**16 113**	**20 455**	**17 380**	**79 093**	**133 041**
Commercial	5 773	15 373	9 686	44 791	75 623
Residential	9 925	3 121	7 398	30 070	50 514
Others	415	1 961	296	4 232	6 904
	18 280	25 290	106 250	265 957	415 777

(Euro thousand)

Elapsed time since recovery/execution	Dec 2021				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**2 467**	**8 037**	**87 904**	**155 457**	**253 865**
Urban	908	7 322	79 536	122 453	210 219
Rural	1 559	715	8 368	33 004	43 646
Buildings under construction	**59**	**4 352**	**17 984**	**30 523**	**52 918**
Commercial	59	358	2 518	2 250	5 185
Residential	-	3 819	15 466	27 798	47 083
Others	-	175	-	475	650
Constructed buildings	**25 984**	**16 025**	**29 237**	**85 561**	**156 807**
Commercial	14 143	8 891	19 520	47 071	89 625
Residential	11 201	4 756	8 999	34 270	59 226
Others	640	2 378	718	4 220	7 956
	28 510	28 414	135 125	271 541	463 590

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 Department 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 Department. Maximum exposure limits are established per Customer/group of Customers related to each other, activity sectors, as well as limits for the concentration of the largest depositors.

Market risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and/or prices of the different financial instruments that compose it, considering both the existing correlations between them and the respective volatilities.

The Group regularly calculates its “VaR” both for its own trading portfolio as well as for that of the financial assets at fair value through other comprehensive income, with same being determined based on a 10-day horizon and a 99% confidence level, using the historical simulation method. The types of risk considered in this methodology are the interest rate, exchange rate, price, spread and commodities’ risks.

The Group's investment portfolio is mainly concentrated in bonds, and as at 30 June 2022 this represented 95.9% (31 December 2021: 93.5%) 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 2022 and 31 December 2021.

In terms of credit quality of debt securities, circa 97.4% of the portfolio is investment grade (31 December 2021: 97.8%). Of note are the Spanish, Portuguese and Italian sovereign bonds with ratings BBB+, BBB and BBB-, respectively, and that represent 91.3% (31 December 2021: 94.0%) of the bond portfolio. Concerning the composition of the portfolio, one verifies a decrease in the weight of the exposure to Italian sovereign debt from 40.5% to 36.8%, offset by an increase in the weight of the exposure to Portuguese sovereign from 22.6% to 26.3%. The inclusion of debt issued by AAA issuers in 2022 (2.7% of the total) is to be highlighted.

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 2022		Dec 2021		Change	
	Amount	%	Amount	%	Amount	%
AAA	112 347	2.7	-	-	112 347	-
AA+	884	-	453	-	431	95.1
AA	25 988	0.6	-	-	25 988	-
AA-	1 384	-	454	-	930	204.8
A+	102 255	2.4	406	-	101 849	25 086.0
A	-	-	101 804	3.3	(101 804)	(100.0)
BBB+	1 191 191	28.2	955 731	30.9	235 460	24.6
BBB	1 106 205	26.2	695 932	22.5	410 273	59.0
BBB-	1 571 941	37.3	1 273 794	41.2	298 147	23.4
BB	-	-	-	-	-	-
BB-	14 545	0.3	14 987	0.5	(442)	(2.9)
B-	78 053	1.8		-	78 053	-
CCC		-	36 215	1.2	(36 215)	(100.0)
NR	15 246	0.4	15 500	0.4	(254)	(1.6)
Total	4 220 039	99.9	3 095 276	100.0	1 124 763	36.3

The position in bonds recognized in the portfolio of Financial assets at fair value through other comprehensive income stood at Euro 87,134 thousand (31 December 2021: Euro 91,080 thousand) and the position in Other financial assets at amortized cost stood at Euro 4,127,844 thousand (31 December 2021: Euro 3,004,196 thousand) and the position in Financial assets held for trading stood at Euro 5,061 thousand.

Regarding the trading portfolio, as at 30 June 2022, the main VaR indicators are as follows:

(Euro thousand)

	Jun 2022	Average	Minimum	Maximum	Dec 2021
Market VaR	257	420	7	996	7
Interest rate risk	168	357	-	955	-
Exchange risk	32	145	-	233	6
Price risk	12	36	6	84	-
Spread Risk	80	125	-	173	-
Diversification effect	(35)	(242)	-	448	-

The value of the VaR of the trading portfolio increased from 31 December 2021 to 30 June 2022 given the resumption of the regular negotiation of securities following, in the scope of the negotiation strategy, the closing of positions in portfolio shares and bonds at the end of the previous year. It should be noted that the VaR of the trading portfolio remained at moderate levels during the half year, despite the general increase in volatility levels resulting from the exogenous shocks of the war in Ukraine and the general rise in prices, a situation that can be understood in the context of the risk mitigation measures inherent to the aforementioned situation.

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 2022 and 31 December 2021:

(Euro thousand)

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
30 June 2022					
Assets					
Debt securities	42 679	56 762	58 004	2 123 181	1 968 544
Loans and advances	6 403 466	3 219 367	1 333 056	1 128 029	491 821
Others	30 379	-	-	-	63 515
Off-balance sheet	986	756 654	22 008	21 332	-
Total	6 477 510	4 032 783	1 413 068	3 272 542	2 523 880
Liabilities					
Debt securities issued	292 184	812 254	155 972	501 267	14 506
Term deposits	1 697 345	907 145	1 580 299	2 110 104	-
Others	2 978	-	1 154 898	1 791 662	287 083
Off-balance sheet	768 167	756 654	14	113	1 071
Total	2 760 674	2 476 053	2 891 183	4 403 146	302 660
GAP (Assets - Liabilities)	3 716 836	1 556 730	(1 478 115)	(1 130 604)	2 221 220
31 December 2021					
Assets					
Debt securities	26 612	43 212	23 528	1 186 064	1 875 387
Loans and advances	6 449 591	3 049 157	1 328 189	919 705	390 425
Others	89 599	-	-	-	50 375
Off-balance sheet	1 041	-	756 654	25 018	-
Total	6 566 843	3 092 369	2 108 371	2 130 787	2 316 187
Liabilities					
Debt securities issued	349 223	-	811 226	651 267	36 545
Term deposits	1 718 686	1 107 354	1 471 616	2 041 259	-
Others	195 311	-	-	2 961 326	274 358
Off-balance sheet	758 996	-	15	119	1 145
Total	3 022 216	1 107 354	2 282 857	5 653 971	312 048
GAP (Assets - Liabilities)	3 544 627	1 985 015	(174 486)	(3 523 184)	2 004 139

(Euro thousand)

	Jun 2022				Dec 2021			
	June	Annual Average	Maximum	Minimum	December	Annual Average	Maximum	Minimum
Interest Rate Gap	4 886 067	4 361 090	4 886 067	3 836 113	3 836 113	3 665 365	3 836 113	3 494 618

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the present value of the interest rate mismatch discounted at market interest rates and the discounted value of the same cash flows, simulating parallel shifts of the market interest rate curve.

As at 30 June 2022, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a decrease in the economic value expected from the banking portfolio of circa Euro 45,766 thousand (31 December 2021: decrease of Euro 88,244 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 2022 and financial year 2021, as well as the respective average balances and the income and expenses for the financial year:

(Euro thousand)

	Jun 2022			Dec 2021		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest- generating assets						
Deposits at central banks and other credit institutions	2 316 519	-0,34	(3 936)	2 203 341	-0,33	(7 298)
Other loans and advances to other credit institutions	207 797	2,87	3 002	362 932	0,70	2 591
Loans and advances to customers	12 264 289	1,94	119 770	12 294 397	2,04	254 724
Securities portfolio	3 612 509	0,47	8 599	3 104 502	0,35	10 971
Other assets at fair value	9 517	1,15	55	9 010	1,05	96
Other (derivatives includes)	-	-	3 263	-	-	14 562
	18 410 631	**1,41**	**130 753**	**17 974 182**	**1,51**	**275 646**
Interest- generating liabilities						
Deposits from ECB	2 900 662	-0,77	(11 276)	2 531 639	-0,92	(23 623)
Deposits from other credit institutions	399 731	0,12	246	827 124	0,04	337
Deposits from customers	12 846 034	0,05	3 118	12 533 808	0,08	10 286
Senior debt	1 543 515	0,54	4 179	1 421 161	0,61	8 761
Subordinated debt	216 646	8,66	9 435	216 406	9,09	19 939
Other (derivatives includes)	-	-	4 428	-	-	16 443
	17 906 588	**0,11**	**10 130**	**17 530 138**	**0,18**	**32 143**
Net interest income		**1,30**	**120 623**		**1,34**	**243 503**

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 2022 and 31 December 2021, is analysed as follows:

(Euro thousand)

	Jun 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	1 786 358	6 997	14 568	874	1 133	931	1 810 861
Loans and advances to credit institutions payable on demand	22 107	19 777	-	2 674	939	3 064	48 561
Other loans and advances to credit institutions	56 894	20 607	92 771	16	115	-	170 403
Loans and advances to customers	11 813 741	48 712	57 500	-	-	1 037	11 920 990
Financial assets held for trading	17 132	449	-	-	-	-	17 581
Financial assets at fair value through profit or loss	151 939	-	-	-	-	-	151 939
Financial assets at fair value through other comprehensive income	121 772	-	-	-	-	-	121 772
Hedging derivatives	5 260	-	-	-	-	-	5 260
Other financial assets at amortized cost	3 972 079	97 985	57 780	-	-	-	4 127 844
Investments in associated companies	3 661	-	-	-	-	-	3 661
Non current assets held for sale	11	-	-	-	-	-	11
Non current assets held for sale - Discontinued Opera	87	-	-	-	-	-	87
Investment properties	84 746	-	-	-	-	-	84 746
Other tangible assets	194 057	-	48 179	-	-	-	242 236
Intangible assets	43 577	-	-	-	-	-	43 577
Current tax assets	7 428	-	-	-	-	-	7 428
Deferred Tax Assets	447 858	-	-	-	-	-	447 858
Other assets	630 624	1 047	4 584	-	1 140	-	637 395
Total Assets	**19 359 331**	**195 574**	**275 382**	**3 564**	**3 327**	**5 032**	**19 842 210**
Liabilities by currency							
Deposits from central banks	2 902 643	-	-	-	-	-	2 902 643
Deposits from other credit institutions	357 750	3 062	-	6	154	94	361 066
Deposits from customers	12 726 384	143 826	114 634	2 914	16 531	31 375	13 035 664
Debt securities issued	1 462 147	-	-	-	-	-	1 462 147
Financial liabilities held for trading	12 706	-	-	-	-	-	12 706
Hedging derivatives	480	-	-	-	-	-	480
Non current liabilities held for sale - Discontinued operations	142	-	-	-	-	-	142
Provisions	25 696	-	6 107	-	-	-	31 803
Current tax liabilities	7 274	-	-	-	-	-	7 274
Other subordinated debt	211 289	-	-	-	-	-	211 289
Other liabilities	259 473	3 538	7 394	672	3	4 955	276 035
Total Liabilities	**17 965 984**	**150 426**	**128 135**	**3 592**	**16 688**	**36 424**	**18 301 249**
Exchange forward transactions	-	(47 644)	-	-	12 818	34 565	-
Exchange gap	-	(2 496)	147 247	(28)	(543)	3 173	-
Stress Test	-	499	(29 449)	6	109	(634)	-

(Euro thousand)

	Dec 2021							
	Euro	U. S. Dollar	Angolan Kwanza	Swiss Franc	Pound Sterling	Real Brasileiro	Other foreign currencies	Total amount
Assets by currency								
Cash and deposits at central banks	2 934 603	10 663	16 223	3 241	1 998		1 268	2 967 996
Loans and advances to credit institutions payable on demand	2 512	38 807	-	926	1 106		24 009	67 360
Other loans and advances to credit institutions	88 957	67 485	72 607	16	-	-	-	229 065
Loans and advances to customers	11 579 489	48 495	39 704	-		-	-	11 667 688
Financial assets held for trading	7 582	-	-	-	-	-	-	7 582
Financial assets at fair value through profit or loss	203 427	-	-	-	-	-	-	203 427
Financial assets at fair value through other comprehensive income	123 338	-	-	-	-		-	123 338
Hedging derivatives	5 411	-	-	-	-	-	-	5 411
Other financial assets at amortized cost	2 968 614	22 067	13 515	-	-	-	-	3 004 196
Investments in associated companies	3 952	-	-	-	-	-	-	3 952
Non current assets held for sale	38 862	-	-	-	-	-	-	38 862
Non current assets held for sale - Discontinued Opera	429	-	-	-		-		429
Investment properties	102 933	-	-	-	-	-	-	102 933
Other tangible assets	201 799	-	29 811	-	-	-	-	231 610
Intangible assets	40 150	-	-	-	-	-	-	40 150
Current tax assets	6 714	-	-	-	-	-	-	6 714
Deferred Tax Assets	459 871	-	-	-	-	-	-	459 871
Other assets	517 669	30 978	3 173	681	7	-	68	552 576
Total Assets	**19 286 312**	**218 495**	**175 033**	**4 864**	**3 111**	**-**	**25 345**	**19 713 160**
Liabilities by currency								
Deposits from central banks	2 902 003	-	-	-	-	-	-	2 902 003
Deposits from other credit institutions	527 452	27 137	-	25	87		711	555 412
Deposits from customers	12 501 400	168 735	66 784	2 804	13 714		33 449	12 786 886
Debt securities issued	1 617 125	-	-	-	-	-	-	1 617 125
Financial liabilities held for trading	7 470	-	-	-	-	-	-	7 470
Hedging derivatives	335	-	-	-	-	-	-	335
Non current liabilities held for sale - Discontinued operations	329		-	-			-	329
Provisions	29 124	-	5 009	-	-	-	-	34 133
Current tax liabilities	2 351	-	-	-	-	-	-	2 351
Other subordinated debt	217 265	-	-	-	-	-	-	217 265
Other liabilities	215 445	1 944	6 533	45	80		2 671	226 718
Total Liabilities	**18 020 299**	**197 816**	**78 326**	**2 874**	**13 881**	**-**	**36 831**	**18 350 027**
Exchange forward transactions	-	(22 343)	-	(2 033)	10 711		11 753	-
Exchange gap	-	(1 664)	96 707	(43)	(59)	-	267	-
Stress Test	-	**333**	**(19 341)**	**8**	**12**		**(53)**	-

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 2022, the LCR value was 262.7% (31 December 2021: 264.1%).

As regards the net stable funding ratio, designated NSFR, same stood at 121.1% (31 December 2021: 125.3%).

As at 30 June 2022, the Group's financing structure was as follows:

(Euro thousand)

	Jun 2022	Undetermined	Up to 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 902 643	-	-	-	-	2 902 643
Deposits from other credit institutions	361 066	-	61 059	-	-	300 007
Deposits from customers	13 035 664	-	8 147 601	834 096	1 534 880	2 519 087
Debt securities issued	1 462 147	-	-	5 259	750 000	706 888
Financial liabilities held for trading	12 706	-	59	60	194	12 393
Financial liabilities held for sale - discontinuing operations	142	142	-	-	-	-
Other subordinated debt	211 289	-	-	-	4 966	206 323
Other liabilities	276 035	276 035	-	-	-	-
Total funding	**18 261 692**	**276 177**	**8 208 719**	**839 415**	**2 290 040**	**6 647 341**

As at 31 December 2021, the Group's financing structure was as follows:

(Euro thousand)

	Dec 2021	Undetermined	Up to 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 902 003	-	-	-	-	2 902 003
Deposits from other credit institutions	555 412	-	255 405	-	-	300 007
Deposits from customers	12 786 886	-	7 891 904	1 105 137	1 354 223	2 435 622
Debt securities issued	1 617 125	-	-	751 405	460 616	405 104
Financial liabilities held for trading	7 470	-	-	(267)	246	7 491
Financial liabilities held for sale - discontinuing operations	329	329	-	-	-	-
Other subordinated debt	217 265	-	-	-	10 942	206 323
Other liabilities	226 718	226 718	-	-	-	-
Total funding	**18 313 208**	**227 047**	**8 147 309**	**1 856 275**	**1 826 027**	**6 256 550**

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 2022 and 31 December 2021, on the assets and related collaterals:

(Euro thousand)

	Jun 2022			
Assets	**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	5 842 798	-	13 999 411	-
Equity instruments	-	-	166 361	193 141
Debt securities	1 808 175	1 562 946	2 943 768	2 292 948
Other assets	-	-	1 643 318	-

(Euro thousand)

	Dec 2021			
Assets	**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	6 005 589	-	13 707 571	-
Equity instruments	-	-	215 870	215 870
Debt securities	2 122 218	1 900 039	1 496 387	1 169 494
Other assets	-	-	1 607 845	-

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2022	Dec 2021
	Carrying amount of selected financial liabilities	
Associated liabilities, contingent liabilities and securities borrowed	3 215 355	3 209 480
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	5 740 727	5 977 700

(Euro thousand)

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 2022 and 31 December 2021 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 2022 to Euro 2,506,838 thousand (31 December 2021: Euro 805,282 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB), as at 30 June 2022, amounts to Euro 5,385,207 thousand (31 December 2021: Euro 3,788,708 thousand) with a usage of Euro 2,955,130 thousand (31 December 2021: Euro 2,957,530 thousand):

(Euro thousand)

	Jun 2022	Dec 2021
Total eligible collateral	**5 864 649**	**4 586 821**
Total collateral in the pool	5 385 207	3 788 708
Collateral outside the pool	479 442	798 113
Used collateral	**3 357 811**	**3 736 539**
Collateral used for ECB	2 955 130	2 957 530
Collateral committed to other financing operations	402 681	779 009
Collateral available for ECB	**2 430 077**	**831 178**
Total available collateral	**2 506 838**	**850 282**

Note: collateral amount considers the applied haircut

Real estate risk

Real estate risk results from possible negative impacts on Banco Montepio's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from the exposure in real estate assets, whether from the foreclosure of properties or judicial auction in the scope of credit recovery processes or from investment units in real estate funds held in the securities' portfolio. These exposures are monitored through scenario analyses that attempt to estimate the potential impacts of changes in the real estate markets in the portfolios of these real estate assets and make available the information elements necessary for the definition of the real estate risk management policy.

As at 30 June 2022 and 31 December 2021, 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 2022	Dec 2021
Non-current assets held for sale	11	26
Real estate received in recovery of credit	415 777	463 590
Investment properties	84 746	102 933
Investment units in real estate funds	64 854	115 568
	565 388	682 117
Stress test	(56 539)	(68 212)

Stress test results correspond to the estimated impact on equity (before taxes) of a negative 10% variation in the values of real estate and investment units in real estate funds.

Notwithstanding that described in the accounting policy disclosed in note 1 h) in relation to properties, the net realizable value of the inventories is determined based on a valuation made by an independent appraiser. Real estate appraisals are based on assumptions on which the influence of the economic and financial situation and the market's ability to transact the available offer, at each moment, are decisive. In this way, the realization of the appraisal value determined by the independent appraisers is dependent on the verification of the assumptions used in the respective appraisals, meaning that the evolution of the macroeconomic conditions and the real estate market may translate into changes in these same assumptions, and, consequently, have an impact on the recoverability of the appraised value of the properties. The real estate appraisal reports, considered for the valuation of said inventories, consider the global pandemic situation experienced at the moment, with no additional uncertainty factors having been identified in same.

Operational risk and Going concern

Operational risk corresponds to the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events. Banco Montepio adopted the standard method to quantify its own capital requirements for operational risk, supported on the existence of an operational risk management system based on the identification, assessment, monitoring, measurement, mitigation and reporting of this type of risk.

The operational risk management model implemented complies with the 3-lines-of-defence principle.

The Risk Department exercises the corporate function of operational risk management of Banco Montepio which is supported by the existence of participants in different organic units that ensure the proper implementation of the operational risk management.

The operational risk profile assessment for new products, processes and systems and its consequent monitoring, on a regular basis, has allowed the early identification and mitigation of operational risk situations.

Regarding operational risk monitoring as at 30 June 2022, the collection and analysis of operational risk loss events were continued.

One of the essential aspects in the management of this specific type of risk is the prior identification of the relevant operational risks whenever a product, process or system is implemented or revised, as well as the monitoring of action plans aimed at avoiding or mitigating the effects of materialization of risks with greater frequency/severity of loss events or with greater residual value, within the scope of the self-assessment process.

Monitoring

Within the scope of Banco Montepio's Operational Risk Management System, the key risk indicators (KRIs) aim to monitor the exposure factors associated with the main risks, allowing to measure and monitor the risk appetite and anticipate the occurrence of losses through preventive actions.

In this sense, the defined limits were regularly monitored, and action plans were promoted in cases where they were exceeded.

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

Operational Risk Self-Assessment

The operational risk management cycle implemented at Banco Montepio is based on the preparation of a table of activities and respective operational risks and controls, allowing the identification of the potential exposure of each body/organic unit to operational risk, determining its risk profile and prioritizing eventual risk mitigation actions. Operational risks are mapped considering seven main categories: internal fraud; external fraud; employment and occupational safety practices; Customer, product and commercial practices; damage to physical assets; activity disruptions and system failures; and execution, delivery and management of processes. Operational risks and the respective controls are regularly self-assessed, usually in the form of workshops with the representatives of each body/organic unit and with the support of the Risk Department.

Based on the results of the self-assessments - carried out in terms of impacts and frequencies for risks and the percentage of effectiveness for controls - a residual risk tolerance matrix is established, which will support the level of risk considered acceptable to the institution and which will allow to identify the risks for which additional mitigation measures will have to be considered.

Business Continuity Management

The business continuity management cycle is supported by a set of assessment, design, implementation and monitoring activities, integrated in a continuous improvement cycle that aims to make business processes more resilient, allowing to ensure the continuity of operations in the case occurrence of events that cause the interruption of activity.

Banco Montepio maintained a permanent monitoring of the rules issued by the Portuguese General Health Department, 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.

Banco Montepio Group 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 Department ensures the production of monthly reports with the evolution of the market value of the Pension Fund's portfolio and the associated risk indicators.

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.

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-ons 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 Department. Whenever a situation of non-compliance with the aforementioned limits is identified, the Risk Department 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 perspective 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 Department, 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 and Regulation (EU) no. 2020/873 of the European Parliament and Council, which introduced some amendments to the CRR in response to the COVID-19 pandemic. Own funds include level 1 own funds (tier 1) and level 2 own funds (tier 2). Tier 1 includes level 1 core own funds (common equity tier 1 – CET1) and the additional level 1 own funds with the following composition:

- *Level 1 Core Own Funds or Common Equity Tier 1 (CET1):* this category includes the realized share capital (with the deduction of treasury shares held), eligible reserves (including fair value reserves), retained earnings, positive and certified retained earnings for the period or, if negative, the full amount. As regards the fair value reserves, within the scope of Regulation (EU) no. 2020/873, Banco Montepio adhered to the possibility of applying the prudential filters to the fair value reserves associated with sovereign debt. The value of reserves and retained earnings is adjusted for the reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to minority shareholders. The book value of the amounts related to goodwill, other intangible assets (not associated with software), as well as the gap, if positive, between the assets and liabilities of the Pension Fund, is deducted. The amount of the prudent valuation calculated in accordance with articles no. 34 and 105 of the CRR is also deducted, as are the deferred tax assets related to tax losses. Deductions are also made under article 36 paragraph k) in alternative to applying the risk weighting of 1,250%. Regarding financial shareholdings in financial sector entities and deferred tax assets arising from timing differences that depend on future profitability, the values in these captions are deducted when, individually, they exceed 10.0% of CET1, or, subsequently, 15.0% of CET1 when considered in aggregate (only on the part not deducted in the first barrier of 10.0% and considering only significant shareholdings).

The values not deducted will be subject to the weighting of 250.0% to the total risk-weighted assets. Regarding shareholdings in financial institutions, the deduction is proportionally realized in the corresponding capital levels held. As part of the implementation of the requirements defined in Regulation (EU) no. 575/2013, a transition period was defined to allow for a gradual recognition of some deductions, with, as at this reference date, 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 70% in 2021. With the revision of Regulation (EU) no. 575/2013, of 27 June 2019, the applicable amount of insufficient coverage for non-productive exposures is now deducted if said exposures originated after 26 April 2019.

- *Level 1 Own Funds or Tier 1 (T1):* includes capital equivalent instruments, which conditions are in accordance with article 52 of Regulation (EU) no. 575/2013 and that have been approved by the Bank of Portugal. Non-controlling interests relating to additional own funds' minimum requirements of the institutions in which the Group does not hold full ownership are also eligible. The eventual shareholdings of T1 capital of financial institutions subject to deduction are deducted from this capital.
- *Level 2 Own Funds or Tier 2 (T2):* includes capital equivalent instruments, which conditions are in accordance with article 63 of the CRR and that have been approved by the Bank of Portugal. Non-controlling interests relating to the own fund's minimum requirements of the institutions in which the Group does not hold full ownership are also eligible. The eventual shareholdings of T2 capital of financial institutions subject to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels of own funds previously referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating and market risk requirements, reference is made to the weighting of 250% of deferred tax assets arising from timing differences that depend on future profitability and financial shareholdings that are within the limit established for non-deduction from CET1. With respect to deferred tax assets arising from timing differences that do not depend on future profitability, these are subject to a 100% weighting for capital requirement purposes. The CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phase-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, as at 30 June 2022, Banco Montepio only recognized prudentially 75% of the initial impact related to the adoption of IFRS 9.

As referred, the effects of Basel III's new regulation related to deferred tax assets that do not depend on future profitability (even if not very significant), as well as the effects resulting from the adoption of IFRS 9 are still being gradually introduced. This process is designated Phase-in. The full assumption of the new regulation, without considering transitory plans, is designated Full Implementation. The phase-in process is currently underway, and it is on this basis that an entity verifies that it has own funds for an amount not below the own funds' minimum requirements, thus certifying the adequacy of its capital. This relation is reflected in the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (ratio corresponding to the respective capital level as a percentage of the amount corresponding to 12.5 times the own funds' requirements).

For these ratios, regulatory minimums are indicated by CRD IV/CRR of 4.5% for CET1, 6% for Tier 1 and 8% for Total Capital. However, on these regulatory minimums are applied reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions), the value of which is defined by the Bank of Portugal, 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	2021				2022			
	Ratio	Pilar 1	Pilar 2	Reserves [1]	Ratio	Pilar 1	Pilar 2	Reserves [1]
CET1	9.02%	4.50%	1.83%	2.69%	9.08%	4.50%	1.83%	2.76%
T1	11.13%	6.00%	2.44%	2.69%	11.19%	6.00%	2.44%	2.76%
Total	13.94%	8.00%	3.25%	26.90%	14.01%	8.00%	3.25%	2.76%

[1] Considers:
Conservation reserve 2.5%;
Reserve The SII of 0.1875% (0.25% after January 1, 2022);
Countercyclical Reserve currently set at 0% in Portugal, how ever presents the value of 0.006% given the geographical distribution of Banco Montepio Group's exhibitions in December 2021.

Pursuant to these provisions, as at 30 June 2022, the regulatory ratios, considering all the reserves, for Common Equity Tier 1, Tier 1 and Total were 9.08%, 11.19% and 14.01%, respectively, including the own funds reserves.

However, as a result of the COVID-19 virus pandemic, in line with the decision taken by the ECB for significant institutions, the Bank of Portugal allows the less significant credit institutions subject to its supervision to operate, on a temporary basis, with a level lower than the combined capital reserve (OCR), considering that capital reserves were designed to allow credit institutions to resist especially adverse situations. As a result, the minimum regulatory ratios as at 30 June 2022 and 31 December 2021 for Common Equity Tier 1, Tier 1 and Total were 6.328%, 8.438% and 11.25%, respectively.

The summary of the calculation of the Group's capital requirements as at 30 June 2022 and 31 December 2021, under phase-in, is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Capital Common Equity Tier 1		
Realized share capital	2 420 000	2 420 000
Net income/(loss), reserves and retained earnings	(896 680)	(1 069 770)
Non-controlling interests eligible for CET1	6 082	4 007
Other regulatory adjustments	(392 304)	(232 716)
	1 137 098	1 121 521
Capital Tier 1		
Non-controlling interests eligible for Tier 1	945	199
	1 138 043	1 121 720
Capital Tier 2		
Subordinated debt	206 323	206 323
Non-controlling interests eligible for Tier 2	924	199
	207 247	206 522
Total own funds	1 345 290	1 328 242
Own funds requirements		
Credit risk	596 321	606 992
Market risk	12 452	-
Operating risk	50 841	50 841
Other requirements	36 001	46 165
	695 615	703 998
Prudential Ratios		
Common Equity Tier 1 Ratio	13.08%	12.74%
Tier 1 Ratio	13.09%	12.75%
Total Capital Ratio	15.47%	15.09%

It should be noted that the ratios, as at 30 June 2022 and 31 December 2021, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 32.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phase-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. If Banco Montepio did not apply this transitional plan, as well as the recent transitional plan defined in Regulation (EU) no. 2020/873, to the impacts arising from the adoption of IRFS 9, the Banco Montepio Group's prudential ratios as at 30 June 2022 and 31 December 2021 would be:

(Euro thousand)

	Jun 2022	Dec 2021
Capital Common Equity Tier 1	1 093 474	1 032 520
Capital Tier 1	1 094 419	1 032 719
Total own funds	1 301 666	1 239 242
Own funds requirements	692 310	697 342
Prudential Ratios		
Common Equity Tier 1 Ratio	12.64%	11.85%
Tier 1 Ratio	12.65%	11.85%
Total Capital Ratio	15.04%	14.22%

If only the transitional plan applied to the initial impacts of the adoption of IFRS 9 was considered, and the transitional plan applicable to the increase in Stage 1 and 2 impairment after 1 January 2020 was not considered, the prudential ratios of Banco Montepio, as at 30 June 2022 and 31 December 2021, would be:

(Euro thousand)

	Jun 2022	Dec 2021
Capital Common Equity Tier 1	1 126 653	1 099 878
Capital Tier 1	1 127 598	1 100 078
Total own funds	1 334 845	1 306 600
Own funds requirements	694 779	702 267
Prudential Ratios		
Common Equity Tier 1 Ratio	12.97%	12.53%
Tier 1 Ratio	12.98%	12.53%
Total Capital Ratio	15.37%	14.88%

54 Recently issued accounting policies

1. Impact of the adoption of new standards and amendments to the standards that became effective for annual periods beginning on 1 January 2022:

a) **IFRS 16** (amendment) 'Leases – COVID-19 related rent concessions beyond 30 June 2021'. This amendment extends the date of application of the IFRS 16 – 'Leases – COVID-19 related rent concessions' amendment from 30 June 2021 to 30 June 2022. allowing to recognise rent concessions related to COVID-19 as variable lease payments and not as a modification to the lease. The conditions of application of the practical expedient remain, and the extension of the practical expedient can only be applied by the lessees who applied the previous practical expedient.

b) **IAS 16** (amendment), 'Proceeds before intended use'. This amendment changes the accounting treatment of the proceeds obtained from the sale of products that resulted from the production test phase of property, plant and equipment, prohibiting their deduction to the acquisition cost of assets. This amendment is applied retrospectively without restating comparatives.

c) **IAS 37** (amendment), 'Onerous Contracts – Cost of Fulfilling a Contract'. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to direct labour and materials and the allocation of other expenses directly related to the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment must be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without restating comparatives.

d) **IFRS 3** (amendment), 'References to the Conceptual Structure'. This amendment updates the references to the Conceptual Framework in the text of IFRS 3, without changing the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be given to contingent liabilities and liabilities under IAS 37 and IFRIC 21, incurred separately versus within a business combination. This amendment is applied prospectively.

e) **Improvements to the 2018-2020 standards**. The 2018-2020 annual improvements impact: IFRS 1, IFRS 9, IFRS 16 and IAS 41. This standard is still subject to endorsement by the European Union.

These amendments had no material impact on the financial statements of the Banco Montepio Group.

2. Standards (new and amended) published, which application is mandatory for annual periods beginning on or after 1 January 2023, already endorsed by the European Union:

a) **IAS 1** (amendment), 'Disclosure of accounting policies' (effective for annual periods beginning on or after 1 January 2023). 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" (effective for annual periods beginning on or after 1 January 2023).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), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a general model "building block approach" or a simplified one "premium allocation approach". The "building block approach" is based on discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM'), which represents the unearned profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin, unless it becomes negative. IFRS 17 is applied retrospectively.

d) **IFRS 17** (amendment), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This amendment includes specific changes in eight areas of IFRS 17, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the Statement of Financial Position; vii) recognition and measurement of the Income statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and ease transition. IFRS 17 is applied retrospectively. On the issue this amended the end date for applying IFRS 9 (temporary exemption or overlay approach) under the IFRS 4 standard, was extended to 1 January 2023, aligned with the effective date of IFRS 17.

The Banco Montepio Group does not anticipate any significant impact derived from the application of these amendments to its financial statements.

3. Standards (new and amended) published, which application is mandatory for annual periods beginning on or after 1 January 2023, not yet endorsed by the European Union:

a) **IAS 1** (amendment), 'Presentation of financial statements - classification of liabilities' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union since it is being subject to a new revision by the IASB. This amendment intends to clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists but should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as the non-compliance with a given "covenant". This amendment also introduces a new definition of "settlement" of a liability. This amendment is applied retrospectively.

b) **IAS 12** (amendment), 'Deferred tax related to assets and liabilities arising from a single transaction' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. IAS 12 will require entities to recognise deferred tax on specific transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These applies to the recognition of: i) right-of-use assets and lease liabilities; and ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset, when not relevant for tax purposes. Such temporary differences are no longer subject to the initial recognition exemption for deferred taxes. The cumulative effect of initially applying the amendment is recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the earliest comparative period presented.

c) **IFRS 17** (amendment), 'Initial Application of IFRS 17 and IFRS 9 – Comparative Information' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. This amendment relates only to insurers' transitioning to the 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.

The Banco Montepio Group does not anticipate any significant impact derived from the application of these amendments to its financial statements.

55 Transfer of assets

The Group carried out several financial asset sale operations, namely loans and advances to customers, to funds specialized in the recovery of loans. These funds take responsibility for the management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of same.

The financial assets sold under these operations are derecognized from the balance sheet of the Group, since the operations result in the transfer to the funds of a substantial portion of the risks and rewards associated with the assets as well as the control of same. The funds specialized in the recovery of credit that acquired financial assets from the Group are closed funds, in respect of which the holders have no possibility of requesting the redemption of their investment units throughout the useful life of same. These investment units are held by several banks in the market that ceded the loans, in percentages that vary throughout the useful life of the funds, but it is ensured that each bank, separately, does not hold units representative of more than 50% of the capital of the funds.

The funds have a specific management structure (General Partner), fully independent from the seller banks, and that is selected on the date of the incorporation of the funds. The management structure of the fund has as main responsibilities to:

- define the objective of the fund; and
- manage the fund on an exclusive basis, determining the objectives and investment policy and the conduct of the management and business of the fund.

The management structure is remunerated through management commissions charged to the funds.

Generally, these funds, in which the Group holds minority positions, incorporate companies under Portuguese law in order to acquire the loans from the banks, which are financed through the issuance of senior and junior bonds. The value of the senior bonds, fully subscribed by the funds that hold the share capital of the companies, matches the fair value of the asset transferred, determined in accordance with a negotiation process based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company holding the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the transfer value of the loans to the Portuguese-law companies. These junior bonds, when subscribed by the Group, grant the right to a contingent positive value if the value of the assets transferred exceeds the nominal value of the senior bonds plus their related interest.

However, considering that these junior bonds reflect a valuation difference of the assets transferred, based on valuations performed by independent entities and a negotiation process between the parties, the junior bonds are fully provided against.

Therefore, following the asset sale operations carried out, the Group subscribed:

- Investment units of the funds, in which the cash flows that will allow their recovery arise mainly from a broad set of assets transferred by the various participant banks (where the Group has a clear minority interest). These securities are booked in the portfolio of financial assets at fair value through profit or loss and are measured at fair value based on the quotation value, as disclosed by the funds and audited at each year end;
- Junior bonds (with a higher subordination level), issued by the Portuguese-law companies controlled by the funds, which are fully provided against because they reflect the best estimate of the impairment of the financial assets transferred.

In this context, of not holding control but maintaining some exposure to certain risks and rewards, the Group, in accordance with IFRS 9 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the operation, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence over the funds or the companies holding the assets, the Group derecognized the assets transferred and recognized the assets received in return as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
	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 2022 and 31 December 2021, the assets received under these operations are as follows (see note 23):

(Euro thousand)

	Jun 2022	Dec 2021
	Senior securities	
Fundo Vega, FCR	23 689	23 985
Discovery Portugal Real Estate Fund	13 181	12 569
Fundo Aquarius, FCR	10 315	10 484
Fundo de Reestruturação Empresarial, FCR	16 682	16 745
	63 867	63 783

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).

56 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 2022, the periodic contribution made by the Group amounted to Euro 5,106 thousand (30 June 2021: Euro 4,713 thousand), based on a contribution rate of 0.060%.

Resolution measure applied to Banco Espírito Santo, S.A. (BES)

As part of its responsibility while supervisory and resolution authority of the Portuguese financial sector, the Bank of Portugal, on 3 August 2014, decided to apply to Banco Espírito Santo, S.A. (“BES”) a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its activity to a transition bank called Novo Banco, S.A. (“Novo Banco”), created especially for this purpose.

To realize the share capital of Novo Banco, the Resolution Fund, while sole shareholder, provided Euro 4,900 million, of which Euro 365 million corresponding to its own financial resources. A loan was granted by a bank syndicate to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution weighted according to several factors, including their size. The remaining amount (Euro 3,900 million) came from a repayable loan granted by the Portuguese State.

Following the implementation of the referred resolution measure, on 7 July 2016, the Resolution Fund stated that it would review and evaluate the steps to be taken following the publication of the report on the results of the independent valuation exercise, carried out to estimate the level of credit recovery for each class of lenders in the hypothetical scenario of a normal insolvency process of BES as at 3 August 2014. Under the applicable law, if it turns out that lenders which credits have not been transferred to Novo Banco assume a greater loss than they would hypothetically have had BES entered into a liquidation process immediately prior to the application of the resolution, these lenders are entitled to receive the difference from the Resolution Fund.

On 31 March 2017, the Bank of Portugal announced that it had selected Lone Star Fund for the purchase of Novo Banco, which was concluded on 17 October 2017, through the injection by the new shareholder of Euro 750 million, which will be followed by a new capital injection of Euro 250 million, to be completed within the period of three years. With this operation, Novo Banco’s status as transition bank ceased, with Lone Star Fund now holding 75% of the share capital of Novo Banco and the Resolution Fund the remaining 25%, albeit without the corresponding voting rights.

On 26 February 2018, the European Commission released the non-confidential version of the State aid approval decision underlying the sale process of Novo Banco, which includes a contingent capitalization mechanism whereby the Resolution Fund may be called upon to carry out capital injections if certain conditions materialize related to the performance of a restricted set of assets of Novo Banco and the evolution of the bank's capital levels.

This mechanism is triggered annually, based on the annual accounts of Novo Banco certified by the respective auditor, with the possibility of intra-annual assessments being foreseen, but only in the event of non-compliance, by Novo Banco, with the prudential requirements. For the purpose of this mechanism, the differences in the valuation of assets (positive or negative) are considered in relation to their book value, net of impairments, recorded as at 30 June 2016 (circa Euro 7.9 thousand million according to the information provided by Novo Banco). Hence, economic losses or gains resulting from, for example, the sale of assets or the restructuring of loans, but also the impairment, or its reversal, recorded by Novo Banco, in accordance with the accounting standards, as well as the costs of financing associated with the maintenance of the assets in the balance sheet of Novo Banco, are considered.

Under the referred mechanism, own financial resources resulting from contributions paid, directly or indirectly, by the banking sector, complemented by a State loan amounting to Euro 430 million under the framework agreement celebrated between the Portuguese State and the Resolution Fund were used. According to the information provided by Novo Banco, as at 31 December 2017, the net value of the assets covered by the perimeter of the contingent capitalization mechanism amounted to approximately Euro 5.4 thousand million.

On 6 May 2019, the Resolution Fund made the payment of Euro 1,149 million to Novo Banco with reference to the accounts of 2018, having used its own resources, resulting from contributions due, directly and indirectly, by the banking sector, and resorted to a loan from the State in the amount of Euro 850 million, which corresponds to the maximum annual financing limit agreed between the Resolution Fund and the State in October 2017.

In May 2020, the Resolution Fund made the payment of Euro 1,035 million to Novo Banco with reference to the accounts of 2019, which resulted from the execution of the agreements celebrated in 2017, in connection with the sale of 75% of the Resolution Fund's shareholding in Novo Banco, complying with all the procedures and limits defined therein, and resorted to a loan from the State in the amount of Euro 850 million.

On 4 June 2021, the Resolution Fund 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 CEMG 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 CEMG 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 2022 and 31 December 2021, the Bank has been the subject of several administrative offense processes instituted by the Bank of Portugal, for alleged practices and infractions in regulatory matters that are applicable to the Bank, in an amount of possible fines of approximately Euro 9 million.

The evolution of these processes is regularly monitored by the Bank's Board of Directors, with technical-legal intervention under the responsibility of its Legal Department and, in certain cases, by law firms, 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 2022.

57 Subsidiary and associates

As at 30 June 2022 and 31 December 2021, the Companies consolidated under the full consolidation method in the Group are as follows:

Subsidiary	Head office	Share capital	Currency	Activity	Group % of control	Group % of effetive part
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. -In Liquidation	Praia	992 000 000	Cape Verde Escudo	Banking	100.00%	100.00%
Finibanco Angola, S.A.	Luanda	7 516 296 830	Kwanza	Banking	51.00%	80.22%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Oporto	30 000 000	Euro	Specialised loans	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisbon	175 000 000	Euro	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 2022 and 31 December 2021, the Group´s associates accounted for under the equity method, are as follows:

(Euro)

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%

<u>Finibanco Angola</u>

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.

Finibanco Angola, in 2020, failed to comply with the criteria set out in IFRS 5 to be considered as a discontinued entity. Hence, and in accordance with the provisions of IFRS 5, it was fully consolidated, line by line, retrospectively.

As at 30 June 2022, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsdiary	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

As at 31 December 2021, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsdiary	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
Aqua Finance No 4	2017	2017	Lisbon	100%	Full
Pelican Finance No 2	2021	2021	Lisbon	100%	Full

58 Non-current assets and liabilities held for sale – Discontinued operations

With reference to 30 June 2022 and 31 December 2021, the discontinued operations are presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
	Banco Montepio Geral - Cabo Verde - In liquidation	Banco Montepio Geral - Cabo Verde - In liquidation
Cash and deposits at central banks and credit institutions	17	84
Other tangible assets	60	60
Deferred tax assets	-	13
Other assets	10	272
Total Assets	**87**	**429**
Provisions	9	107
Current tax liabilities	2	2
Other liabilities	131	220
Total Liabilities	**142**	**329**

The main income statement captions related to these discontinued operations are analysed as follows:

(Euro thousand)

	Jun 2022	Jun 2021		
	Banco Montepio Geral - Cabo Verde - In Liquidation	Banco Montepio Geral - Cabo Verde - In Liquidation	Montepio Valor	Total
Net interest income	2	(497)	(2)	(499)
Fee and commission income	-	-	1 722	1 722
Net gains/ (losses) arising from financing activities	(8)	(21)	-	(21)
Other operating income/ (expense)	13	-	(6)	(6)
Total operating income	**7**	**(518)**	**1 714**	**1 196**
Staff costs	-	91	947	1 038
General and administrative expenses	-	145	502	647
Depreciation and amortisation	-	2	80	82
Total operating expense	**-**	**238**	**1 529**	**1 767**
Loans, other assets and other provisions impairment	-	(20)	13	(7)
Operating profit	**7**	**(736)**	**172**	**(564)**
Profit before income tax	**7**	**(736)**	**172**	**(564)**
Taxes	(15)	(7)	(181)	(188)
Net profit/ (loss) for the period	**(8)**	**(743)**	**(9)**	**(752)**

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 – In Liquidation as a result of the change in the legal framework for banking entities operating in Cape Verde, the financial shareholding in this entity was reclassified to Non-current assets held for sale.

In view of this legal imposition, the competent Bodies of the Banco Montepio Group decided to proceed with the voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde – In Liquidation, and, to the effect, the respective procedures were initiated with the Cape-Verdean authorities.

As at 30 December 2021, Montepio Holding S.G.P.S., S.A. sold 310,000 ordinary, book-entry and nominative shares representing 100% of the share capital and voting rights of Montepio Valor S.G.O.I.C., S.A. to Montepio Geral Associação Mutualista for the amount of Euro 3,734 thousand. The estimated impact of this sale on the Group's consolidated results and on the capital ratio is nil to the extent that it was sold at book value.

59 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 2022:

(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	122 902	565 030	565 030	565 030	(5 248)	(241 752)	361 571	263 155
Central banks	-	-	-	-	-	-	-	-
General governments	-	2 318	2 318	2 318	-	(246)	-	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	407	78 372	78 372	78 372	(81)	(35 372)	35 885	35 743
Non-financial corporations	82 828	409 451	409 451	409 451	(4 321)	(180 425)	243 436	179 946
Households	39 667	74 889	74 889	74 889	(846)	(25 709)	82 250	47 466
Debt securities	-	-	-	-	-	-	-	-
Loan commitments granted	38	466	466	466	(1)	(4)	-	-
	122 940	**565 496**	**565 496**	**565 496**	**(5 249)**	**(241 756)**	**361 571**	**263 155**

(NPE) Information on performing and non-performung exposures

(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	**12 853 944**	**12 803 420**	**50 525**	**923 859**	**452 739**	**55 711**	**68 032**	**32 058**	**161 778**	**42 716**	**110 824**	**923 859**
Central banks	1 679 323	1 679 323	-	-	-	-	-	-	-	-	-	-
General governments	108 695	108 695	-	2 318	-	-	-	2 318	-	-	-	2 318
Credit institutions	198 262	198 262	-	-	-	-	-	-	-	-	-	-
Other financial corporations	62 245	61 881	365	80 839	32 668	1 069	34 029	19	11 904	-	1 150	80 839
Non-financial corporations	4 167 782	4 148 232	19 549	679 084	324 545	41 619	21 393	19 381	136 604	36 562	98 981	679 084
Of which: SME	3 586 792	3 567 242	19 549	646 698	298 217	40 995	15 959	19 381	136 604	36 562	98 981	646 698
Households	6 637 637	6 607 027	30 611	161 618	95 526	13 023	12 610	10 340	13 270	6 154	10 693	161 618
Debt securities	**4 739 779**	**4 739 779**	**-**	**33 000**	**-**	**-**	**-**	**-**	**33 000**	**-**	**-**	**33 000**
General governments	4 189 930	4 189 930	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	76 460	76 460	-	33 000	-	-	-	-	33 000	-	-	33 000
Non-financial corporations	473 389	**473 389**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Off balance sheet exposures	**1 878 532**	**-**	**-**	**124 645**	**-**	**-**	**-**	**-**				**-**
General governments	2 356			**-**								**-**
Credit institutions	204 583			**-**								**-**
Other financial corporations	24 525			9								-
Non-financial corporations	1 168 327			120 882								-
Households	478 741			3 754								-
	19 472 255	**17 543 199**	**50 525**	**1 081 504**	**452 739**	**55 711**	**68 032**	**32 058**	**194 778**	**42 716**	**110 824**	**956 859**

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 2	Of which, Stage 3		Of which, Stage 3			
Loans and advances	**12 853 944**	**11 102 827**	**1 742 759**	**923 859**	**923 147**	**(83 732)**	**(30 677)**	**(53 054)**	**(413 483)**	**(413 483)**	**(172 332)**	**8 887 528**	**395 031**
Central banks	1 679 323	1 679 323	-	-	-	-	-	-	-	-	-	-	-
General governments	108 695	106 503	2 192	2 318	2 318	(671)	(256)	(415)	(246)	(246)	(246)	10 905	-
Credit institutions	198 262	197 454	807	-	-	(401)	(376)	(25)	-	-	-	28	-
Other financial corporations	62 245	58 053	4 192	80 839	80 839	(449)	(178)	(270)	(36 399)	(36 399)	(600)	30 524	37 057
Non-financial corporations	4 167 782	3 321 340	838 085	679 084	678 426	(64 412)	(24 892)	(39 520)	(319 139)	(319 139)	(171 486)	2 687 490	268 110
Of which: SME	3 586 792	2 823 657	761 049	646 698	646 040	(59 045)	(22 507)	(36 537)	(310 763)	(310 763)	(142 936)	2 471 623	256 026
Households	6 637 637	5 740 154	897 483	161 618	161 564	(17 799)	(4 975)	(12 824)	(57 699)	(57 699)	-	6 158 581	89 864
Debt securities	**4 739 779**	**4 734 202**	**5 577**	**33 000**	**33 000**	**(11 626)**	**(11 108)**	**(518)**	**(14 272)**	**(14 272)**	**-**	**4 349**	**-**
General governments	4 189 930	4 189 930	-	-	-	(7 274)	(7 274)	-	-	-	-	-	-
Other financial corporations	76 460	74 146	2 314	33 000	33 000	(817)	(362)	(455)	(14 272)	(14 272)	-	-	-
Non-financial corporations	473 389	470 126	3 263	-	-	(3 535)	(3 472)	(63)	-	-	-	4 349	-
Off balance sheet exposures	**1 878 533**	**1 500 803**	**377 729**	**124 645**	**124 645**	**(7 297)**	**(4 159)**	**(3 137)**	**(14 797)**	**(14 797)**	**-**	**-**	**-**
General governments	2 356	2 351	6	-	-	(3)	(3)	-	-	-	-	-	-
Credit institutions	204 583	61 976	142 607	-	-	(23)	-	(23)	-	-	-	-	-
Other financial corporations	24 525	17 245	7 280	9	9	(95)	(9)	(85)	-	-	-	-	-
Non-financial corporations	1 168 327	966 626	201 700	120 882	120 882	(6 129)	(3 368)	(2 761)	(14 786)	(14 786)	-	-	-
Households	478 742	452 605	26 136	3 754	3 754	(1 047)	(779)	(268)	(11)	(11)	-	-	-
	19 472 256	**17 337 832**	**2 126 065**	**1 081 504**	**1 080 792**	**(102 655)**	**(45 944)**	**(56 709)**	**(442 552)**	**(442 552)**	**(172 332)**	**8 891 877**	**395 031**

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	789	(83)
Others, except tangible fixed assets	551 628	(136 347)
Real estate	334 318	(62 982)
Comercial real estate	181 319	(61 271)
Movable goods (automobile, vessel, etc.)	48	(47)
Others, except tangible fixed assets	35 944	(12 048)
	552 417	**(136 430)**

This caption, as at 31 December 2021, 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	68 070	555 721	555 721	555 721	(2 514)	(253 180)	290 678	242 692
Other financial corporations	359	48 324	48 324	48 324	(23)	(12 119)	36 362	36 194
Non-financial corporations	37 376	421 251	421 251	421 251	(1 970)	(209 410)	177 526	154 947
Households	30 335	86 146	86 146	86 146	(521)	(31 651)	76 790	51 551
Loan commitments granted	280	398	398	398	(2)	(17)	-	-
	68 350	**556 119**	**556 119**	**556 119**	**(2 516)**	**(253 197)**	**290 678**	**242 692**

(NPE) Information on performing and non-performung exposures

(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	**13 832 456**	**13 800 645**	**31 812**	**942 302**	**537 847**	**15 647**	**33 548**	**78 715**	**118 599**	**81 931**	**76 015**	**942 302**
Central banks	2 862 579	2 862 579	-	-	-	-	-	-	-			
General governments	104 408	104 408	-	-	-	-		-	-	-	-	-
Credit institutions	244 551	244 551	-	-	-	-	-	-	-	-	-	-
Other financial corporations	37 542	37 541	2	49 571	49 504	1	-	19	47	-	-	49 571
Non-financial corporations	3 935 578	3 927 607	7 971	707 797	366 229	7 170	24 635	67 534	103 494	73 314	65 421	707 797
Of which: SME	3 416 939	3 408 980	7 960	678 053	336 610	7 170	24 635	67 534	103 425	73 314	65 421	678 053
Households	6 647 798	6 623 959	23 839	184 934	122 114	8 476	8 913	11 162	15 058	8 617	10 594	184 934
Debt securities	**3 612 187**	**3 612 187**	**-**	**33 000**	**-**	**-**	**-**	**-**	**33 000**	**-**	**-**	**33 000**
General governments	3 067 854	3 067 854	-	-	-	-	-	-	-		-	-
Other financial corporations	10 894	10 894	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	533 439	533 439	-	33 000	-	-	-	-	33 000	-		33 000
Off balance sheet exposures	**1 902 482**	**-**	**-**	**117 002**	**-**	**-**	**-**	**-**				**-**
General governments	2 676			-								-
Credit institutions	212 342			-								-
Other financial corporations	20 144			5								-
Non-financial corporations	1 174 387			114 100								-
Households	492 933			2 897								-
	19 347 125	**17 412 832**	**31 812**	**1 092 304**	**537 847**	**15 647**	**33 548**	**78 715**	**151 599**	**81 931**	**76 015**	**975 302**

Credit quality of productive and non-performing exposures and respective provisions

(Euro thousand)

	Carrying amount					Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions					Deduction of accumulated partial assets	Collateral and financial guarantees and received	
	Productive exhibitions			Non-productive exhibitions		Productive exposures - accumulated impairments and provisions			Non-productive exposures- Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions			About productive exhibitions	About non-productive exhibitions
		Of which, Stage 1	Of which, Stage 2		Of which, Stage 3		Of which, Stage 2	Of which, Stage 3		Of which, Stage 3			
Loans and advances	**13 832 456**	**11 870 828**	**1 952 840**	**942 302**	**941 322**	**(92 543)**	**(27 576)**	**(64 965)**	**(411 375)**	**(411 375)**	**(198 495)**	**8 538 884**	**414 074**
Central banks	2 862 579	2 862 579	-	-	-	-	-	-	-	-	-	-	-
General governments	104 408	103 280	1 128	-	-	(579)	(398)	(181)	-	-	-	512	-
Credit institutions	244 551	244 551	-	-	-	(464)	(464)	-	-	-	-	-	-
Other financial corporations	37 542	35 575	1 967	49 571	49 571	(188)	(91)	(97)	(12 198)	(12 198)	-	14 734	37 246
Non-financial corporations	3 935 578	2 836 477	1 090 513	707 797	706 943	(71 286)	(22 448)	(48 837)	(331 842)	(331 842)	(198 495)	2 455 667	276 117
Of which: SME	3 416 939	2 503 954	910 497	678 053	677 199	(59 872)	(20 214)	(39 657)	(318 050)	(318 050)	-	2 263 705	270 031
Households	6 647 798	5 788 366	859 232	184 934	184 808	(20 026)	(4 175)	(15 850)	(67 335)	(67 335)	-	6 067 971	100 711
Debt securities	**3 612 187**	**3 595 302**	**16 886**	**33 000**	**33 000**	**(12 311)**	**(10 994)**	**(1 317)**	**(14 272)**	**(14 272)**	**-**	**8 786**	**-**
General governments	3 067 854	3 067 854	-	-	-	(5 533)	(5 533)	-	-	-	-	-	-
Other financial corporations	10 894	8 408	2 487	-	-	(794)	(44)	(750)	-	-	-	-	-
Non-financial corporations	533 439	519 040	14 399	33 000	33 000	(5 984)	(5 417)	(567)	(14 272)	(14 272)	-	8 786	-
Off balance sheet exposures	**1 902 483**	**1 515 098**	**387 383**	**117 002**	**117 002**	**(6 737)**	**(3 294)**	**(3 444)**	**(14 524)**	**(14 524)**	**-**	**-**	**-**
General governments	2 676	2 664	12	-	-	(1)	(1)	-	-	-	-	-	-
Credit institutions	212 342	59 855	152 487	-	-	-	-	-	-	-	-	-	-
Other financial corporations	20 144	12 499	7 644	5	5	(152)	(4)	(148)	-	-	-	-	-
Non-financial corporations	1 174 387	987 250	187 137	114 100	114 100	(5 130)	(2 542)	(2 589)	(14 488)	(14 488)	-	-	-
Households	492 934	452 830	40 103	2 897	2 897	(1 454)	(747)	(707)	(36)	(36)	-	-	-
	19 347 126	**16 981 228**	**2 357 109**	**1 092 304**	**1 091 324**	**(111 591)**	**(41 864)**	**(69 726)**	**(440 171)**	**(440 171)**	**(198 495)**	**8 547 670**	**414 074**

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	789	(51)
Others, except tangible fixed assets	603 162	(138 576)
Real estate	392 494	(71 621)
Comercial real estate	200 200	(63 866)
Movable goods (automobile, vessel, etc.)	74	(58)
Others, except tangible fixed assets	10 394	(3 031)
	603 951	**(138 627)**

60 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.

61 Subsequent events

The Banco Montepio Group analyses events occurring after the balance sheet date, i.e., the favourable and unfavourable events that occur between the balance sheet date and the date on which the financial statements are authorized for issue. Consequently, two types of events can be identified:

- Those that provide proof of conditions that existed at the balance sheet date (adjusting events);
- Those that are indicative of conditions that arose after the balance sheet date (non-adjusting events occurring after the balance sheet date).

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

There were no relevant transactions and/or events, after 30 June 2022, that merit disclosure and/or adjustment in the financial statements.

TRANSLATION NOTE

These Financial Statements and Notes to the Financial Statements are a free translation from the original version in the Portuguese language. In the event of misrepresentations or discrepancies the original version shall prevail.

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

Banco Montepio

Interim Condensed Individual Income Statement
for the six months periods ended on 30 June 2022 and 2021

(Euro thousand)

	Notes	Jun 2022	Jun 2021
Interest and similar income	2	122 905	128 340
Interest and similar expense	2	30 209	36 228
Net interest income		92 696	92 112
Dividends from equity instruments	3	951	1 747
Net fee and commission income	4	56 326	53 531
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	5	2 668	(2 720)
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	6	1 233	525
Net gains/ (losses) arising from exchange differences	7	3 781	1 174
Net gains/ (losses) arising from sale of other financial assets	8	13 455	19 556
Other operating income/ (expense)	9	(34 816)	(25 881)
Total operating income		136 294	140 044
Staff costs	10	63 953	72 053
General and administrative expenses	11	25 503	27 066
Depreciation and amortization	12	15 916	16 268
Total operating cost		105 372	115 387
Impairment of loans and advances to customers and to credit institutions	13	(4 689)	54 868
Impairment of other financial assets	14	1 570	3 381
Impairment of other assets	15	8 665	8 204
Other provisions	16	(2 615)	(7 385)
Profit before income tax		27 991	(34 411)
Income Tax			
Current	29	(2 102)	1 167
Diferidos	29	(16 839)	(2 864)
Net profit/ (loss) for the year		9 050	(36 108)
Earnings per share			
Basic		0.004	(0.015)
Diluted		0.004	(0.015)

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 2022 and 2021

(Euro thousand)

	Notes	Jun 2022	Jun 2021
Items that may be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income			
Debt instruments	41	(4 473)	(461)
Loans and advances to customers	41	-	(103)
Own credit risk	41	-	(19)
Taxes related to fair value changes	29 and 41	1 387	230
		(3 086)	(353)
Items that won't be reclassified into the Income Statement			
Fair value reserves			
Financial assets at fair value			
through other comprehensive income			
Equity instruments	41	(73)	37 653
Profit / (loss) with equity instruments	41	-	(39 310)
Acturial gains/ (losses) for the period	45	128 822	61 160
Taxes	29	-	(413)
		128 749	59 090
Other comprehensive income/ (loss) for the period		125 663	58 737
Net profit/ (loss) for the period		9 050	(36 108)
Total comprehensive income/ (loss) for the period		134 713	22 629

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 2022 and 31 December 2021

(Euro thousand)

	Notes	Jun 2022	Dec 2021
Assets			
Cash and deposits at central banks	17	1 789 033	2 943 744
Loans and deposits to credit institutions payable on demand	18	65 462	84 240
Other loans and advances to credit institutions	19	375 788	388 459
Loans and advances to customers	20	11 225 844	11 004 029
Financial assets held for trading	21	9 264	1 376
Financial assets at fair value through profit or loss	22	221 740	288 340
Financial assets at fair value through other comprehensive income	23	102 423	103 157
Hedging derivatives	24	5 260	5 411
Other financial assets at amortized cost	25	4 577 064	3 530 569
Investments in associated companies	26	319 541	319 648
Non-current assets held for sale	26	8 997	47 833
Other tangible assets	27	180 915	183 798
Intangible assets	28	40 344	37 474
Current tax assets	29	7 309	6 539
Deferred tax assets	29	454 787	470 602
Other assets	30	711 114	648 185
Total Assets		20 094 885	20 063 404
Liabilities			
Deposits from central banks	31	2 892 760	2 892 065
Deposits from other credit institutions	32	398 629	598 620
Deposits from customers	33	12 987 637	12 781 474
Debt securities issued	34	1 123 190	1 215 119
Financial liabilities associated to transfered assets	35	668 642	730 253
Financial liabilities held for trading	21	12 706	7 470
Hedging derivatives	24	480	335
Provisions	36	24 527	27 886
Current tax liabilities	-	930	561
Other subordinated debt	37	211 289	217 265
Other liabilities	38	254 252	207 226
Total Liabilities		18 575 042	18 678 274
Equity			
Share capital	39	2 420 000	2 420 000
Legal Reserve	40	193 266	193 266
Fair value reserves	41	5 815	8 974
Other reserves and Retained earnings	41	(1 108 288)	(1 229 207)
Net profit / (loss) for the period		9 050	(7 903)
Total Equity		1 519 843	1 385 130
Total Liabilities and Equity		20 094 885	20 063 404

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 2022 and 2021

(Euro thousand)

	Jun 2022	Jun 2021 restated
Cash flows arising from operating activities		
Interest income received	99 607	122 384
Interest expense paid	(32 466)	(44 558)
Comission income received	68 406	63 391
Comission expense paid	(11 822)	(9 860)
Payments to employees and suppliers	(94 019)	(88 803)
Loans and Interest recovery	2 700	1 962
Other payments and receivables	45 935	21 210
Income tax payment	(2 140)	(1 246)
	76 201	64 480
(Increases)/Decreases in operating assets		
Loans and advances to credit institutions and customers	(210 880)	(110 625)
Deposits held for monetary control purposes	66 731	(17 725)
(Purchase) / Sale of financial assets held-for-trading	-	91 285
(Purchase) / Sale of financial assets at fair value through other comprehensive income	4 879	52 388
(Purchase) / Sale of Hedging derivatives	(1 102 306)	(456 511)
(Purchase) / Sale of other financial assets at amortized cost	90 833	27 845
Other assets		
	(1 150 743)	(413 343)
Increases/(decreases) in operating liabilities		
Deposits from customers	207 429	78 182
Deposits from credit institutions	(200 115)	(111 176)
Deposits from central banks	-	1 500 000
	7 314	1 467 006
	(1 067 228)	1 118 143
Cash from investing activities		
Dividends received	951	1 747
Purchase of fixed assets	(14 400)	(7 164)
	(13 449)	(5 417)
Cash from financing activities		
Repayment of cash bonds and subordinated debt (notes 34 and 37)	(93 300)	(2 960)
Leases	(4 396)	(5 315)
	(97 696)	(8 275)
Effects of exchange rate changes on cash and cash equivalents	4 884	1 174
Net change in cash and cash equivalents	(1 173 489)	1 105 625
Cash and cash equivalents at the beginning of the year		
Cash and deposits at central banks (note 17)	2 943 744	1 446 314
Loans and deposits to credit institutions payable on demand (note 18)	84 240	53 498
	3 027 984	1 499 812
Cash and cash equivalents at the end of the period		
Cash and deposits at central banks (note 17)	1 789 033	2 533 643
Loans and deposits to credit institutions payable on demand (note 18)	65 462	71 794
	1 854 495	2 605 437

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 2022 and 2021

(Euro thousand)

	Share capital (note 39)	Legal Reserve (note 40)	Fair Value Reserves (note 41)	Retained earnings (note 41)	Total Shareholders equity
Balance on 31 December 2020	**2 420 000**	**193 266**	**(28 867)**	**(1 211 001)**	**1 373 398**
Other comprehensive income:	-	-	37 300	21 437	58 737
Remeasurements in the year (note 45)	-	-	-	61 160	61 160
Taxes (note 29)	-	-	-	(413)	(413)
Fair value changes (note 41)	-	-	37 070	-	37 070
Reserves realized - Shares	-	-	-	(39 310)	(39 310)
Taxes related on changes in fair value (note 29)	-	-	230	-	230
Net income for the year	-	-	-	(36 108)	(36 108)
Total comprehensive income / (loss) for the year	-	-	37 300	(14 671)	22 629
Balance on 30 June 2021	**2 420 000**	**193 266**	**8 433**	**(1 225 672)**	**1 396 027**
Other comprehensive income:	-	-	541	(39 643)	(39 102)
Remeasurements of post-employment and long-term benefits (note 45)	-	-	-	(40 055)	(40 055)
Taxes (note 29)	-	-	-	413	413
Fair value changes (note 41)	-	-	778	-	778
Realized reserves - equity	-	-	-	(1)	(1)
Taxes related to changes in fair value (nota 29)	-	-	(237)	-	(237)
Net income for the period	-	-	-	28 205	28 205
Total comprehensive income for the period	-	-	541	(11 438)	(10 897)
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 45)	-	-	-	128 822	128 822
Fair value changes (note 41)	-	-	(4 546)	-	(4 546)
Reservations made - 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**

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 2022 the standards issued by the IASB and the interpretations of the IFRIC of mandatory application as from 1 January 2022.

The separate financial statements and the notes to the financial statements presented herein were approved by the Board of Directors of Banco Montepio on 15 September 2022. The condensed interim separate financial statements herein presented relate to 30 June 2022. 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 2021.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).

Comparability of information

The accounting policies applied in the six-month period ended 30 June 2022, presented next, are consistent with those used in the preparation of the financial statements of the previous period, except in respect of the statement of cash flows for which they were adjusted in the comparative period.

At the end of 2021, at the level of the condensed interim separate statement of cash flows, the Bank proceeded with the reclassification of Cash and deposits at central banks from the caption Deposits held for monetary control purposes to the caption Cash and deposits at central banks. Following this change, the Bank corrected the comparatives as at 30 June 2021, with the restatement being presented as follows:

(Euro thousand)

	Jun 2021 restated	Adjustment	Jun 2021
Deposits held for monetary control purposes	-	1 109 109	(1 109 109)
Cash and cash equivalents at the beginning of the period:			
Cash (note 17)	1 446 314	1 282 692	163 622
Loans and advances to credit institutions repayable on demand (note 18)	53 498	-	53 498
	1 499 812	**1 282 692**	**217 120**
Cash and cash equivalents at the beginning of the period:			
Cash (note 17)	2 533 643	2 391 801	141 842
Loans and advances to credit institutions repayable on demand (note 18)	71 794	-	71 794
	2 605 437	**2 391 801**	**213 636**

b) Financial instruments – IFRS 9

b.1) Classification of financial assets

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

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

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

b.1.1) Debt instruments

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

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

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

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

a) Financial assets at amortized cost, when the following two conditions are met:

- they are managed under a business model which objective is the holding of financial assets to receive contractual cash flows, and
- the contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the principal outstanding.

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

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

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

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

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.
- 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. Sales that are closed to the maturity 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 this purpose, Banco Montepio considers as immaterial sales of up to 10% of the nominal value of the sales of the portfolio and as infrequent 4 sales per year, regardless of the time interval between the transactions.

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

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

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

SPPI assessment

When the business model 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:

(i) Financial liabilities at amortized cost

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

(ii) Financial assets held for trading

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

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

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

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

(iv) Financial liabilities associated with assets transferred

This category includes liabilities associated with credit securitization operations that were not derecognized following the application of IFRS 9 - Financial instruments. These liabilities are initially recorded at the amount received on the cession of the loans and are subsequently valued at amortized cost, in a manner coherent with the valuation of the corresponding assets and the conditions defined in the securitization operation.

b.3) Recognition and initial valuation of financial instruments

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

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

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

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

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

Banco Montepio recognizes in profit or loss the day one profit, generated primarily by the intermediation of derivative and foreign exchange financial products, since the fair value of these instruments, both on the date of initial recognition or subsequently, is determined based solely on observable market variables and reflects Banco Montepio's access to the wholesale financial market.

b.4) Subsequent valuation of financial instruments

Subsequent to initial recognition, the Bank values its financial assets (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. On 30 June 2022, 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 well as the interest on financial assets and liabilities at fair value through profit or loss.

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

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

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

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

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

For derivative financial instruments, except for those classified as interest rate risk hedging instruments, the interest component is not separated from the changes in their fair value, being classified 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.

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. This situation can only occur when the performance of the modified asset is in accordance with the new contract terms for a period of twelve consecutive months. Additionally, the Bank continues to monitor whether there has been a significant increase in the credit risk of these assets, applying specific models for modified assets.

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

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

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

Guarantees granted by the Bank (shares and bonds) through repurchase agreements and securities’ lending and borrowing operations are not derecognized because the Bank substantially holds all risks and rewards based on the pre-established repurchase price, thus not meeting the de-recognition criteria.

Financial liabilities are derecognized when the underlying obligation is settled, expires, or is cancelled.

b.8) Write-off policy

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

b.9) Impairment of financial assets

The Bank determines impairment losses of debt instruments that are measured at amortized cost and fair value through other comprehensive income, as well as for other exposures that have an associated credit risk such as bank guarantees and commitments

The requirements of IFRS 9 have as their objective to recognize expected losses from operations, assessed on an individual or collective basis, considering all reasonable, reliable and duly substantiated information that is available, including forward-looking information.

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

Impairment losses of loans and advances to customers and of 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 to clients and to credit institutions, while those of the remaining financial assets are recognized in the caption Impairment of other financial assets.

Impairment losses of exposures that have an associated credit risk and that are not positions recorded in assets (e.g., bank guarantees and commitments assumed) are recorded as a provision in the caption Provisions under liabilities, in the balance sheet. The charges and reversals are recorded in the caption Other provisions in the income statement.

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

a) <u>Credit losses:</u> 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.

b) <u>Expected credit losses:</u> 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.10) Impairment model of loans and advances to customers

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

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

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

No impairment is recognized on equity instruments since these are measured at fair value and the gains or losses resulting on their disposal are recognized in other comprehensive income.

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

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

b.10.1) <u>Calculation of ECLs</u>

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

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

b.10.2) <u>Definition of default</u>

Banco Montepio aligned the definition used in the regulatory perspective with the accounting perspective, with financial assets classified in Stage 3 corresponding to the internal definition of default.

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

- Overdue loans above the materiality limits defined for more than 90 consecutive days. For this purpose, the following materiality limits are considered: (i) relative limit of 1%; (ii) absolute limit of Euro 100 for retail exposures and Euro 500 for non-retail exposures
- Individually significant customers with individual impairment
- Bankruptcy/insolvency customers
- Customers with loans written off from assets in Banco Montepio in the last 5 years
- Transactions with restructuring due to financial difficulties, which meet the criteria defined for the identification of defaults (e.g., decrease in the fair value of the loan).

b.10.3) <u>Significant increase in credit risk (SICR)</u>

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

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

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

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

When evaluating the significant increase in credit risk, Banco Montepio also considers the existence of arrears of more than 30 days, as well as other indicators of Customer behaviour vis-à-vis 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 (“Central de Responsabilidades de Crédito”).

b.10.4) <u>Additional Stage criteria and deterioration of credit ratings</u>

In the context of the recent pandemic crisis, and with the aim of anticipating the risk deterioration associated with exposures that benefitted from the moratoria, the following additional criteria were considered for Stage 2 and 3 classification levels:

Stage 2

- Customers for which the Bank, through a specific analysis of the credit quality of Customers that benefitted from a moratorium, concludes that it will be necessary to grant contractual amendments or refinancing that meet the classification criteria as restructured due to financial difficulties;
- Transactions with more than 0 days in arrears;
- Customers of the Corporate and Sole Proprietor Company (“ENI”) segment: As at 31 December 2021, Customers that benefitted from a moratorium on capital and interest until September 2021 are classified in Stage 2;
- Customers of the Individuals segment: worsening of the behavioural scoring of Customers that benefitted from a moratorium until September 2021, considering the adjustment of certain input

variables, namely related to the evolution of the customers' resources or with the professional situation of unemployed.

Stage 3

- Anticipation of the classification in stage 3 of Customers for which the Bank has concluded that it is likely that they will be marked in default via the criteria set out in the definition of default (e.g., urgent restructuring; bankruptcy/insolvency).

During the first half of 2022, the Bank recognized an overlay, based on a top-down approach, which consisted of deteriorating the credit ratings of Customers in the sectors of activity most exposed to the indirect impact of the military conflict taking place in Ukraine, as described in note 49.

b.10.5) *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, economic activity code and delay indicators.

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

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

The EAD represents the expected loss if the exposure and/or Customer enters default. Banco Montepio obtains the EAD values from the counterparty´s current exposure and from potential changes to its current value, permitted by the contractual conditions, including amortizations and prepayments. For commitments and financial guarantees, the EAD value includes both the amount of credit used as well as the expectation of the potential future value that may come to be used in accordance with the contract. For this purpose, credit conversion factors (CCF) are estimated based on internal historical data, which are adjusted to reflect forward-looking information.

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

b.10.6) <u>Measurement of ECL – Individual analysis</u>

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.

For the financial assets of individually significant counterparties/Customers classified in Stages 1 and 2, the expected credit loss (ECL) is attributed according to the collective analysis methodology, given that individually no impairment level is observed.

The criteria for the determination of impairment of individually significant loans

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

1. Economic Groups with a global exposure amount ≥ 0.5 m€ in which at least one of the participants is the holder of operations classified as Stage 3, with Customers with an exposure amount ≥ 0.1 m€ being selected;
2. Customers holding Stage 2 operations with an exposure amount ≥ 1.0 m€ and Customers with an exposure amount ≥ 1.0 m€ that are part of the same Economic Group;
3. Customers holding Stage 1 operations with an exposure amount ≥ 2.5 m€;
4. Customers corresponding to Shareholding Management Companies (SGPS) and/or Customers holding loans under Project Finance with an exposure amount ≥ 1.0 m€;
5. Other Customers when duly justified.

For the exposure of Customers or economic groups, all active credit operations (on- and off-balance sheet) are considered, excluding the operations written off.

The individual analysis is the responsibility of the Specialized Credit Analysis Department and in the evaluation of impairment losses the following factors are, essentially, considered:

- Total exposure of each Customer and/or economic group, internal rating of the Customer and/or economic group, the staging associated with each operation and the existence of signs of impairment;
- Economic and financial viability of the Customer or economic group and the respective ability to generate future cash flows to pay the debt;
- Existence of collaterals associated with each credit and their respective valuation;
- Customers' or guarantors' net assets;
- Situation of bankruptcy or insolvency of the Customers and/or guarantors;
- Expectation regarding the credit recovery period.

The recoverable amount is determined by the sum of the expected cash flows, estimated in accordance with the contractual conditions in force and according to the underlying collection expectations, discounted at the original effective interest rate of the contract. An impairment adjustment 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 case of the continuity of operations (going concern) a critical analysis is done of the Companies' business plans or other elements available for analysis, which should include information on past events, current conditions and projected future economic conditions (forward-looking scenarios), with these being representative of the current and future economic-financial situation of the Customer. For the calculation of the impairment of these Customers, the annually projected cash flows, after adjustment of the initially estimated assumptions and the application of haircuts, if necessary, and considering deviations of the real figures from those initially projected, are discounted at the original effective interest rate of the operations;
- In the case of the cessation of the activity (gone concern) the settlement through collaterals, if these exist, is assumed, with an exhaustive analysis being made of same, namely regarding the value of the mortgage/pledge, the valuation amount, the valuation date and the need for the application of haircuts in function of the ageing of the valuation or other factors, the deadline for the foreclosure/execution, and the deadline for the sale, as well as the associated maintenance, selling and procedural costs, as applicable. For the calculation of the impairment of these Customers, the annually projected cash flows, after adjustments, are discounted at the original effective interest rate of the operations;
- For each recovery strategy, the respective excepted credit loss is calculated, considering different forward-looking scenarios, weighted by the respective probability of occurrence;
- For specific cases, it is possible to use strategies that combine with either the going concern or the gone concern methods.

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

Banco Montepio does not derecognize from assets the credits sold in securitization operations when:

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

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

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

b.12) *Synthetic securitization*

The Bank contracted an operation that configures a synthetic securitization structure. The operation started on 18 December 2020 and is based on a loan portfolio of Small and Medium-sized Enterprises (SMEs).

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

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

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

c) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Fair value hedging

In a fair value hedging operation of an asset or liability, the balance sheet value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in its fair value attributable to the hedged risk. Changes in the fair value of hedging derivatives are recognized in the income statement, together with changes in the fair value of the hedged assets or liabilities, attributable to the hedged risk. In cases where the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income, the changes in fair value are also recognized in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the risk management objective remains, Banco Montepio may adjust the hedge to comply with the eligibility criteria. If the hedge fails to meet the criteria required for hedge accounting (if the hedge instrument expires, is sold, terminated or exercised, without having been replaced according to the entity's documented risk management objective), the derivative financial instrument is transferred to the trading book and hedge accounting is discontinued prospectively. If the hedged asset or liability corresponds to a fixed-income instrument, the revaluation adjustment is amortized via the income statement until its maturity using the effective interest rate method.

Cash flow hedging

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

d) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently of its legal form, evidencing a residual interest in the assets of an entity after deducting all its liabilities.

Transaction costs directly attributable to an equity instrument issuance are recognized in equity as a deduction from the amount of the issue. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs.

Distributions made on account of equity instruments are deducted from equity as dividends when declared.

e) Financial and performance guarantees

Financial guarantees

Financial guarantees are contracts that require the issuer to make payments to compensate the holder for losses incurred as a result of breaches of the contractual terms of debt instruments, namely the payment of capital and/or interest. Financial guarantees issued are initially recognized at their fair value. Subsequently, these guarantees are measured at the higher of (i) the initially recognized fair value and (ii) the amount of any obligation arising from the guarantee contract, measured at the balance sheet date. Any change in the amount of the obligation associated with financial guarantees issued is recognized in profit or loss. Financial guarantees issued by the Bank usually have a defined maturity and a periodic prepaid commission, which varies according to counterparty risk, amount and period of the contract. On that basis, the fair value of the guarantees on the date of their initial recognition is approximately equivalent to the amount of the initial commission received, considering that the agreed conditions are market. Thus, the amount recognized on the contract date equals the amount of the initial commission received, which is recognized in profit or loss over the financial year to which it relates. Subsequent commissions are recognized in profit or loss in the financial year to which they relate.

Performance guarantees

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

f) Securities' loan and repurchase agreement transactions

Securities' loans

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

Repurchase agreements

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

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

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

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

g) Investments in subsidiaries and 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:

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

(iv) 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;
- 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 lessor 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:

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). These commissions are received in advance and are deferred and recognized over the life of the operation;

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

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

l) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in Banco Montepio's financial statements. Fee and commission income arising from this activity are recognized in the income statement in the period to which they relate.

m) Other tangible assets

Other tangible assets are recorded at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for Banco Montepio. All repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred. Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful lives:

	Number of years
Buildings held for own use	50
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;

- Investment 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 plans

Banco Montepio has the responsibility to pay its employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of the Collective Labour Agreement ("ACT") 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, 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 45.

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 is now subject to the regime established by the Corporate Income Tax Code (“CIRC”). Additionally, deferred taxes resulting from timing differences between the accounting net income and the net income accepted by the Tax Authorities for IRC assessment purposes are accounted for whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax recognized in the income statement includes the current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case the corresponding income tax is recognized in equity. Deferred taxes recognized in equity arise from the revaluation of financial assets at fair value through other comprehensive income and from cash-flow hedging derivatives. Only deferred taxes related to fair value hedging derivatives are subsequently recognized in profit or loss at the same moment the gains and losses that originated the deferred taxes are recognized.

Current tax corresponds to the tax assessed on the taxable income for the financial year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to taxes assessed in respect of previous financial periods.

Deferred taxes are calculated for timing differences between the book values of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes, using the tax rates approved or substantially approved at the balance sheet date and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for intangible assets with an indefinite life, which are not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither the accounting nor the taxable income and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the future, and to the extent that Banco Montepio does not exercise control over the period of the reversal of the differences.

Deferred tax assets are recognized when it is probable that future taxable income will be available to absorb the deductible timing differences for taxation purposes (including reportable taxable losses).

As established in IAS 12, paragraph 74, Banco Montepio offsets the deferred tax assets and liabilities if, and only if: (i) it has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In the year 2018, Banco Montepio became the dominant company of the Group subject to Corporate Income Tax under the Special Taxation Regime of Groups of Companies ("Regime Especial de Tributação dos Grupos de Sociedades" ("RETGS")), constituted by the Companies in which it holds a shareholding equal to or higher than 75% and which meet the conditions provided for in article 69 et sec of the IRC Code.

The Companies included in the RETGS calculate and record income tax as if they were taxed on a separate basis. The liabilities determined are, however, payable to the parent company of the tax group, Banco Montepio, which is responsible for the global calculation and self-assessment of the tax. Gains or losses arising from the application of this regime are recorded in each of the companies that originate them.

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 those situations, 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:

    - It is unlikely that an outflow of resources incorporating economic benefits will be required to settle that obligation;

    - The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, being, in accordance with IAS 37, disclosed whenever the possibility of an outflow of resources encompassing economic benefits is not remote.

v) Insurance and reinsurance brokerage services

Banco Montepio is duly authorized by the Insurance and Pension Funds Supervisory Authority (“Autoridade de Supervisão de Seguros e Fundos de Pensões” - “ASF”) to provide insurance brokerage services, under the category of Tied Insurance Broker, in accordance with article 8, paragraph a), subparagraph i), of Decree-Law no. 144/2006, of 31 July, operating in the life and non-life insurance brokerage areas.

In the insurance brokerage services scope, Banco Montepio sells insurance contracts, receiving as remuneration for the services rendered brokerage commissions on insurance and investment contracts, which are defined in agreements/protocols established between Banco Montepio and the Insurance Companies.

The commissions received for the insurance brokerage services have the following typology:

1. commissions that include a fixed and a variable component. The fixed component is calculated by applying a predetermined rate to the amount of the subscriptions made by Banco Montepio and the variable component is calculated based on predetermined criteria, with the total annual commission being the sum of the commissions calculated monthly;
2. commissions in the form of profit-sharing in the results of the insurance contracts, which are calculated annually and paid by the Insurance Companies in the beginning of the year following that to which they relate.

Commissions received for insurance brokerage services are recognized on an accrual basis. Fees paid in a different period from that to which they relate are recorded as a receivable in the caption Other assets with a corresponding entry in the caption Fee and commission income – For insurance brokerage services.

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 recent COVID-19 pandemic and 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 drivers and how each driver impacts the others.

d) *Probability of default:*

The probability of default represents a determining factor in measuring expected credit losses. The probability of default corresponds to an estimate of the probability of default in a given time period, which is calculated based on historical data, assumptions and expectations about future conditions.

e) *Loss given default:*

This corresponds to an estimate of the loss in a default scenario, being determined by the difference between the contractual and the expected cash flows that the Bank expects to receive, through cash flows generated by the Customer's business or from the credit collateral. The calculation of the estimated loss given default is based, among other things, on the different recovery scenarios, historical information, the costs involved in the recovery process and the estimated valuation of the collateral associated with credit operations.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of the impairment losses recognized and presented in notes 19, 20, 23 and 25, with a consequent impact in the income statement of Banco Montepio.

Uncertainty of the current economic context caused by COVID-19 and the impacts arising from the military conflict in Ukraine led Banco Montepio, in accordance with the provisions of IFRS 9 and for the purposes of measuring credit impairment losses, to update the prospective information related to the macroeconomic data available on risk parameters, determining impacts at the level of the expected credit loss (see notes 13 and 49).

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, 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 44.

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 26, 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 29. 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 2022, 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 45.

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 30.

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 36.

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 27.

2 Net interest income

The amount of this caption has the following breakdown:

		(Euro thousand)
	Jun 2022	**Jun 2021**
Interest and similar income		
Loans and advances to customers	102 974	112 513
Other financial assets at amortized cost	4 455	3 456
Deposits and other loans and advances to credit institutions	11 883	4 724
Financial assets held for trading	41	4 156
Financial assets at fair value through other comprehensive income	286	214
Hedging derivatives	3 263	3 267
Financial assets at fair value through profit or loss	3	3
Other interest and similar income	-	7
	122 905	128 340
Interest and similar expense		
Deposits from central banks and other credit institutions	3 968	3 214
Deposits from customers	2 966	5 656
Debt securities issued	4 133	4 204
Financial liabilities associated to transferred assets	5 857	6 155
Financial liabilities held for trading	-	3 820
Hedging derivatives	1 116	1 024
Other subordinated debt	9 435	9 673
Lease liabilities	226	312
Other interest and similar expense	2 508	2 170
	30 209	36 228
Net interest income	92 696	92 112

The caption Interest and similar income – Loans and advances to customers, as at 30 June 2022, includes, respectively, the amount of Euro 7,405 thousand and the amount of Euro 1,231 thousand (30 June 2021: Euro 6,599 thousand and Euro 858 thousand), related to commissions and to other gains/(losses), which are accounted for under the effective interest rate method, as referred to in the accounting policy described in note 1 b).

In the first half of 2022, in accordance with IAS 1 paragraph 82(a), Banco Montepio recorded interest on financial assets held for trading, namely that related to derivative financial instruments, under the caption Net interest income from assets and liabilities at fair value through profit or loss.

The caption Interest and similar income - Financial assets at fair value through profit or loss, as at 30 June 2022 and 2021, includes the amount of 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%, with the rate of the subsequent periods coinciding with the DFR average verified since the start of each one of the tranches.

The caption Interest and similar expense – Other interest and similar charges includes, as at 30 June 2022, the amount of Euro 2,506 thousand (30 June 2021: Euro 2,168 thousand) related to costs incurred with the synthetic securitization operation.

3 Dividends from equity instruments

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Financial assets at fair value through other comprehensive income	951	1 747
	951	1 747

As at 30 June 2022, this caption includes dividends received in the amount of Euro 505 thousand from the company Unicre and Euro 406 thousand from SIBS (30 June 2021: Euro 1,386 thousand received from the company Unicre, Euro 171 thousand from SIBS and Euro 161 thousand from Monteiro Aranha, S.A.).

4 Net fee and commission income

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Fee and commission income		
From banking services	49 729	45 701
From transactions on behalf of third parties	11 654	10 757
From insurance brokerage services	3 731	3 832
Guarantees provided	1 711	1 888
Other fee and commission income	1 581	1 213
	68 406	63 391
Fee and commission expense		
From banking services rendered by third parties	10 400	8 386
From transactions with securities	215	438
Other fee and commission expense	1 465	1 036
	12 080	9 860
Net fee and commission income	56 326	53 531

As at 30 June 2022 and 2021, the caption Insurance brokerage services has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Life insurance	1 588	1 970
Non-life insurance	2 143	1 862
	3 731	3 832

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 2022			Jun 2021		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	1 185	4 326	(3 141)	884	1 157	(273)
Issued by other entities	38	31	7	140	71	69
Shares	410	871	(461)	798	283	515
Investment units	67	322	(255)	306	227	79
	1 700	5 550	(3 850)	2 128	1 738	390
Derivative financial instruments						
Interest rate contracts	55 927	59 605	(3 678)	19 402	19 637	(235)
Exchange rate contracts	14 048	14 097	(49)	12 790	13 122	(332)
Futures contracts	5 750	3 850	1 900	2 399	2 431	(32)
Option contracts	1 657	1 830	(173)	395	476	(81)
Commodities contracts	195	-	195	223	-	223
Credit default swaps	-	-	-	-	-	-
	77 577	79 382	(1 805)	35 209	35 666	(457)
Financial assets at fair value through profit or loss						
Investment units	1 678	1 959	(281)	5 662	12 307	(6 645)
Loans and advances to customers	20	364	(344)	75	567	(492)
	1 698	2 323	(625)	5 737	12 874	(7 137)
Other financial assets at fair value through profit or loss						
Shares	-	(23)	23	-	7	(7)
Securitization units	8 038	(752)	8 790	6 391	1 266	5 125
Loans and advances to customers	-	67	(67)	-	70	(70)
	8 038	(708)	8 746	6 391	1 343	5 048
Financial liabilities at fair value through profit or loss						
Deposits from customers	737	-	737	23	209	(186)
Debt securities issued	-	-	-	39	-	39
	737	-	737	62	209	(147)
Hedging derivatives						
Interest rate contracts	6 360	9 608	(3 248)	2 808	5 732	(2 924)
	6 360	9 608	(3 248)	2 808	5 732	(2 924)
Hedged financial liabilities						
Debt securities issued	2 713	-	2 713	2 507	-	2 507
	2 713	-	2 713	2 507	-	2 507
	98 823	96 155	2 668	54 842	57 562	(2 720)

Financial assets at fair value through profit or loss include, on 30 June 2022, in Investment units, a negative impact of Euro 281 thousand (30 June 2021: negative impact of Euro 6,645 thousand), determined by the negative effects of Fundo Carteira Imobiliária (fund) of Euro 1,112 thousand, of Fundo Vega (fund) of Euro 522 thousand, of Fundo PEF (fund) of Euro 140 thousand, partially offset by the positive effects of Fundo VIP (fund) of Euro 1,079 thousand and of Fundo Valor Prime (fund) of Euro 471 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 2022 recorded the amount of Euro 671,799 thousand (30 June 2021: Euro 1,609,256 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 2022			Jun 2021		
	Gains	Losses	Total	Gains	Losses	Total
Fixed-income securities						
Bonds						
Issued by public entities	18	1 058	(1 040)	1 157	632	525
Comercial Paper	2 273	-	2 273	-	-	-
	2 291	1 058	1 233	1 157	632	525

On 30 June 2022, the caption Bonds – Issued by public entities includes net losses obtained on the sale of Portuguese sovereign bonds in the amount of Euro 1,040 thousand. On 30 June 2021, this caption included net gains generated on the sale of Portuguese sovereign bonds in the amount of Euro 105 thousand, of Greek sovereign bonds in the amount of Euro 50 thousand, and of German, Belgian, Italian and Spanish sovereign bonds in the amount of Euro 370 thousand.

7 Net gains/(losses) arising from exchange differences

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022			Jun 2021		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differencies	12 490	8 709	3 781	12 471	11 297	1 174

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

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

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Disposal of other assets	9 337	4 926
Disposal of loans and advances to customers	4 118	(106)
Disposal of financial assets at amortized cost	-	14 736
	13 455	19 556

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.

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.

In the first half of 2021, Banco Montepio disposed of Euro 511 million in terms of nominal value of Portuguese sovereign debt classified in the hold to collect portfolio. This operation falls within the limits defined in Banco Montepio's internal regulation for this business model, being classified as infrequent, but significant in terms of value, having generated a capital gain of Euro 14,736 thousand.

9 Other operating income/(expense)

The amount of this caption has the following breakdown:

(Euro thousand

	Jun 2022	Jun 2021
Other operating income		
Repurchase of own issues	2 106	-
Services provided	2 058	2 435
Management fees on demand deposits	1 656	1 390
Reimbursement of expenses	1 056	1 016
Other	3 425	1 234
	10 301	6 075
Other operating expenses		
Contributions:		
Banking sector	11 300	9 536
Ex-ante to the Single Resolution Fund	8 215	7 591
National Resolution Fund	4 707	4 357
Deposits Guarantee Fund	153	26
Repurchase of own issues	11 921	-
Revaluation of investment properties	3 428	2 984
Servicing and expenses with recovery and disposal of loans	1 535	1 842
Taxes	767	274
Expenses with issuances	424	536
Donations and memberships	75	340
Other	2 592	4 470
	45 117	31 956
Other net operating income/(expense)	(34 816)	(25 881)

On 30 June 2022, the caption Other operating income – Repurchase of own issues, in the amount of Euro 2,106 thousand, represents the income earned on the reacquisition of debt issued in the amount of Euro 93,300 thousand, as referred in note 34.

On 30 June 2022, the caption Other operating income – Other, includes income earned on the recovery of credit in the amount of Euro 556 thousand and with the restitution of taxes in the amount of 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 2022 and of 2021, 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 2022, Banco Montepio had settled Euro 9,867 thousand (30 June 2021: Euro 8,424 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 loans 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 2022, the amount of Euro 1,356 thousand (30 June 2021: Euro 1,475 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 in the amount of Euro 11,921 thousand, corresponds to an extraordinary 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 2022 (see note 1 b.4). This change results from (i) the formal confirmation 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 in the third quarter of 2022, 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, refund of commissions, ECB supervision fee and other operating expense.

10 Staff costs

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Remuneration	46 650	49 084
Mandatory social charges	7 122	15 594
Charges with Pension Funds	8 170	3 985
Other staff costs	2 011	3 390
	63 953	72 053

On 30 June 2022, within the scope of the Employee Adjustment Programme, the captions of Charges with the Pension Fund and Other costs include, respectively, the amounts of Euro 1,355 thousand and Euro 1,856 thousand, related to the resulting charges arising from early retirement and mutual-agreement termination programmes.

In the period ended 30 June 2022 and in financial year 2021, the members of the Management Bodies did not receive any variable remuneration. First-line managers are considered Other key management personnel.

The costs with remuneration and other benefits, including the respective social charges, attributed to the General Meeting Board, the Board of Directors (including the members of the Audit Committee) and Other key management personnel are presented as follows:

(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

(Euro thousand)

	Jun 2021			
	General Meeting Board	Board of Directors	Other key management staff	Total
Remuneration and other short-term benefits	7	1 659	1 575	3 241
Pension costs	-	374	112	486
Costs with healthcare benefits (SAMS)	-	10	27	37
Social Security charges	1	355	347	703
	8	2 398	2 061	4 467

As at 30 June 2022, loans granted to members of the Board of Directors (including the members of the Audit Committee) amounted to Euro 571 thousand (30 June 2021: Euro 614 thousand) and to key management personnel, Euro 2,819 thousand (30 June 2021: Euro 3,586 thousand), as described in note 47.

11 General and administrative expenses

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Rental costs	254	319
Specialized services		
IT services	6 164	5 739
Independent work	2 067	3 067
Other specialized services	6 902	7 628
Maintenance and repairs	2 180	2 105
Communication costs	1 878	3 036
Advertising costs	1 729	1 209
Water, energy and fuel	1 171	1 490
Transportation	1 039	823
Insurance	483	481
Training	404	68
Travel, accommodation and entertainment expenses	316	180
Consumables	249	210
Other general administrative costs	667	711
	25 503	27 066

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

12 Depreciation and amortization

The amount of this caption has the following breakdown:

	(Euro thousand)	
	Jun 2022	**Jun 2021**
Intangible assets (note 28)		
Software	8 987	8 545
Other tangible assets (note 27)		
Real Estate		
For own use	1 274	1 432
Leasehold improvements in rented buildings	124	260
Equipment		
IT equipment	1 189	1 342
Fixtures	770	828
Furniture	58	59
Security equipment	41	59
Machinery and tools	18	18
Transportation	4	4
Right-of-use assets		
Real Estate	2 634	2 858
Motor vehicles	817	863
	6 929	7 723
	15 916	16 268

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 2022	**Jun 2021**
Other loans and advances to credit institutions (note 19)		
Charge for the financial period net of reversals	219	318
Loans and advances to customers (note 20)		
Charge for the financial period net of reversals	(2 208)	56 512
Recovery of loans and interest	(2 700)	(1 962)
	(4 908)	54 550
	(4 689)	54 868

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 2022	Jun 2021
Financial assets at fair value through other comprehensive income (note 23)		
Charge for the financial period net of reversals	200	1 174
Other financial assets at amotized cost (note 25)		
Charge for the financial period net of reversals	1 370	2 207
	1 570	3 381

15 Impairment of other assets

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Investments in associated companies (note 26)		
Charge for the period	107	-
	107	-
Other intangible assets (note 27)		
Charge for the period	514	3 826
Reversals for the period	(265)	-
	249	3 826
Other assets (note 30)		
Charge for the period	9 505	6 990
Reversals for the period	(1 196)	(2 612)
	8 309	4 378
	8 665	8 204

16 Other provisions

The amount of this caption has the following breakdown:

(Euro thousand)

	Jun 2022	Jun 2021
Guarantees and commitments (note 36)		
Charge for the period	11 209	10 924
Reversals for the period	(11 091)	(13 665)
	118	(2 741)
Other risks and charges (note 36)		
Charge for the period	-	616
Reversals for the period	(2 733)	(5 260)
	(2 733)	(4 644)
	(2 615)	(7 385)

17 Cash and deposits at central banks

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Cash	156 216	155 318
Deposits at central banks		
Bank of Portugal	1 632 817	2 788 426
	1 789 033	2 943 744

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 Loans and deposits to credit institutions repayable on demand

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Credit institutions in Portugal	717	613
Credit institutions abroad	44 849	68 776
Amounts to be collected	19 896	14 851
	65 462	84 240

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

As at 30 June 2022, Loans and advances at other credit institutions and central banks were remunerated at the average rate of -0.34% (31 December 2021: - 0.33%).

19 Other loans and advances to credit institutions

This caption is presented as follows:

		(Euro thousand)
	Jun 2022	**Dec 2021**
Loans and advances to credit institutions in Portugal		
Other loans	313 125	274 189
Term deposits	8 934	8 690
	322 059	282 879
Loans and advances to credit institutions abroad		
Term deposits	32 115	77 735
CSA's	14 179	25 139
Other loans and advances	9 750	4 800
	56 044	107 674
	378 103	390 553
Impairment for credit risk of loans and advances to credit institutions	(2 315)	(2 094)
	375 788	388 459

As at 30 June 2021 and 2022, the caption Other loans and advances to credit institutions in Portugal - Loans, includes loans made to subsidiaries of Banco Montepio.

The change in the caption Other loans and advances to credit institutions abroad – Term deposits corresponds, essentially, to very short-term investments in foreign currency.

Credit Support Annexes (“CSA’s”) are contracts that regulate the delivery, reception and monitoring of collateral delivered/received to cover the exposure of a counterparty of the contract to the other, as a result of open positions in over-the-counter derivatives. 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, 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 2022, Banco Montepio holds an amount of Euro 14,179 thousand (31 December 2021: Euro 25,139 thousand) related to other loans and advances to credit institutions given as collateral for the above-mentioned operations.

As at 30 June 2022, the caption Other loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 9,867 thousand (31 December 2021: Euro 8,424 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 2022	Dec 2021
Opening balance	2 094	8 110
Charge for the period net of reversals	219	(2 547)
Transfers	-	(3 471)
Exchange differences	2	2
Closing balance	2 315	2 094

On 30 June 2022, the Other loans and advances to banks were remunerated at the average rate of 0.35% (31 December 2021: 0.13%).

20 Loans and advances to customers

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Corporate		
Loans not represented by securities		
Loans	3 073 758	2 915 141
Current account loans	695 271	645 002
Finance lease	281 800	288 448
Discounted bills	22 555	26 530
Factoring	209 987	197 532
Overdrafts	1 129	723
Other loans	325 332	337 220
Loans represented by securities		
Commercial paper	140 691	148 383
Bonds	150 084	175 801
Retail		
Mortgage loans	5 496 425	5 538 793
Finance leases	29 090	30 156
Consumer credit and other loans	845 631	811 443
	11 271 753	11 115 172
Value correction of assets subject to hedging operations	(36)	30
Past due loans and advances and interest		
Less than 90 days	16 970	41 265
More than 90 days	417 010	347 033
	433 980	388 298
	11 705 697	11 503 500
Impairment for credit risks	(479 853)	(499 471)
	11 225 844	11 004 029

As at 30 June 2022, the caption Loans and advances to customers includes the amount of Euro 2,750,959 thousand (31 December 2021: Euro 2,746,685 thousand) related to the issue of covered bonds realized by Banco Montepio, as referred to in note 34.

As at 30 June 2022, the loans and advances that Banco Montepio granted to its shareholders and to related parties including Companies of the consolidation perimeter, amounted to Euro 311,438 thousand (31 December 2021: Euro 274,114 thousand), as described in note 47. The celebration of business between Banco Montepio and its shareholders or with individual or legal persons related to these, according to article 20 of the Portuguese Securities Code, regardless of the value, is always submitted to deliberation and assessment by the Board of Directors and the Audit Committee, under a proposed made by the commercial network, supported by analyses and opinions as to the compliance with the limit established in article 109 of the Legal Framework of Credit Institutions and Financial Companies issued by the Risk Department. The impairment for credit risks related to these contracts amounts to Euro 472 thousand as at 30 June 2022 (31 December 2021: Euro 4,305 thousand).

As at 30 June 2022, the caption Loans and advances to customers includes the amount of Euro 671,800 thousand (31 December 2021: Euro 734,868 thousand) related to loans and advances that were the object of securitization and that, in accordance with the accounting policy outlined in note 1 b), were not the object of derecognition, as described in note 48.

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 44.

The analysis of the caption Loans and advances to customers, by interest rate type, as at 30 June 2022 and 31 December 2021, is as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Variable-rate loans and advances	10 593 389	10 207 110
Fixed-rate loans and advances	1 112 308	1 296 390
	11 705 697	11 503 500

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

(Euro thousand)

	Jun 2022	Dec 2021
Asset-backed loans	314 403	273 701
Other guaranteed loans	61 166	56 584
Finance leases	3 181	3 474
Secured loans	33 000	33 000
Other loans and advances	22 230	21 539
	433 980	388 298

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

(Euro thousand)

	Jun 2022	Dec 2021
Corporate		
Construction/Production	52 130	55 818
Investment	229 218	188 055
Treasury	92 639	87 936
Other	15 265	15 073
Retail		
Mortgage loans	28 374	27 550
Consumer credit	9 493	7 497
Other	6 861	6 369
	433 980	388 298

The analysis of the caption Loans and advances to customers, by maturity and by credit type, is as follows:

(Euro thousand)

	Jun 2022 Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assed-backed loans	173 145	556 824	8 164 996	314 403	9 209 368
Other guaranteed loans	333 373	110 190	234 353	61 166	739 082
Finance leases	1 233	101 158	208 499	3 181	314 071
Secured laons	14 050	102 871	173 854	33 000	323 775
Other loans and advances	509 572	94 632	492 967	22 230	1 119 401
	1 031 373	965 675	9 274 669	433 980	11 705 697

(Euro thousand)

	Dec 2021 Loans and advances to customers				
	Up to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assed-backed loans	123 965	507 091	8 044 418	273 701	8 949 175
Other guaranteed loans	352 713	132 968	259 765	56 584	802 030
Finance leases	4 778	102 226	211 600	3 474	322 078
Secured laons	148 383	94 531	81 270	33 000	357 184
Other loans and advances	458 185	99 850	493 459	21 539	1 073 033
	1 088 024	936 666	9 090 512	388 298	11 503 500

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

(Euro thousand)

	Jun 2022 Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	53 518	151 032	109 924	314 474
Outstanding interest	(7 725)	(19 775)	(13 388)	(40 888)
Residual values	1 474	9 091	26 739	37 304
	47 267	140 348	123 275	310 890

(Euro thousand)

	Dec 2021			
	Finance leases			
	Up to 1 year	1 to 5 years	More than 5 years	Total
Outstanding rentals	53 291	157 525	114 501	325 317
Outstanding interest	(8 030)	(20 878)	(15 110)	(44 018)
Residual values	1 113	9 499	26 693	37 305
	46 374	146 146	126 084	318 604

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 2022	Dec 2021
Opening balance	499 471	759 445
Charge for the period net of reversals	(2 208)	59 634
Utilization	(22 432)	(278 143)
Exchange rate differences	3 628	2 178
Transfers	1 107	(42 097)
Financial liabilities associated with transferred assets and stage 3 interest	287	(1 546)
Closing balance	479 853	499 471

The caption Transfers includes, as at 31 December 2021, the impairment associated with the loans and advances included in the Gerês Secured operation which, in accordance with IFRS 5, was recorded in Non-current assets held for sale (see note 26).

The use of impairment corresponds to the loans and advances written off on 30 June 2022 and in financial year 2021.

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

(Euro thousand)

	Jun 2022	Dec 2022
Asset-backed loans and finance leases	361 152	364 749
Other secured loans	80 651	83 187
Unsecured loans	38 050	51 535
	479 853	499 471

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

(Euro thousand)

	Jun 2022	Dec 2021
Asset-backed loans and finance leases	7 093	164 864
Other secured loans	5 624	69 188
Unsecured loans	9 715	44 091
	22 432	278 143

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 2022, 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 674,515 thousand (31 December 2021: Euro 597,239 thousand) and present an impairment of Euro 245,119 thousand (31 December 2021: Euro 252,564 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 2022 and 31 December 2021, by credit type, is as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Corporate		
Loans not represented by securities		
Loans	88 036	99 196
Current account loans	34 311	3 241
Finance leases	388	2 951
Other loans	4 467	5 137
Retail		
Mortgage loans	4 278	11 601
Consumer credit and other loans	1 014	14 382
	132 494	136 508

As at 30 June 2022, and as regards restructured loans not yet due, the impairment associated with these operations amounts to Euro 13,619 thousand, which corresponds to an impairment rate of 10.3% (31 December 2021: Euro 53,885 thousand, impairment rate of 39.5%). The decrease in the impairment rate compared with December 2021 is explained by the greater collateralization of the newly restructured contracts.

Synthetic securitization

On 18 December 2020, Banco Montepio carried out an operation that configures a synthetic securitization structure, which is based on a portfolio of loans of Small and Medium-sized Enterprises (SMEs). The legal maturity of the transaction is 25 March 2036 and the respective amount totals Euro 492,375 thousand as at 30 June 2022 (31 December 2021: Euro 358,661 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 2022	Dec 2021
Financial assets held for trading		
Securities		
Shares	1 225	-
Bonds	5 061	-
Investment units	122	-
	6 408	-
Derivative instruments		
Derivative financial instruments with positive fair value	2 856	1 376
	9 264	1 376
Financial liabilities held for trading		
Derivative instruments		
Derivative financial instruments with negative fair value	12 706	7 470
	12 706	7 470

As provided for in IFRS 13, as at 30 June 2022 and 31 December 2021, the financial instruments measured in accordance with the valuation levels described in note 44, are as follows:

(Euro thousand)

	Jun 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
Securities				
Shares	1 225	-	-	1 225
Bonds	5 061	-	-	5 061
Investment units	122	-	-	122
	6 408	-	-	6 408
Derivative instruments				
Derivative instruments with positive fair value	-	2 856	-	2 856
	6 408	2 856	-	9 264
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	2 863	9 843	12 706
	-	2 863	9 843	12 706

(Euro thounsad)

	Dec 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
Securities				
Shares	-	-	-	-
Bonds	-	-	-	-
Investment units	-	-	-	-
	-	-	-	-
Derivative instruments				
Derivative instruments with positive fair value	-	1 376	-	1 376
	-	1 376	-	1 376
Financial liabilities held for trading				
Derivative instruments				
Derivative instruments with negative fair value	-	949	6 521	7 470
	-	949	6 521	7 470

As at 30 June 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 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 thounsad)

		Jun 2022								
		Derivative					Related Asset/Liability			
Derivative	**Related finacial asset/liability**	**Nocional**	**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**
Intereste rate swaps	Deposits from customers	43 340	-	(493)	(493)	(411)	(584)	(737)	42 523	43 107
Intereste rate swaps	Loans and advances to customers	1 014	4	(6)	(2)	20	(36)	(66)	956	986
Intereste rate swaps	-	647 808	1 566	(11 363)	(9 797)	(3 267)	-	-	-	-
Currency swap (short)	-	48 170	89	(59)	30	(78)	-	-	-	-
Currency swap (long)	-	47 917								
Future options (short)	-	29 582	-	-	-	-	-	-	-	-
Future options (long)	-	3 320								
Forwards (Short)	-	2 782	-	-	-	-	-	-	-	-
Forwards (Long)	-	2 784								
Options *(Short)*	-	77 440	1 197	(785)	412	(20)	-	-	-	-
Options *(Long)*	-	77 747								
		981 904	2 856	(12 706)	(9 850)	(3 756)	(620)	(803)	43 479	44 093

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

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

The book value of the derivative financial instruments as at 31 December 2021 and the comparison with the respective assets and liabilities recorded at fair value, in the specific case of derivatives held for risk management, can be analysed as follows:

(Euro thousand)

		Dec 2021								
		Derivative					Related Asset/Liability			
Produto derivado	Related finacial asset/liability	Nocional	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
Intereste rate swaps	Debt securities issued	-	-	-	-	-	-	(9)	-	-
Intereste rate swaps	Deposits from customers	25 018	-	(82)	(82)	(82)	153	153	25 009	24 856
Intereste rate swaps	Loans and advances to customers	1 068	4	(26)	(22)	43	30	22	1 004	1 041
Intereste rate swaps	-	682 386	1 323	(7 853)	(6 530)	1 398	-	-	-	-
Currency swap (short)	-	24 479	108	-	108	(110)	-	-	-	-
Currency swap (long)	-	24 597								
Future options (short)	-	-	-	-	-	-	-	-	-	-
Future options (long)	-	-								
Forwards (Short)	-	745	-	-	-	-	-	-	-	-
Forwards (Long)	-	745								
Options *(Short)*	-	55 709	(59)	491	432	434	-	-	-	-
Options *(Long)*	-	55 956								
		870 703	1 376	(7 470)	(6 094)	1 683	183	166	26 013	25 897

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

The fair value of the options corresponds to derivatives traded on organized markets, which market value is settled daily against the margin account and the fair value of the Forwards - Foreign exchange derivatives with short residual maturities, to be settled.

22 Financial assets at fair value through profit or loss

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Variable income securities		
Investment units	188 960	257 459
Securitization units	31 654	28 857
Loans and advances to customers at fair value		
Loans not represented by securities	1 126	2 024
	221 740	288 340

The caption Variable-income securities – Investment units includes, as at 30 June 2022, the amount of Euro 28,460 thousand (31 December 2021: Euro 28,775 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 51. The securitization units correspond to the residual notes acquired by Banco Montepio.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 44, as follows:

				(Euro thousand)
	Jun 2022			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	-	-	188 960	188 960
Securitization units	-	-	31 654	31 654
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	1 126	1 126
	-	-	221 740	221 740

				(Euro thousand)
	Dec 2021			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	-	-	257 459	257 459
Securitization units	-	-	28 857	28 857
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	2 024	2 024
	-	-	288 340	288 340

As at 30 June 2022, 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 188,960 thousand (31 December 2021: Euro 257,459 thousand), of which Euro 144,343 thousand (31 December 2021: Euro 216,979 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 2022, 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 22,061 thousand (31 December 2021: Euro 28,632 thousand) having been determined.

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

		(Euro thousand)
	Jun 2022	Dec 2021
Opening balance	286 316	566 187
Acquisitions	402	2 788
Remeasurements	(2 059)	(45 146)
Disposals	(64 045)	(237 513)
Closing balance	220 614	286 316

The movements occurred in level 3 of the Loans and advances to customers at fair value relate, in their entirety, to revaluations made in the first half of 2022 and financial year 2021.

23 Financial assets at fair value through other comprehensive income

This caption, as at 30 June 2022, is presented as follows:

(Euro thousand)

	Jun 2022				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	21 073	6	(1 535)	(41)	19 503
Foreign	41 427	-	(373)	(75)	40 979
Bonds issued by other entities					
Domestic	7 132	109	(559)	(480)	6 202
Foreign	1 226	-	(36)	(2)	1 188
Comercial Paper	12 494	58	-	(58)	12 494
Variable income securities					
Shares					
Domestic	5 119	9 985	-	-	15 104
Foreign	6 242	1 127	(416)	-	6 953
	94 713	11 285	(2 919)	(656)	102 423

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

This caption, as at 31 December 2021, is presented as follows:

(Euro thousand)

	Dec 2021				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	21 025	198	-	(46)	21 177
Foreign	41 889	314	-	(78)	42 125
Bonds issued by other entities					
Domestic	7 350	809	(422)	(1 376)	6 361
Foreign	1 327	-	(13)	(2)	1 312
Comercial Paper	10 047	1 257	-	(1 257)	10 047
Variable income securities					
Shares					
Domestic	5 124	9 985	-	-	15 109
Foreign	6 242	1 200	(416)	-	7 026
	93 004	13 763	(851)	(2 759)	103 157

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

On 4 March 2021, Banco Montepio participated in the public tender offer ("PTO") for the acquisition of shares to increase the shareholding launched by Sociedade Técnica Monteiro Aranha S.A. (the "Offeror"), carried out by B3 S.A. – Brasil, Bolsa, Balcão.

Within the scope of the aforementioned tender, Banco Montepio sold its entire shareholding in Monteiro Aranha S.A. (the "Company"), corresponding to 1,262,743 ordinary shares, equivalent to approximately 10.31% of the Company's share capital. The sale generated a cash inflow of Euro 25,944 thousand.

In the first half of 2021, the Banco Montepio sold its entire shareholding in Almina Holding S.A. (Almina), corresponding to 9,500 ordinary shares, equivalent to 19.0% of the share capital of Almina. The sale generated a cash inflow of Euro 67,600 thousand.

On 30 June 2022, the Bank maintained for the valuation of the SIBS, Unicre and ABANCA shares, the assumptions disclosed in the financial statements as at 31 December 2021.

As at 30 June 2022 and 31 December 2021, 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 2022				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	18 499	1 004	-	-	19 503
Foreign	40 979	-	-	-	40 979
Bonds issued by other entities					
Domestic	-	-	6 202	-	6 202
Foreign	-	1 188	-	-	1 188
Comercial Paper	-	-	12 494	-	12 494
	59 478	2 192	18 696	-	80 366
Variable income securities					
Shares					
Domestic	-	-	14 300	804	15 104
Foreign	-	-	6 657	296	6 953
	-	-	20 957	1 100	22 057
	59 478	2 192	39 653	1 100	102 423

(Euro thousand)

	Dec 2021				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Bonds issued by public entities					
Domestic	20 153	1 024	-	-	21 177
Foreign	42 125	-	-	-	42 125
Bonds issued by other entities					
Domestic	-	-	6 361	-	6 361
Foreign	-	1 312	-	-	1 312
Comercial Paper	-	-	10 047	-	10 047
	62 278	2 336	16 408	-	81 022
Variable income securities					
Shares					
Domestic	-	-	14 300	809	15 109
Foreign	-	-	6 730	296	7 026
	-	-	21 030	1 105	22 135
	62 278	2 336	37 438	1 105	103 157

As provided for in IFRS 13, financial instruments are measured according to the valuation levels described in note 44.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset, with an impact of Euro 3,965 thousand as at 30 June 2022 (31 December 2021: Euro 3,744 thousand) having been determined.

Instruments classified under level 3 have associated unrealized gains and losses in the positive amount of Euro 10,469 thousand (31 December 2021: positive amount of Euro 11,322 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 2022, the impairment recorded for these level 3 securities amounted to Euro 537 thousand (31 December 2021: Euros 1,376 thousand).

The movements occurred in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

	(Euro thousand)	
	Jun 2022	**Dec 2021**
Opening balance	37 438	91 835
Acquisitions	12 494	15 076
Revaluations	(232)	(712)
Disposals	(10 047)	(67 600)
Reimburements	-	(1 161)
Closing balance	39 653	37 438

The movements occurred in impairment of financial assets at fair value through other comprehensive income are analysed as follows:

	(Euro thousand)	
	Jun 2022	**Dec 2021**
Opening balance	2 759	1 078
Charge for the financial period net of reversals	200	2 546
Utilization	(2 303)	(865)
Closing balance	656	2 759

The nominal value of the assets pledged as collateral to the European Central Bank in the scope of this caption, for the purpose of liquidity providing operations amounts, as at 30 June 2022, to Euro 57,630 thousand after haircut (31 December 2021: Euro 57,721 thousand), as described in note 31.

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 Hedging derivatives

This caption is presented as follows:

	(Euro thousand)	
	Jun 2022	**Dec 2021**
Assets		
Interest rate swaps	5 260	5 411
Liabilities		
Interest rate swaps	480	335
Net value	4 780	5 076

Banco Montepio contracted an interest rate swap to hedge its interest rate risk arising from a bond issue at fixed rate. The accounting method depends on the nature of the hedged risk, namely whether Banco Montepio is exposed to fair value changes, or cash flow changes, or whether it is hedging future transactions.

Banco Montepio performs periodic effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives' portfolio, by residual maturity, as at 30 June 2022 and 31 December 2021, is as follows:

(Euro thousand)

	Jun 2022			
	Notional by maturity date		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	4 780	4 780

(Euro thousand)

	Dec 2021			
	Notional by maturity date		Fair value	
	October 2022	Total	October 2022	Total
Fair value hedge derivative with interest rate risk:				
Interest rate swap	750 000	750 000	5 076	5 076

As at 30 June 2022, the fair value hedging operations can be analysed as follows:

(Euro thousand)

	Jun 2022						
Derivative	Hedged item	Hedged risk	Nocional	Fair value derivative (1)	Changes in fair value of derivative in the financial year	Fair value of hedge element (2)	Changes in fair value of the hedged item in the financial year (2)
Interest rate swap	Debt securities issued	Interest rate	750 000	4 780	(296)	(386)	2 713
			750 000	4 780	(296)	(386)	2 713

(1) Includes accrued interest.
(2) Attributable to the hedge risk.

As at 31 December 2021, the fair value hedging operations can be analysed as follows:

(Euro thousand)

	Dec 2021						
Derivative	Hedged item	Hedged risk	Nocional	Fair value derivative (1)	Changes in fair value of the derivative in the financial year	Fair value of hedge element (2)	Changes in fair value of the hedged item in the financial year (2)
Interest rate swap	Debt securities issued	Interest rate	750 000	5 076	(5 077)	(3 099)	4 468
Currency swap	Equity	Exchange rate	-	-	(143)	-	-
			750 000	5 076	(5 220)	(3 099)	4 468

(1) Includes accrued interest.
(2) Attributable to the hedge risk.

25 Other financial assets at amortized cost

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Fixed income securities		
Bond issued by public entities		
Domestic	1 081 014	669 851
Foreign	2 974 053	2 302 749
Bonds issued by other entities		
Foreign	527 986	562 588
	4 583 053	3 535 188
Impairment for other financial assets at amortised cost	(5 989)	(4 619)
	4 577 064	3 530 569

The fair value of the portfolio of Other financial assets at amortized cost is disclosed in note 44.

Other financial assets at amortized cost are recognized in accordance with the accounting policy described in note 1 b).

As at 30 June 2022, the loan obtained from the EIB is collateralized by Portuguese, Italian, Spanish and Greek sovereign bonds with a nominal value of Euro 357,324 thousand (31 December 2021: Euro 537,614 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 32.

As at 30 June 2022, the nominal value of the assets pledged as collateral to the European Central Bank under liquidity-providing operations amounts to Euro 3,432,556 thousand (31 December 2021: Euro 3,778,298 thousand) after applying a haircut.

As at 30 June 2022, the nominal value of the securities given in guarantee to the Deposits Guarantee Fund amounted to Euro 28,000 thousand (31 December 2021: Euro 24,000 thousand) as per note 43.

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 2022 and 31 December 2021.

The movements in Impairment of other financial assets at amortized cost are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	4 619	4 690
Charge for the period net of reversals	1 370	1 845
Utilizations	-	(1 916)
Closing balance	5 989	4 619

26 Investments in associated companies and Non-current assets held for sale

This caption is presented as follows:

	Jun 2022	Dec 2021
	(Euro thousand)	
Investments in associated companies		
Montepio Holding, S.G.P.S., S.A.	413 750	413 750
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Activos Imobiliários, A.C.E.	637	637
CESource, A.C.E.	-	-
	417 587	417 587
Impairment of investments in associated companies	(98 046)	(97 939)
	319 541	319 648
Non-current Assets held for sale		
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	8 997	8 997
Gerês Secured Operation	-	38 836
	8 997	47 833

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 – In Liquidation as a result of the change in the legal framework for banking entities operating in Cape Verde, the financial shareholding in this entity was reclassified to Non-current assets held for sale.

In view of this legal imposition, the competent Bodies of the Banco Montepio Group decided to proceed with the voluntary dissolution and liquidation of Banco Montepio Geral Cabo Verde – In Liquidation, having, for this, initiated the respective procedures with the Cape-Verdean authorities.

Banco Montepio analysed the impairment of investments made in its subsidiaries, considering the recoverable value of the businesses developed by each one. The recoverable value, in accordance with the accounting policy described in this report, was determined by the higher of fair value less costs to sell and value in use, in the case of continuing subsidiaries, and fair value less costs to sell, in the case of discontinued subsidiaries.

The value in use was determined based on the business plan approved by management and, depending on the specificity of the businesses and the markets in which Banco Montepio's subsidiaries operate, differentiated levels for the discount rate, for the solvency levels required for the banking activity and for the growth of net income in perpetuity, were also considered.

The verification of the assumptions used and the evolution of the macroeconomic and market conditions may result in the change of these same assumptions and, consequently, in the recoverable value determined for the subsidiaries object of this analysis.

The financial statements have been prepared on the assumption of the continuity of the respective operations, which depend on the future evolution of the assumptions underlying the recoverable value of its financial shareholdings as well as on the success of the initiatives to be taken by the Board of Directors to reinforce the net equity.

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

As a result of the analyses carried out, we concluded on the need to recognize, in the financial statements as at 30 June 2022, an impairment in Banco Montepio in the amount of Euro 98,046 thousand (31 December 2021: Euro 97,939 thousand) related to the financial shareholding held in Montepio Holding, S.G.P.S., S.A.

(Montepio Holding). Montepio Holding holds financial shareholdings of 100% of the share capital and voting rights of Montepio Investimento, S.A., Montepio Crédito – Instituição Financeira de Crédito, S.A. and Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. and a shareholding of 80.22% in Finibanco Angola, S.A. The valuation of Montepio Holding was made considering that the best estimate for determining its fair value corresponded to the amount of its equity adjusted for the fair value effect of assets and liabilities recorded at amortized cost or historical cost.

The movements in impairment of investments in subsidiaries and associates are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	97 939	97 939
Charge for the period	107	-
Closing balance	98 046	97 939

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 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, A.C.E.	636 924	26,00%	1,00	637
CESource, A.C.E.	-	18.00%	-	-
				417 587
Non-current Assets held for sale				
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100,00%	90,69	8 997
31 December, 2021				
Investments in associated companies				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100,00%	1,00	413 750
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20,00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários, A.C.E.	636 924	26,00%	1,00	637
CESource, A.C.E.	-	18.00%	-	-
				417 587
Non-current Assets held for sale				
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100,00%	90,69	8 997

The subsidiaries and associates of Banco Montepio are listed in note 53.

On 29 December 2021, the Bank signed a promissory contract for the purchase and sale of a set of non-performing loans ("NPLs") with guarantee (Secured tranche) and a set of properties received in recovery of credit, including Deposits in court. Although the conditions set out in IFRS 9 to ensure their derecognition from the balance sheet as at 31 December 2021 were not met, it was determined, however, that the conditions set out in IFRS 5 for their transfer to Non-current assets held for sale were met given that the sale of the operation was expected to occur in the short term, as so happened.

The global gross value and the impairment losses of the assets included in the Gerês Secured operation are detailed as follows:

(Euro thousand)

	Loans and advances on balance	Price deposits	Property received in deed	Financial assets at fair value through profit or loss	Total
Gross value	82 336	1 314	1 613	114	85 377
Impairment	(45 568)	(904)	(69)	-	(46 541)
Net value	36 768	410	1 544	114	38 836

With the signing of the deed of sale in April 2022, the Bank derecognized the assets included in the above perimeter accordingly at the end of the first half of 2022.

27 Other tangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Investments		
Real estate		
For own use	170 935	171 357
Leasehold improvements in rented building	28 301	28 301
Equipment		
IT equipment	87 321	86 015
Fixtures	30 706	30 626
Furniture	16 871	17 417
Securityu equipment	4 150	4 222
Machinery and tools	2 684	2 691
Transportation equipment	298	298
Other equipment	1	1
Works of art	2 870	2 870
Assets in operating leases	58	58
Righ-of-use assets		
Real estate	24 693	23 220
Motor vehicles	7 390	6 907
Work in progress	1 418	539
Other tangible assets	540	785
	378 236	375 307
Accumulated depreciation		
Charge for the period	(6 929)	(14 857)
Accumulated charge in previous periods	(189 940)	(176 172)
	(196 869)	(191 029)
Impairment of Other Tangible Assets	(452)	(480)
	180 915	183 798

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 2022	Dec 2021
Opening balance	480	11 941
Charge for the period	514	5 912
Reversal of the period	(265)	(269)
Transfers	(277)	(17 104)
Closing balance	452	480

The caption Transfers relates to branches closed that were transferred to Other assets – Assets received in recovery of credit, as described in note 30.

28 Intangible assets

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Investments		
Software	181 868	169 039
Other Intagible Assets	2 049	2 049
Work in progress	5 238	6 210
	189 155	177 298
Accumulated depreciation		
Charge for the period	(8 987)	(17 455)
Accumulated charge in previous periods	(139 824)	(122 369)
	(148 811)	(139 824)
	40 344	37 474

29 Taxes

Deferred tax assets and liabilities, as at 30 June 2022 and 31 December 2021, can be analysed as follows:

(Euro thousand)

	Assets		Liabilities		Net	
	Jun 2022	Dec 2021	Jun 2022	Dec 2021	Jun 2022	Dec 2021
Deferred taxes not dependent on future profitability						
Impairment on loans granted	42 001	42 625	-	-	42 001	42 625
Post-employment and long-term benefits	18 045	18 427	-	-	18 045	18 427
	60 046	61 052	-	-	60 046	61 052
Deferred taxes dependent on future profitability						
Financial instruments	20 070	21 745	(8 012)	(9 122)	12 058	12 623
Other tangible assets	-	-	(6)	(6)	(6)	(6)
Provisions/Impairment						
Impairment on loans granted	99 864	119 213	-	-	99 864	119 213
Other risks and charges	7 389	8 414	-	-	7 389	8 414
Imparirment in securities and non-financial assets	2 952	2 967	-	-	2 952	2 967
Impairment in financial assets	2 050	2 323	-	-	2 050	2 323
Post-employment and long-term benefits	51 460	48 945	-	-	51 460	48 945
Taxes losses carried forward	218 974	215 071	-	-	218 974	215 071
	402 759	418 678	(8 018)	(9 128)	394 741	409 550
Net deferred tax assets/(liabilities)	462 805	479 730	(8 018)	(9 128)	454 787	470 602

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 the 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 the referred REAID, in financial year 2021 and in the first half of 2022 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 41).

In this sense, under the terms of article 8 of the annex to Law no. 61/2014, of 26 August, Banco Montepio reinforced, on 30 June 2022, the special reserve in the amount of Euro 400 thousand, to which corresponds a tax credit of Euro 363 thousand (31 December 2021: special reserve of Euro 4,750 thousand, to which corresponds a tax credit of Euro 4,319 thousand) and which, as at 30 June 2022, 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 in the balance sheet date.

The caption Post-employment and long-term employee benefits includes the amount of Euro 2,199 thousand (31 December 2021: Euro 2,317 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 2022 and financial year 2021, deferred taxes dependant on the future profitability associated with Post-employment and long-term employee benefits include the amount of Euro 30,099 thousand related to post-employment and long-term benefits in excess of the existing limits.

In the first half of 2022 and financial year 2021, 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 business plan used to draw up the budget and considers, namely, the expectations regarding the impacts of the pandemic at the level of the financial markets, economic activity, and credit risk.

The recovery of the profitability, liquidity and capital levels of Banco Montepio, is sought from four strategic focuses, having as the first condition the sustainability of the capital position, the growth in strategic business areas, with lower capital consumption and lower risk, the improvement of the efficiency and profitability, with a focus on cost control, and the simplification of the organizational structure and processes.

In this context, the prospects of sustainable improvements in the profitability levels derive from the following principles:

- Reduction of operating costs, eliminating redundancies, taking advantage of synergies, and simplifying the organizational structure.
- Increase in the commercial network business with growth in credit portfolios with less risk and less capital consumption, based on an appropriate management of return on capital, exploring the potential for growth in the complementary margin in cross-selling and new business areas, and leveraging the potential of the Customer base of Banco Montepio, benefiting from the unique positioning of an almost bicentennial and mutualistic institution.
- The strategy outlined reflects a favourable effect at the level of net interest income, as well as of commissions, the latter evidencing the impacts of the management of the price list to adjust same to Banco Montepio's value proposal for each segment, defined in function of its life cycle and financial profile, as well as in terms of the growth of its "first bank" quota, leading to the progressive increase of the Customer base with a greater transactionality and level of commitment.
- Funding cost management, considering the adequacy of the liquidity position and sources of financing vis-à-vis market conditions. The increase in the deposits' portfolio reflects the objective of strengthening customer resources as the main source of financing for the activity, together with the gradual reduction in the cost of deposits, namely through the mix between demand and time deposits.
- Deleveraging in non-strategic assets with the objective of enhancing the profitability of the assets, either through the sustained decline in non-performing credit based on the improvement of credit recovery processes and the sale of portfolios, or through the reduction of properties held for trading.
- 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 2022 and 31 December 2021, Banco Montepio recognized all deferred tax assets; hence, there are no deferred tax assets to be recognized.

In addition, a sensitivity analysis was carried out considering a scenario in which profit or loss before tax grown at a rate 10% lower than that considered in the aforementioned projections, with no impact at the level of deferred taxes being determined.

The deferred tax assets associated with tax losses carried forward, by expiry year, are presented as follows:

(Euro thousand)

Expiry date	Jun 2022	Dec 2021
2026	9 873	11 966
2029	46 542	46 542
2030	127 999	127 998
2032	15 629	15 629
2033	18 931	12 936
	218 974	215 071

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.

Tax recognized in net income/(loss) and in reserves during the first half of 2022 and financial year 2021 originated as follows:

(Euro thousand)

	Jun 2022		Dec 2021	
	Charged to net income/(loss)	Recogtnite in reserves and retained earnings	Recogtnite in net income/(loss)	Recogtnite in reserves and retained earnings
Financial instruments	(1 952)	1 387	172	(7)
Impairment/Provision	(16 604)	-	(45 637)	-
Post-employment and long-term benefits	(2 186)	-	5 734	(5 533)
Tax losses carried forward	3 903	-	14 310	-
Deferred taxes/recognized as profit/(loses)	(16 839)	1 387	(25 421)	(5 540)
Current taxes	(2 102)	-	1 700	-
	(18 941)	1 387	(23 721)	(5 540)

The reconciliation of the effective tax rate, as regards the amount recognized in the income statement, can be analysed as follows:

(Euro thousand)

	Jun 2022		Jun 2021	
	%	Value	%	Value
Profit/ (loss) before income tax		27 991		(34 411)
Income tax based on the current nominal tax rate	(21.0)	(5 878)	(21.0)	7 226
Banking sector extraordinary contribution	(7.2)	(2 008)	5.8	(2 003)
Post-employement benefits and pension fund	(4.9)	(1 362)	(4.4)	1 525
Taxable provisions/impairment	(10.5)	(2 952)	6.2	(2 121)
Autonomous taxation	(1.3)	(368)	-	-
Corrections to previous periods	-	-	(6.1)	2 113
Effect of differences in income tax for the period	(23.7)	(6 623)	27.2	(9 350)
Deferred tax from taxes losses carried forward	2.9	820	(7.5)	2 578
Other	(2.0)	(570)	4.8	(1 665)
Income tax for the period	(67.7)	(18 941)	4.9	(1 697)

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 the first half of 2022 and financial year 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 2019 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 7,309 thousand (31 December 2021: Euro 6,539 thousand) includes the amount of Euro 4,682 thousand (31 December 2021: Euro 4,319 thousand) related to the tax credit amount for financial years 2020 and 2021 determined in the scope of the REAID and IRC recoverable in the amount of Euro 2,627 thousand (31 December 2021: Euro 2,194 thousand).

30 Other assets

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Assets received in recovery of credit	523 117	571 228
Post-employment benefits	130 462	8 961
Supplies - Montepio Holding	107 145	130 019
Other debtors	35 196	36 780
Sundry debtors	37 416	30 669
Price deposits	11 229	11 492
Bonifications to be received from the Portuguese Government	12 003	10 521
Deferred costs	5 084	2 978
Other amounts receivable	4 092	2 548
	865 744	805 196
Impairment for assets received in recovery of credit	(131 315)	(133 653)
Impairment for other assets	(23 315)	(23 358)
	711 114	648 185

The caption Assets received in recovery of credit is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Assets received in recovery of credit	523 117	571 228
Impairment for assets received in recovery of credit	(131 315)	(133 653)
	391 802	437 575

The assets included in the caption Assets received in recovery of credit are accounted for in accordance with the accounting policy described in note 1 h).

The caption Assets received in recovery of credit includes the amount of Euro 1,310 thousand (31 December 2021: Euro 1,218 thousand) related to equipment resulting from the resolution of loans and advances to customers' contracts and which are fully impaired.

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 a period 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 2022, properties for which promissory contracts to buy and sell, in the amount of Euro 15,084 thousand (31 December 2021: Euro 29,531 thousand), have already been celebrated.

The movements in the first half of 2022 and financial year 2021 in Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	571 228	649 807
Acquisitions	3 670	26 737
Disposals	(52 038)	(132 581)
Other movements	(128)	(3 004)
Transfers	385	30 269
Closing balance	523 117	571 228

The movement in impairment of Assets received in recovery of credit are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	133 653	126 342
Charge of the period	9 151	24 345
Reversal of the period	(1 016)	(120)
Utilization	(10 750)	(33 949)
Transfers	277	17 035
Closing balance	131 315	133 653

The movement Transfers refers to branches closed that were transferred to Other tangible assets as described in note 27.

The caption Post-employment and long-term benefits corresponds to the net value of assets and liabilities of the Pension Fund.

In addition to the impairment losses observed, Banco Montepio recognized in profit or loss, in the first half of 2022, gains in the amount of Euro 9,318 thousand (31 December 2021: Euro 13,053 thousand), included in the caption Disposal of other assets in note 8.

As at 30 June 2022 and 31 December 2021, the caption Other debtors is analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Supplementary capital contributions	14 910	14 910
Other	20 286	21 870
	35 196	36 780

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 2022 and 31 December 2021.

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 2022.

As at 30 June 2022 and 31 December 2021, the caption Recoverable grants receivable from the Portuguese State are presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Bonifications overdue and not yet claimed	2 125	2 062
Bonifications claimed from state not yet settled	9 817	8 408
Bonifications processed and not yet claimed	61	51
	12 003	10 521

The caption Recoverable grants receivable from the Portuguese State corresponds to recoverable grants in respect of mortgage and SME loans, determined in accordance with the legal provisions applicable to low-interest loans. These amounts do not bear interest and are claimed monthly.

The movements in the impairment of Other assets are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	23 358	25 840
Charge for the period	354	2 158
Reversal for the period	(180)	(3 238)
Utilization	(217)	(1 402)
Closing balance	23 315	23 358

As at 30 June 2022, the impairment of Other assets includes the exposures of Supplementary capital contributions (Euro 14,910 thousand), Deposits in court (Euro 4,959 thousand), Guarantee commissions (Euro 477 thousand), Factoring operations (Euro 498 thousand) and Other debtors (Euro 2,471 thousand).

The expectations regarding receipts associated with deposits in court are regularly evaluated by the Credit Recovery Department, 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 Deposits in court is adjusted whenever necessary.

31 Deposits from central banks

This caption includes deposits obtained from the European System of Central Banks, which are collateralized by the pledge of securities from the portfolio of other 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 25.

For the financing lines under the TLTRO III programme, the effective interest rate used in the first half of 2022 and financial year 2021 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 2022, these funds consist of five operations with maturities as follows: in March 2023, in the amount of Euro 279,569 thousand, in June 2023, in the amount of Euro 884,734 thousand, in September 2023, in the amount of Euro 187,352 thousand, in March 2024, in the amount of Euro 1,486,444 thousand and in December 2024, in the amount of Euro 54,661 thousand.

32 Deposits from other credit institutions

This caption is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions						
Deposits repayable on demand	37 833	-	37 833	39 027	-	39 027
	37 833	-	37 833	39 027	-	39 027
Deposits from credit institutions abroad						
EIB loan	-	300 007	300 007	-	300 007	300 007
Deposits repayable on demand	54 524	-	54 524	59 866	-	59 866
Sales operations with repurchase agreement	-	-	-	-	190 616	190 616
Repos collaterais	-	-	-	-	2 125	2 125
Other deposits	6 265	-	6 265	6 979	-	6 979
	60 789	300 007	360 796	66 845	492 748	559 593
	98 622	300 007	398 629	105 872	492 748	598 620

The EIB loan, in the amount of Euro 300,000 thousand, has as its main objective the financing of SMEs, has a term of twelve years, a grace period of four years and constant amortizations and a rate of 0.019%.

The amount of the EIB loan is collateralized by Portuguese, Spanish, Italian and Greek sovereign bonds in the nominal amount of Euro 357,324 thousand (31 December 2021: Euro 537,614 thousand by Portuguese, Greek, Spanish, Dutch and Italian sovereign bonds), recorded in the caption Other financial assets at amortized cost, as described in note 25.

33 Deposits from customers

This caption is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	6 714 139	35	6 714 174	6 417 488	55	6 417 543
Term deposits	-	6 114 026	6 114 026	-	6 209 159	6 209 159
Saving accounts	-	135 464	135 464	-	134 123	134 123
Other deposits	24 557	-	24 557	20 496	-	20 496
Adjustments arising from fair value option operations	(584)	-	(584)	153	-	153
	6 738 112	6 249 525	12 987 637	6 438 137	6 343 337	12 781 474

Ordinance no. 180/94, of 15 December, gave rise to the incorporation of the Deposits Guarantee Fund to guarantee the reimbursement of funds deposited at credit institutions. The criteria to calculate the annual contributions to the referred Fund are defined in Bank of Portugal Notice no. 11/94, of 29 December.

On 30 June 2022, deposits from customers were remunerated at the average rate of 0.05% (31 December 2021: 0.08%).

34 Debt securities issued

The analysis of Debt securities issued has the following breakdown:

	Jun 2022	Dec 2021
	(Euro thousand)	
Covered bonds	1 123 190	1 215 119

The fair value of the debt securities issued is presented in note 44.

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 2022 and financial year 2021.

As at 30 June 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	300 164	-	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	Aa3/AA-
Covered bonds - 8S	500 000	500 130	-	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	Aa3/AA-
Covered bonds - 9S	250 000	250 132	-	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	Aa3/AA-
Covered bonds - 10S	750 000	754 867	754 867	October 2017	October 2022	Anually	Fixed at 0.875%	Aa3/AA-
Covered bonds - 11S	500 000	368 323	368 323	November 2019	November 2024	Anually	Fixed at 0.125%	Aa3/AA-
	2 300 000	2 173 616	1 123 190					

As at 31 December 2021, the main characteristics of the covered bonds issues in circulation are as follows:

(Euro thousand)

Description	Nominal value	Value at amortized cost	Book value	Issue date	Maturity date	Interest payment	Interest rate	*Rating (Moody´s/Fitch/Dbrs)*
Covered bonds - 6S	300 000	300 101	-	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A1/AA-/BBBh
Covered bonds - 8S	500 000	500 062	-	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A1/AA-/BBBh
Covered bonds - 9S	250 000	250 077	-	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	A1/AA-/BBBh
Covered bonds - 10S	750 000	754 033	754 033	October 2017	October 2022	Anually	Fixed at 0.875%	A1/AA-/BBBh
Covered bonds - 11S	500 000	461 086	461 086	November 2019	November 2024	Anually	Fixed at 0.125%	A1/AA-/BBBh
	2 300 000	2 265 359	1 215 119					

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 2022, the value of the loans collateralizing these issues amounted to Euro 2,750,959 thousand (31 December 2021: Euro 2,746,685 thousand), according to note 20.

The movements in Debt securities issued are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021		
	Covered bonds	Cash bonds	Covered bonds	Total
Opening balance	1 215 119	3 123	1 218 375	1 221 498
Reimbursements	-	(2 960)	-	(2 960)
Net purchases	(93 300)	-	-	-
Other movements [(a)]	1 371	(163)	(3 256)	(3 419)
Final balance	1 123 190	-	1 215 119	1 215 119

(a) Included is the movement of accrued interest on the balance sheet date, corretions for operations at fair value option exchange variation.

In accordance with the accounting policy described in note 1 b), the purchase of debt securities issued by Banco Montepio is written off from liabilities and the difference between the acquisition cost and the respective book value is recognized in the income statement.

As at 30 June 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 - 10S	17/11/2017	17/11/2022	Annual fixed rate of 0.875%	750 000
Covered Bonds - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
				1 250 000
			Adjustments of hedging operations	386
			Repurchase of Covered Bonds - 11S	(130 400)
			Accrual based accounting, deferred income and costs	3 204
				1 123 190

As at 31 December 2021, the caption Debt securities issued is composed of the following issues:

(Euro thousand)

Security	Issue date	Maturity date	Interest rate	Book value
Covered Bonds - 10S	17/11/2017	17/11/2022	Annual fixed rate of 0.875%	750 000
Covered Bonds - 11S	14/11/2019	14/11/2024	Annual fixed rate of 0.125%	500 000
				1 250 000
			Adjustments of hedging operations	3 099
			Repurchase of Covered Bonds - 11S	(37 100)
			Accrual based accounting, deferred income and costs	(880)
				1 215 119

35 Financial liabilities associated to transferred assets

In the scope of the securitization operations described in note 48, 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:

(Euro thousand)

	Jun 2022	Dec 2021
Pelican Mortgages No 3	106 266	115 377
Pelican Mortgages No 4	383 498	405 906
Aqua Mortgages No 1	63 052	67 309
Pelican Finance No 2	115 826	141 661
	668 642	730 253

36 Provisions

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Provisions for guarantess and commitments	16 183	16 076
Provisions for other risks and charges	8 344	11 810
	24 527	27 886

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 2022	Dec 2021
Opening balance	16 076	16 594
Charge of the period	11 209	26 932
Reversal of the period	(11 091)	(27 449)
Other movements	(11)	(1)
Closing balance	16 183	16 076

The movements in provisions for other risk and charges are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Opening balance	11 810	16 406
Charge of the period	-	4 121
Reversal of the period	(2 733)	(7 608)
Utilization	(733)	(1 109)
Closing balance	8 344	11 810

37 Other subordinated debt

The characteristics of subordinated debt are analysed as follows:

(Euro thousand)

Issue	Issue date	Maturity date	Issue amount	Interest date	Jun 2022	Dec 2021
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%	102 532	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	6 453	6 691
					211 289	217 265

The movements in Other subordinated debt during the first half of 2022 and financial year 2021, were as follows:

(Euro thousand)

	Jun 2022			
	Balance at 1 January	Issued	Other movements	Balance on 30 June
MONTEPIO EMTN SUB 2018/2028	50 044	-	1 983	52 027
MONTEPIO EMTN SUB 2019/2029	107 825	-	(5 293)	102 532
MONTEPIO EMTN SUB 2020/2030	52 705	-	(2 428)	50 277
FINIBANCO VALOR INVEST 2010	6 691	-	(238)	6 453
	217 265	-	(5 976)	211 289

(Euro thousand)

	Dec 2021			
	Balance at 1 January	Issued	Other movements	Balance on 31 December
MONTEPIO EMTN SUB 2018/2028	50 044	-	-	50 044
MONTEPIO EMTN SUB 2019/2029	107 824	-	1	107 825
MONTEPIO EMTN SUB 2020/2030	52 705	-	-	52 705
FINIBANCO VALOR INVEST 2010	6 323	-	368	6 691
	216 896	-	369	217 265

The main characteristics of the “Finibanco Valor Invest 2010” issue are as follows:

- Interest rate: fixed rate of 7% on the first 4 interest payment dates and on the following interest payment dates, a variable rate corresponding to the Euribor rate for the period of 6 months plus 2.75%, with a minimum of 5%;
- Maturity: Not applicable (not subject to mandatory refund);
- Refund amount: Refund at nominal value. As a result of applicable laws or regulations, including any European Union Directives or Regulations, which establish a legal regime for the recovery and liquidation of credit institutions (Directive 2015/59/EU of the European Parliament and of the Council, of 15 May 2014 and Law no. 23-A/2015, of 26 March), or any implementation of those in Portugal, the amounts may be used to cover the issuer's losses, and may be called upon to absorb losses.

38 Other liabilities

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Domestic and foreign operations pending settlement	162 028	93 597
Sundry creditors	36 599	38 239
Staff costs payable	23 374	32 334
Other expenses	11 338	10 348
Administrative public sector	9 787	10 798
Lease liabilities	8 623	10 479
Suppliers	2 215	11 145
Deferred income	288	286
	254 252	207 226

As at 30 June 2022, the caption Staff charges payable includes the amount of Euro 15,578 thousand (31 December 2021: Euro 17,336 thousand), related to holiday pay and subsidy. Additionally, as at 30 June 2022, this caption also includes the amount of Euro 2,602 thousand (31 December 2021: Euro 2,462 thousand) related to end-of-career awards, as per note 45, and the amount of Euro 664 thousand (31 December 2021: Euro 8,266 thousand) for the employee adjustment programme.

The caption Amounts payable corresponds, essentially, to the application of the accruals' principle to General and administrative expenses.

As at 30 June 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 2022	Dec 2021
Up to 1 year	1 670	1 312
1 to 5 years	6 875	9 167
More than 5 years	78	-
	8 623	10 479

39 Share capital

As at 30 June 2022 and 31 December 2021, Banco Montepio's share capital, which is fully realized, amounts to Euro 2,420,000 thousand.

The shareholder structure of Banco Montepio's share capital as at 30 June 2022 and 31 December 2021, is as follows:

	Jun 2022		Dec 2021	
	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%

40 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 2022 and 31 December 2021, the legal reserve amounts to Euro 193,266 thousand.

41 Fair value reserves, Other reserves and Retained earnings

This caption is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Fair value reserve		
Fair value reserve		
Financial assets at fair value through other comprehensive income	8 366	12 912
	8 366	12 912
Taxes		
Financial assets at fair value through other comprehensive income	(2 551)	(3 938)
	(2 551)	(3 938)
Fair value reserve net of taxes	5 815	8 974
Other reserves and retained earnigs		
Special regime for deferred tax assets	5 150	4 750
Post-employment benefits	(135 671)	(264 493)
Other reserves and retained earnings	(942 473)	(934 170)
Realized gains on equity instruments	(35 294)	(35 294)
	(1 108 288)	(1 229 207)

Fair value reserves related to financial assets at fair value through other comprehensive income represent the potential gains and losses in the portfolio of financial assets at fair value through other comprehensive income, and also records the amount of the fair value reserve related to the loans and advances to customers' portfolio reclassified from Other financial assets at fair value through other comprehensive income to Loans and advances to customers.

The movements in the fair value reserve related to financial assets at fair value through other comprehensive income are analysed as follows:

(Euro thousand)

	Jun 2022					
	Balance on 1 January	Revaluation	Acquisitions	Disposals	Recognized impairment in the period	Balance on 30 June
Fixed income securities						
Bonds issued by Portuguese public entities	198	(1 732)	-	-	5	(1 529)
Bonds issued by foreign public entities	314	(690)	-	-	3	(373)
Bons issued by other entities:						
Domestic	387	(1 676)	-	(57)	896	(450)
Foreign	(13)	(21)	-	(2)	-	(36)
Comercial Paper	1 257	-	115	(2 513)	1 199	58
	2 143	(4 119)	115	(2 572)	2 103	(2 330)
Variable income securities						
Shares						
Domestic	9 985	-	-	-	-	9 985
Foreign	784	(73)	-	-	-	711
	10 769	(73)	-	-	-	10 696
	12 912	(4 192)	115	(2 572)	2 103	8 366

	Dec 2021					(Euro thousand)
	Balance on 1 January	Revaluation	Acquisitions	Disposals	Recognized impairment in the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	406	(219)	-	-	11	198
Bonds issued by foreign public entities	1 200	(322)	-	(786)	222	314
Bons issued by other entities:						
Domestic	(537)	347	1 438	(193)	(668)	387
Foreign	(21)	(6)	-	4	10	(13)
Comercial Paper	-	-	2 514	-	(1 257)	1 257
	1 048	(200)	3 952	(975)	(1 682)	2 143
Variable income securities						
Shares						
Domestic	7 935	60	240	1 750	-	9 985
Foreign	(35 284)	(1 253)	-	37 321	-	784
	(27 349)	(1 193)	240	39 071	-	10 769
	(26 301)	(1 393)	4 192	38 096	(1 682)	12 912

The amount of Euro 39,071 thousand refers to the disposals of Monteiro Aranha, S.A. and Almina Holding, S.A., as described in note 23.

Fair value reserves related to financial assets at fair value through other comprehensive income, are detailed as follows:

	Jun 2022	Dec 2021 (Euro thousand)
Amortized cost of financial assets at fair value through other comprehensive income	94 713	93 004
Recognized accumulated impairment	(656)	(2 759)
Amortized cost of financial assets at fair value through other comprehensive income net of impairment	94 057	90 245
Market value of financial assets at fair value through other comprehensive income	102 423	103 157
Potential realized gains/(losses) recognized in the fair value reserve	8 366	12 912

As described in note 29, 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:

	Jun 2022	Dec 2021 (Euro thousand)
Special reserve		
2021 (Net negative result of 2020)	4 750	4 750
2022 (Net negative result of 2021)	400	-
	5 150	4 750

In the first half of 2022, Banco Montepio constituted a Special reserve in the amount of Euro 400 thousand (31 December 2021: Euro 4,750 thousand), which corresponds to a tax credit of Euro 363 thousand (31 December 2021: Euro 4,319 thousand), as described in note 29.

42 Distribution of dividends

In the first half of 2022 and financial year 2021, Banco Montepio did not distribute dividends.

The Annual General Meeting realized on 29 April 2022 approved the proposal for the appropriation of the Net Income for financial year 2021, in the negative amount of Euro 7,903 thousand, appropriating it to Retained earnings.

43 Guarantees and other commitments

The balances of these accounts are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Guarantees granted	459 425	448 366
Commitments to third parties	1 693 578	1 801 777
Deposit and custody of securities	8 338 595	7 757 554
	10 491 598	10 007 697

The amounts of Guarantees granted, and Commitments assumed to third parties are analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Guarantees granted		
Guarantees	426 242	432 385
Letters of credit	33 183	15 981
	459 425	448 366
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit facilities	810 221	958 453
Potential liability with the Investors Indemnity System	903	903
Term liability to the Guarantee Deposits Fund	22 768	22 768
Securities subscription	2 051	2 277
Revocable commitments		
Revocable credit facilities	857 635	817 376
	1 693 578	1 801 777

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 2022 and 31 December 2021, 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 2022, 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 28,000 thousand (31 December 2021: Euro 24,000 thousand), as described in note 25.

As at 30 June 2022 and 31 December 2021, 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.

44 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.

Debt and equity instruments

Level 1: In addition to financial instruments admitted to trading on a regulated market, bonds and investment units in harmonized funds, valued based on active market prices/quotations, disclosed through trading platforms, are included in this category.

The aforementioned financial instruments are traded on an active market whenever the financial instruments in question are quoted through multi-contributed sources for bonds and the primary exchange for shares.

Level 2: Financial instruments that are not traded on an active market or valued using valuation techniques supported by observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect (derivatives), and valuation assumptions similar to those that an unrelated party would use in estimating the fair value of the same financial instrument, are considered Level 2. The classification of fair value in Level 2 is made according to the following rules:

a) Financial instruments shall be classified in level 2 if they are:
   i. valued based on models using observable market data (such as interest rate curves or exchange rates). Market interest rates are calculated based on information disseminated by financial content providers, for example Bloomberg, namely those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. The same interest rate curves are also used to project non-deterministic cash flows, such as indexers; or
   ii. valued using indicative third-party purchase prices, based on observable market data.

Level 3: Financial instruments are classified in level 3 whenever they do not meet the criteria to be classified in level 1 or level 2, or fair value is determined based on unobservable data in active markets, using techniques and assumptions that market participants would use to assess the same instruments, namely:

a) financial instruments not admitted to trading on a regulated market that are valued using valuation models and for which there is no generally accepted consensus on the criteria to be used, namely:
   i. valuation prepared in accordance with the Net Asset Value of non-harmonized funds, updated and disclosed by the respective management companies;
   ii. valuation prepared in accordance with indicative prices disclosed by the entities that participated in the issuance of certain financial instruments, without an active market; or
   iii. valuation prepared in accordance with the realization of impairment tests, using the performance indicators of the underlying operations (e.g., degree of protection by subordination of the tranches held, delinquency rates of underlying assets, evolution of ratings, etc.);
b) financial instruments valued through indicative purchase prices based on theoretical valuation models disclosed by specialized third parties.

The following are the main methods and assumptions used in estimating the fair value of financial assets and liabilities.

Derivative financial instruments

Operations involving financial derivatives, in the form contracts in respect of exchange rate, interest rate, share or share indices, inflation or a combination of these are traded over the counter (OTC) and in organized markets (especially stock markets). For OTC derivative operations (swaps and options), their valuation is based on generally accepted methods, always favouring market values.

Level 1: This classification includes futures, options and other derivative financial instruments traded on a regulated market.

Level 2: This level includes derivative financial instruments traded on unregulated (OTC) markets that do not have an optional component.

The valuation of these derivatives is made by discounting the cash flows from operations, using as a discounting base the market interest rate curves deemed appropriate for the currency in force at the time of the calculation. Interest rates are obtained from Bloomberg or Reuters

Market interest rates are calculated based on information disseminated by financial content providers - Bloomberg or Reuters - specifically those resulting from interest rate swap quotations. The values for very short-term rates are obtained from a similar source, but with reference to the interbank money market. The interest rate curve obtained is further calibrated against the values of short-term interest rate futures. Interest rates for specific cash-flow periods are determined by appropriate interpolation methods. Interest rate curves are also used to project non-deterministic cash flows such as indexers.

Level 3: This level includes options and derivatives traded on an unregulated (OTC) market, incorporating optional elements.

Options are valued based on statistical models that consider the market values of the underlying assets and their volatilities (assuming that they are not directly observable in the market). The theoretical models used in the valuation of derivatives classified in level 3 are presented as follows:

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 negative in 0.76% for live operations as at 30 June 2022 (31 December 2021: negative in 0.60%).

  For the remaining deposits 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 2022, the average discount rate was negative in 2.49% (as at 31 December 2021: negative in 0.60%) for the remaining deposits.

  For Loans and advances to other credit institutions a discount rate reflecting the conditions in use by Banco Montepio for the most significant residual term operations was applied. Considering the short-term maturity of these financial instruments, the book value is a reasonable estimate of their fair value.

- *Other financial assets at amortized cost*

  These financial instruments are accounted for at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the market interest rate curve adjusted for associated factors, predominantly the credit and liquidity risks, determined in accordance with the respective market conditions and periods.

- *Loans and advances to customers without a defined maturity date and Deposits from customers repayable on demand*

  Considering the short-term maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the book value is a reasonable estimate of their fair value.

- *Loans and advances to customers with a defined maturity date*

  The fair value of these financial instruments is calculated by discounting the expected future cash flows of principal and interest of these instruments, considering that the payments of the instalments occur on the contractually defined dates. For loans in default, the value, net of impairment, of these operations is a reasonable estimate of their fair value, given the economic valuation performed for the calculation of this impairment for individually significant Customers. The discount rate used reflects the current conditions applied by Banco Montepio to similar instruments for each of the homogeneous classes of this type of instrument and with a similar residual maturity. The discount rate includes the market rates for the residual maturity periods (money market or interest rate swap market rates, at the end of the financial period) and the spread used at the reporting date, calculated based on the average production of the last quarter. As at 30 June 2022, the average discount rate was 3.87% for mortgage loans (31 December 2021: 2.20%), 8.90% for private individual loans (31 December 2021: 7.15%) and 5.00% for the remaining loans (31 December 2020: 3.50%), 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 2022 was a negative 0.25% (31 December 2021: a negative 0.08%).

- *Debt securities issued and Other subordinated debt*

  For these financial instruments, the fair value was calculated for the components which fair value is not yet reflected in the balance sheet. For the fixed interest rate instruments in respect of which 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 2022		Dec 2021	
	CVA	DVA	CVA	DVA
Adjustment	**56**	**467**	**239**	**671**
Of which: Derivatives expiry	(1)	(265)	111	(62)

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 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	-0.578150	1.700000	1.295000	-0.145000	-0.075670
7 days	-0.578150	0.076380	1.295000	-0.145000	-0.075670
1 month	-0.504200	1.895000	1.375000	-0.150000	-0.350000
2 months	-0.397100	2.205000	1.545000	-0.210000	-0.300000
3 months	-0.257850	2.375000	1.695000	-0.140000	-0.330000
6 months	0.126500	3.125000	2.195000	0.090000	-0.310000
9 months	0.435800	3.515000	2.745000	0.400000	-0.190000
1 year	0.673850	3.575000	2.965000	0.530000	-0.170000
2 years	1.165000	3.418000	1.206000	0.837500	0.056300
3 years	1.334500	3.315000	1.310000	0.972000	0.080000
5 years	1.557000	3.224000	1.286000	1.254000	0.128800
7 years	1.716000	3.193000	1.229000	1.497000	0.193800
10 years	1.925500	3.203000	1.196000	1.749500	0.292500
15 years	2.143500	3.256000	1.168000	1.976500	0.438800
20 years	2.113500	3.095000	1.168000	1.976500	0.438800
30 years	1.922500	2.883200	1.168000	1.976500	0.438800

As at 31 December 2021, 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	-0.500000	0.135000	0.210000	-0.755000	-0.110000
7 days	-0.478356	0.076250	0.230000	-0.695000	-0.081500
1 month	-0.478356	0.140000	0.240000	-0.650000	-0.250000
2 months	-0.478356	0.150000	0.250000	-0.650000	-0.220000
3 months	-0.478356	0.180000	0.390000	-0.650000	-0.220000
6 months	-0.478356	0.290000	0.610000	-0.650000	-0.240000
9 months	-0.478356	0.410000	0.670000	-0.650000	-0.150000
1 year	-0.485000	0.530000	0.840000	-0.670000	-0.150000
2 years	-0.295000	0.947000	1.232000	-0.487500	-0.006300
3 years	-0.145000	1.186000	1.338000	-0.375000	-0.001300
5 years	0.016000	1.383000	1.328000	-0.230000	0.016300
7 years	0.130000	1.491000	1.275000	-0.080000	0.043800
10 years	0.303000	1.602000	1.241000	0.090000	0.106300
15 years	0.492000	1.730000	1.216000	0.232500	0.223800
20 years	0.548000	1.734000	1.216000	0.232500	0.223800
30 years	0.479000	1.710300	1.216000	0.232500	0.223800

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 2022**	**Dec 2021**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.0387	1.1326	9.512	9.250	9.080	8.980	8.940
EUR/GBP	0.85820	0.84028	7.870	7.870	7.945	7.880	7.900
EUR/CHF	0.9960	1.0331	8.165	7.920	7.630	7.460	7.390
EUR/JPY	141.54	130.38	13.610	13.252	13.100	12.578	12.368
EUR/AOA	422.8538	635.7510	-	-	-	-	-

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 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

	Jun 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	-	-	1 789 033	1 789 033	1 789 033
Loans and deposits to credit institutions payable on demand	-	-	65 462	65 462	65 462
Loans and advances to credit institutions	-	-	375 788	375 788	376 424
Loans and advances to customers	956	-	11 224 888	11 225 844	11 178 053
Financial assets held for trading	9 264	-	-	9 264	9 264
Financial assets at fair value through profit or loss	221 740	-	-	221 740	221 740
Financial assets at fair value through other comprehensive income	-	102 423	-	102 423	102 423
Hedging derivatives	5 260	-	-	5 260	5 260
Other financial assets at amortized cost	-	-	4 577 064	4 577 064	4 240 313
	237 220	102 423	18 032 235	18 371 878	17 987 972
Financial liabilities					
Deposits from central banks	-	-	2 892 760	2 892 760	2 892 760
Deposits from other credit institutions	-	-	398 629	398 629	352 788
Deposits from customers	42 523	-	12 945 114	12 987 637	13 010 355
Debt securities issued	-	-	1 123 190	1 123 190	1 123 718
Financial liabilities related to transferred assets			668 642	668 642	689 249
Financial liabilities held for trading	12 706	-	-	12 706	12 706
Hedging derivatives	480	-	-	480	480
Other subordinated debt	-	-	211 289	211 289	208 636
	55 709	-	18 239 624	18 295 333	18 290 692

(Euro thousand)

	Dec 2021				
	At fair value through profit or loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	2 943 744	2 943 744	2 943 744
Loans and deposits to credit institutions payable on demand	-	-	84 240	84 240	84 240
Loans and advances to credit institutions	-	-	388 459	388 459	388 841
Loans and advances to customers	1 004	-	11 003 025	11 004 029	10 918 990
Financial assets held for trading	1 376	-	-	1 376	1 376
Financial assets at fair value through profit or loss	288 340	-	-	288 340	288 340
Financial assets at fair value through other comprehensive income	-	103 157	-	103 157	103 157
Non-current assets held for sale	-	-	47 833	47 833	38 836
Hedging derivatives	5 411	-	-	5 411	5 411
Other financial assets at amortized cost	-	-	3 530 569	3 530 569	3 491 454
	296 131	103 157	17 997 870	18 397 158	18 264 389
Financial liabilities					
Deposits from central banks	-	-	2 892 065	2 892 065	2 892 065
Deposits from other credit institutions	-	-	598 620	598 620	586 128
Deposits from customers	25 009	-	12 756 465	12 781 474	12 793 438
Debt securities issued	-	-	1 215 119	1 215 119	1 215 365
Financial liabilities related to transferred assets	-	-	730 253	730 253	748 812
Financial liabilities held for trading	7 470	-	-	7 470	7 470
Hedging derivatives	335	-	-	335	335
Other subordinated debt	-	-	217 265	217 265	218 957
	32 814	-	18 409 787	18 442 601	18 462 570

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 2022:

(Euro thousand)

	Jun 2022				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial assets					
Cash and deposits at central banks	1 789 033	-	-	-	1 789 033
Loans and deposits to credit institutions payable on demand	65 462	-	-	-	65 462
Other loans and advances to credit institutions	-	-	376 424	-	376 424
Loans and advances to customers	-	956	11 177 097	-	11 178 053
Financial assets held for trading	6 408	2 856	-	-	9 264
Financial assets at fair value through profit or loss	-	-	221 740	-	221 740
Financial assets at fair value through other comprehensive income	59 478	2 192	39 653	1 100	102 423
Hedging derivatives	-	5 260	-	-	5 260
Other financial assets at amortized cost	3 721 372	518 941	-	-	4 240 313
	5 641 753	530 205	11 814 914	1 100	17 987 972
Financial liabilities					
Deposits from central banks	2 892 760	-	-	-	2 892 760
Deposits from other credit institutions	-	-	352 788	-	352 788
Deposits from customers	-	42 523	12 967 832	-	13 010 355
Debt securities issued	-	-	1 123 718	-	1 123 718
Financial liabilities related to transferred assets			689 249	-	689 249
Financial liabilities held for trading	-	2 863	9 843	-	12 706
Hedging derivatives	-	480	-	-	480
Other subordinated debt	-	-	208 636	-	208 636
	2 892 760	45 866	15 352 066	-	18 290 692

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 2021:

(Euro thousand)

	Dec 2021				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial assets					
Cash and deposits at central banks	2 943 744	-	-	-	2 943 744
Loans and deposits to credit institutions payable on demand	84 240	-	-	-	84 240
Other loans and advances to credit institutions	-	-	388 841	-	388 841
Loans and advances to customers	-	1 004	10 917 986	-	10 918 990
Financial assets held for trading	-	1 376	-	-	1 376
Financial assets at fair value through profit or loss	-	-	288 340	-	288 340
Financial assets at fair value through other comprehensive income	62 278	2 336	37 438	1 105	103 157
Non-current assets held for sale	-	-	38 836	-	38 836
Hedging derivatives	-	5 411	-	-	5 411
Other financial assets at amortized cost	3 491 454		-	-	3 491 454
	6 581 716	10 127	11 671 441	1 105	18 264 389
Financial liabilities					
Deposits from central banks	2 892 065	-	-	-	2 892 065
Deposits from other credit institutions		-	586 128	-	586 128
Deposits from customers	-	-	12 793 438	-	12 793 438
Debt securities issued	-	-	1 215 365	-	1 215 365
Financial liabilities related to transferred assets	-	-	748 812	-	748 812
Financial liabilities held for trading	-	949	6 521	-	7 470
Hedging derivatives	-	335	-	-	335
Other subordinated debt	-	-	218 957	-	218 957
	2 892 065	1 284	15 569 221	-	18 462 570

45 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 the payment by the Pension Fund of a pension calculated as per the preceding paragraph, proportional to the time of service rendered to Banco Montepio.

Additionally, pursuant to the ACT, the pension plan guarantees the Social-Medical Assistance Services ("SAMS") costs and the death subsidy.

Banco Montepio has no other mechanisms 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 2022	**Dec 2021**
Financial assumptions		
Salary growth rate	1.00% in the first 2 years and 0.75% in the following years	0.50%
Pension growth rate	0.50%	0.30%
Rate of return of Fund	3.40%	1.40%
Discount rate	3.40%	1.40%
Revaluation rate		
Salary growth rate - Social Security	1.25%	1.25%
Pension growth rate	1.00%	1.00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 anos	TV 88/90 -3 Anos
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 2022, the average duration of the pension liabilities of the employees is 16.2 years (31 December 2021: 17.5 years), including both active employees and pensioners.

The participants in the pension plan have the following breakdown:

	Jun 2022	**Dec 2021**
Active	2 761	2 811
Retirees and survivors	1 574	1 548
	4 335	4 359

The liabilities for pensions and other benefits and respective coverage levels are presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Net assets/(liabilities) recognized in the balance sheet		
Liabilities with pension benefits		
Pensioners	(340 365)	(381 036)
Active	(274 791)	(397 327)
	(615 156)	(778 363)
Liabilities with healthcare benefits		
Pensioners	(23 076)	(27 411)
Active	(23 626)	(37 269)
	(46 702)	(64 680)
Liabilities with death benefits		
Pensioners	(1 714)	(2 230)
Active	(946)	(1 676)
	(2 660)	(3 906)
Total liabilities	(664 518)	(846 949)
Coverages		
Pension Fund value	794 980	855 910
Net assets/(liabilities) in the balance sheet	130 462	8 961
Accumulated actuarial remeasurements recognized in other comprehensive income	135 670	264 493

The evolution of liabilities with retirement pensions, health benefits and death subsidy can be analysed as follows:

(Euro thousand)

	Jun 2022				Dec 2021			
	Pension benefits	**Healthcare benefits**	**Death benefits**	**Total**	**Pension benefits**	**Healthcare benefits**	**Death benefits**	**Total**
Liabilities at the beginning of the financial year	778 363	64 680	3 906	846 949	790 266	69 168	3 987	863 421
Recognized in net income/(loss) (note 10)								
Current service cost	1 533	710	34	2 277	3 385	1 694	74	5 153
Interest cost	5 448	453	27	5 928	9 088	795	46	9 929
Early retirement, mutually agreed termination and others	5 956	-	-	5 956	4 365	-	-	4 365
Recognized in equities (note 41)								
Actuarial gains/(losses)								
- Changes in assumptions	(165 803)	(19 203)	(1 370)	(186 376)	(15 405)	(3 334)	(239)	(18 978)
- Not related to changes in assumptions	1 721	62	63	1 846	11 192	(3 643)	38	7 587
Other								
Pensions paid by the Fund	(12 346)	-	-	(12 346)	(24 948)	-	-	(24 948)
Pensions paid by Banco Montepio	(848)	-	-	(848)	(1 932)	-	-	(1 932)
Participant contributions	1 132	-	-	1 132	2 352	-	-	2 352
Liabilities at the end of the financial period	615 156	46 702	2 660	664 518	778 363	64 680	3 906	846 949

The evolution of the Pension Fund's net asset value as at 30 June 2022 and 31 December 2021 can be analysed as follows:

(Euro thousand

	Jun 2022	Dec 2021
Value of the Fund at the beginning of the financial period	855 910	853 546
Recognized in net income/(loss) (note 10)		
Share of net interest	5 991	9 713
Recognized in equity (note 41)		
Financial deviations	(55 707)	15 247
Others		
Contributions from Banco Montepio		-
Participant Contributions	1 132	2 352
Pensions paid by the Fund	(12 346)	(24 948)
Fund´s value at the end of the period	794 980	855 910

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 2022 and 31 December 2021, 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 2022 and 31 December 2021, the assets of the Pension Fund, split between quoted and unquoted, can be analysed as follows:

(Euro thousand)

	Jun 2022				Dec 2021			
	Assets of the Fund	%	Quoted	Unquoted	Assets of the Fund	%	Quoted	Unquoted
Variable-income securities								
Shares	64 437	8%	64 437	-	53 458	6%	53 458	-
Shares investment funds	91 159	11%	-	91 159	121 600	14%	-	121 600
Bonds	545 779	69%	398 460	147 319	584 094	68%	473 993	110 101
Real Estate	4 990	1%	-	4 990	5 329	1%	-	5 329
Real Estate investment funds	44 435	6%	-	44 435	44 060	5%	-	44 060
Venture capital funds	2 102	0%	-	2 102	2 943	0%	-	2 943
Loans and advances in banks and other	42 078	5%	-	42 078	44 426	5%	-	44 426
	794 980	100%	462 897	332 083	855 910	100%	527 451	328 459

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 2022	Dec 2021
Loans and advances in banks and other	31 125	38 701
Real Estate	4 990	5 329
Bonds	2 072	2 092
	38 187	46 122

The evolution of the remeasurements in the balance sheet are analysed as follows:

(Euro thousand)	Jun 2022	Dec 2021
Actuarial gains/(losses) at the beginning of the financial period	264 493	291 131
Actuarial gains/(losses) in the financial period		
Changes in discount rate	(225 943)	(36 974)
Payroll update	14 576	-
Pensions growth rate update	16 818	-
Deviation of the Pension Fund return	55 707	(15 247)
Resulting from changes in plan conditions	8 173	17 996
Other changes	1 846	7 587
Actuarial gains/(losses) recognized in other comprehensive income	135 670	264 493

The costs with retirement pensions, health benefits and death subsidy are analysed as follows:

(Euro thousand)	Jun 2022	Jun 2021
Current service cost	2 277	2 544
Net interest income/(expense) on the liabilities coverage balance	(63)	109
Costs with early retirement, mutually agreed termination and other	5 956	7 339
Costs for the financial period	8 170	9 992

The evolution of net assets/(liabilities) in the balance sheet, in the period ended 30 June 2022 and financial year 2021, is analysed as follows:

(Euro thousand)	Jun 2022	Dec 2021
At the beginning of the financial period	8 961	(9 875)
Current service cost	(2 277)	(5 153)
Net interest income/(expense) on the liabilities coverage balance	63	(216)
Actuarial gains/(losses)	184 530	11 391
Financial gains/(losses)	(55 707)	15 247
Pensions paid by Banco Montepio	848	1 932
Early retirement, mutually agreed termination and other	(5 956)	(4 365)
At the end of the financial period	130 462	8 961

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 2022		Dec 2021	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(24 029)	24 815	(34 712)	36 979
Salary growth rate (0.25% change)	13 935	(12 993)	23 184	(20 795)
Pension growth rate (0.25% change)	20 907	(20 001)	31 231	(29 749)
SAMS contribution (0.25% change)	2 305	(2 305)	3 321	(3 321)
Future mortality (1 year change)	(15 850)	15 669	(25 133)	25 143

As at 30 June 2022, the cost associated with the end-of-career awards amounted to Euro 2,602 thousand (31 December 2021: Euro 2,462 thousand), in accordance with the accounting policy described in note 1 r) and as per note 38.

46 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 2022 and 31 December 2021, the amount of the funds for which Banco Montepio acts as depository bank is analysed as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Securities investment funds	169 798	175 839
Real Estate investment funds	665 508	629 741
Pension funds	276 420	292 638
Bank and insurance	30 052	30 729
	1 141 778	1 128 947

The amounts recognized in these captions are measured at fair value determined as at the balance sheet date.

47 Related parties

As defined in IAS 24, the Companies detailed in note 53, 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. Banco Montepio's 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 2022, the list of related parties considered by Banco Montepio is presented as follows:

Major Shareholder
Montepio Geral Associação Mutualista

Board of directors (after Jul 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 (until Jul 25, 2022)
Chairman of the Board of directors
Carlos Tavares
Non-executive members
Manuel Ferreira Teixeira
Amadeu Paiva
Carlos Ferreira Alves
José Nunes Pereira
Pedro Alves
Vítor Martins
Executive Committee
Chief Executive Officer
Pedro Leitão
Executive members
Dulce Mota
Helena Soares de Moura
Jorge Baião
José Carlos Mateus
Leandro Graça Silva
Nuno Mota Pinto
Pedro Ventaneira
Audit comittee
Chairman of the Audit Commitee
Manuel Ferreira Teixeira
Members
Amadeu Paiva
Carlos Ferreira Alves
José Nunes Pereira
Vítor Martins

Board of Directors of other related parties
Alice Pinto
Alípio Dias
Álvaro Almeida
Amândio Coelho
Ana Sá Couto
António Gouveia
Carlos Beato
Dalila Teixeira
Edite Cheira
Fernanda Brázia
Fernando Amaro
Fernando Santo
Fernão Thomaz
Francisco Simões
Idália Serrão
Isabel Cidrais Guimarães
João Almeida Gouveia
João Andrade Lopes
João Carvalho das Neves
João Costa Pinto
João Neves
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 Van Zeller
Paulo Martins da Silva
Pedro Crespo
Pedro Líbano Monteiro
Pedro Ribeiro
Pedro Simão
Ricardo Carvalho
Rosa Rodrigues
Rui Heitor
Rui Pereira
Tereza Amado
Virgílio Lima
Vitor Filipe

Other key management Personnel

Alexandra Ponciano
Alexandra Rolo
Ana Mendonça Neves
António Carlos Machado
António Coelho
António Figueiredo Lopes
Armando Cardoso
Bruno Magalhães
Carla Sousa
Carlos Figueiral Azevedo
Conceição Barbosa
Daniel Caçador
Fabienne Lehuédé
Fernanda Correia
Fernando Alexandre
Fernando Teixeira
Filipa Costa
Helder Reis
Helena Valente
Hélio Marques
Inês Dargan
Jaquelina Rodrigues
Joana Correia
Joaquim Canhoto
Jorge Barros Luís
Luís Melo
Luís Sena
Manuel Castanho
Maria Eduarda Osório
Miguel Oliveira
Mónica Araújo
Nuno Cavilhas
Nuno Soares
Patricia Fernandes
Patrícia Medeiros
Paula Maia Fernandes
Paula Pinheiro
Paulo Amorim
Paulo Jorge Rodrigues
Paulo Trindade
Pedro Araújo
Pedro Pires
Ricardo Chorão

Other related parties

Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. - Em Liquidação
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.
HTA – Hoteis, 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 Seguros, S.G.P.S., S.A.
NovaCâmbios - Instituição de Pagamento, S.A.
Polaris - Fundo de Investimento Imobiliário Fechado
Portugal Estates Fund - Fundo de Investimento Imobiliário Fechado
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado

Related parties resulting from the stake held in Finibanco Angola, SA:

Banco de Negócios Internacional, S.A. (BNI)

As at 30 June 2022, the 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)

	Jun 2022									
Company	Loans and deposits to credit institutions payable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment for Loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment for Financial assets at fair value through other comprehensive income	Other assets	Guarantees and other commitments	Provisions for Guarantees and other commitments	Total
Board of directors (after Jul 25, 2022)	-	-	95	-	-	-	-	-	-	95
Board of directors (until Jul 25, 2022)	-	-	476	-	-	-	-	-	-	476
Other related parties Board of directors	-	-	2 887	1	-	-	-	-	-	2 886
Other key management Personnel	-	-	2 819	1	-	-	-	-	-	2 818
Bolsimo - Gestão de Activos, S.A.	-	-	1 184	380	-	-	22	10 820	-	11 646
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-	-	21	-	-	21
CESource, A.C.E.	-	-	-	-	-	-	36	-	-	36
Finibanco Angola, S.A.	26 046	-	-	-	-	-	-	43 414	14	69 446
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	-	13	-	-	14
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	1 943	453	100	46	-	1 636
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	250	-	-	-	-	250
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	-	301 807	-	-	-	193	186 250	-	488 250
Montepio Geral Associação Mutualista	-	-	1	5	-	-	1 702	120	-	1 818
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	-	-	1	-	5	-	-	6
Montepio Gestão de Ativos Imobiliários, A.C.E.	-	-	-	-	-	-	1 111	-	-	1 111
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	-	107 161	-	-	107 161
Montepio Investimento, S.A.	-	313 875	2	2	-	-	295	11 681	-	325 851
Montepio Residências para Estudantes, S.A.	-	-	-	-	-	-	4	-	-	4
Montepio Valor - S.G.O.I.C., S.A.	-	-	-	-	-	-	105	-	-	105
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	653	41	-	-	-	1 386	-	1 998
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	150	4	146
Residências Montepio, Serviços de Saúde, S.A.	-	-	1 513	42	-	-	19	750	-	2 240
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S	-	-	-	-	-	-	22	-	-	22
	26 046	313 875	311 438	472	2 194	453	110 809	254 617	18	1 018 036

As at 31 December 2021, 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 2021									
Company	Loans and deposits to credit institutions payable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment for Loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment for Financial assets at fair value through other comprehensive income	Other assets	Guarantees and other commitments	Provisions for Guarantees and other commitments	Total
Board of directors	-	-	588	-	-	-	-	-	-	588
Other related parties Board of directors	-	-	2 618	-	-	-	-	-	-	2 618
Other key management personnel	-	-	3 349	-	-	-	-	-	-	3 349
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. - Em Liquidação	-	-	-	-	-	-	14	-	-	14
Bolsimo - Gestão de Activos, S.A.	-	-	3 346	300	-	-	22	8 681	-	11 749
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	-	-	-		23	-	-	23
CESource, A.C.E.	-	-	-	-	-	-	83	-	-	83
Finibanco Angola, S.A.	22 905	-	-	-	-	-	-	39 017	-	61 922
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	1	-	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	-	20	3	-	-	-	-	-	17
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	2 079	747	-	46	-	1 378
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	250	-	-	-	-	250
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	32 518	261 900	3 943	-	-	167	226 100	-	516 742
Montepio Geral Associação Mutualista	-	-	5	7	-	-	3 949	120	-	4 067
Montepio Gestão de Activos - S.G.O.I.C., S.A.	-	-	-	-	1		5	-	-	6
Montepio Gestão de Ativos Imobiliários, A.C.E.	-	-	-	-	-	-	607	-	-	607
Montepio Holding, S.G.P.S., S.A.	-	-	-	-	-	-	130 035	-	-	130 035
Montepio Investimento, S.A.	-	241 919	-	-	-	-	3	83 262	-	325 184
Montepio Residências para Estudantes, S.A.	-	-	-	-	-	-	4	-	-	4
Montepio Valor - S.G.O.I.C., S.A.	-	-	1	-	-	-	-	-	-	1
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	775	35	-	-	-	1 386	4	2 122
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	150	-	150
Residências Montepio, Serviços de Saúde, S.A.	-	-	1 511	16	-	-	29	750	-	2 274
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	-	-	-	-	-	41	-	-	41
	22 905	274 437	274 114	4 305	2 330	747	134 982	359 512	4	1 063 224

As at 30 June 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)

	Jun 2022				
Company	Deposits from other credit institutions	Deposits from customers	Debt securities issued	Other liabilities	Total
Board of directors (after Jul 25, 2022)	-	691	-	-	691
Board of directors (until Jul 25, 2022)	-	1 346	-	-	1 346
Other related parties Board of directors	-	3 015	-	-	3 015
Other key management Personnel	-	2 798	-	-	2 798
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. - Em Liquidação	9 163	-	-	-	9 163
Bolsimo - Gestão de Activos, S.A.	-	50	-	-	50
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	11 438	-	-	11 438
Clínica CUF Belém, S.A.	-	16	-	-	16
Empresa Gestora de Imóveis da Rua do Prior S.A	-	166	-	-	166
Finibanco Angola, S.A.	28 452	-	-	-	28 452
Fundação Montepio Geral	-	2 124	-	-	2 124
Fundo de Pensões - Montepio Geral	-	31 096	2 108	-	33 204
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	2 065	-	-	2 065
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	187	-	-	187
Lusitania Vida, Companhia de Seguros, S.A.	-	7 740	-	-	7 740
Lusitania, Companhia de Seguros, S.A.	-	2 543	-	-	2 543
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	845	-	-	845
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	2 097	-	-	2 097
Montepio Geral Associação Mutualista	-	134 517	195 786	-	330 303
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	2 560	-	-	2 560
Montepio Gestão de Activos Imobiliários, A.C.E.	-	2 617	-	-	2 617
Montepio Holding, S.G.P.S., S.A.	-	7 401	-	-	7 401
Montepio Investimento, S.A.	823	-	-	110	933
Montepio Residências para Estudantes, S.A.	-	400	-	-	400
Montepio Seguros, S.G.P.S., S.A.	-	954	-	-	954
Montepio Valor - S.G.O.I.C., S.A.	-	3 659	-	-	3 659
NovaCâmbios - Instituição de Pagamento, S.A.	-	523	-	-	523
PEF - Fundo de Investimento Imobiliário Fechado	-	543	-	-	543
Polaris-Fundo de Investimento Imobiliário Fechado	-	168	-	-	168
Residências Montepio, Serviços de Saúde, S.A.	-	113	-	-	113
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	61	-	-	61
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 633	-	-	2 633
Sociedade Portuguesa de Administrações, S.A.	-	347	-	-	347
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	33 479	-	-	33 479
	38 438	258 192	197 894	110	494 634

As at 31 December 2021, Banco Montepio's liabilities in respect of related parties, included in the captions Deposits from other credit institutions, Deposits from customers, Debt securities issued, Other subordinated debt and Other liabilities, are analysed as follows:

(Euro thousand)

	Dec 2021				
Company	Deposits from other credit institutions	Deposits from customers	Debt securities issued	Other liabilities	Total
Board of Directors	-	1 704	-	-	1 704
Other related parties Board of directors	-	3 281	-	-	3 281
Other key management personnel	-	2 795	-	-	2 795
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. -Em Liquidação	9 029	-	-	-	9 029
Bolsimo - Gestão de Activos, S.A.	-	1 359	-	-	1 359
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	7 032	-	-	7 032
Clínica CUF Belém, S.A.	-	13	-	-	13
Empresa Gestora de Imóveis da Rua do Prior S.A	-	207	-	-	207
Finibanco Angola, S.A.	30 616	-	-	-	30 616
Fundação Montepio Geral	-	1 748	-	-	1 748
Fundo de Pensões - Montepio Geral	-	38 652	2 115	-	40 767
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	1 923	-	-	1 923
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	124	-	-	124
Lusitania Vida, Companhia de Seguros, S.A.	-	20 221	-	-	20 221
Lusitania, Companhia de Seguros, S.A.	-	4 121	-	-	4 121
Valor Arrendamento - Fundo de Investimento Imobiliário Fechado	-	1 840	-	-	1 840
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	2 828	-	-	2 828
Montepio Geral Associação Mutualista	-	151 962	201 076	-	353 038
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	2 974	-	-	2 974
Montepio Gestão de Activos Imobiliários, A.C.E.	-	2 406	-	-	2 406
Montepio Holding, S.G.P.S., S.A.	-	29 065	-	-	29 065
Montepio Investimento, S.A.	4 463	-	-	350	4 813
Montepio Residências para Estudantes, S.A.	-	396	-	-	396
Montepio Seguros, S.G.P.S., S.A.	-	721	-	-	721
Montepio Valor - S.G.O.I.C., S.A.	-	4 578	-	-	4 578
NovaCâmbios - Instituição de Pagamento, S.A.	-	451	-	-	451
PEF - Fundo de Investimento Imobiliário Fechado	-	482	-	-	482
Polaris-Fundo de Investimento Imobiliário Fechado	-	132	-	-	132
Residências Montepio, Serviços de Saúde, S.A.	-	466	-	-	466
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	85	-	-	85
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 756	-	-	2 756
Sociedade Portuguesa de Administrações, S.A.	-	357	-	-	357
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	30 556	-	-	30 556
	44 108	315 235	203 191	350	562 884

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						
Company	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income/ (expense)	(losses) arising from financial assets and liabilities at fair value through other comprehensiv	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
				-	-		

As at 30 June 2021, Banco Montepio's income and expenses with related parties, included in the captions Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income/(expense), Net gains/(losses) arising from financial assets and liabilities at fair value through profit or loss, Staff costs, and General and administrative expenses, are analysed as follows:

(Euro thousand)

	Jun 2021						
Company	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income/ (expense)	(losses) arising from financial assets and liabilities at fair value through other comprehensiv	Staff costs	General and administrative expenses
Board of Directors	-	1	1	-	-	-	-
Other related parties Board of directors	5	2	1	-	-	-	-
Other key management personnel	8	1	1	-	-	-	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. - Em Liquidação	-	786	-	49	-	(42)	-
Bolsimo - Gestão de Ativos, S.A.	112	-	-	-	-	(132)	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	-	53	-	496	-	-
CESource, A.C.E.	-	-	-	-	-	(290)	-
Finibanco Angola, S.A.	-	-	-	-	-	(44)	-
Fundo de Pensões - Montepio Geral	-	8	-	-	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-		1 464	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	2	-	1	-	-	-	-
Iberpartners Cafés, S.G.P.S., S.A.	21	-	-	-			
Lusitania Vida, Companhia de Seguros, S.A.	-	-	2 354	-	-	-	-
Lusitania, Companhia de Seguros, S.A.	-	-	2 521	4	-	-	-
Montepio Arrendamento - F.I.I. Fechado para Arrendamento Habitacional	-	-	29	1	-	-	-
Montepio Arrendamento II - F.I.I. Fechado para Arrendamento Habitacional	-	-	14	1	-	-	-
Valor Arrendamento III - F.I.I. Fechado	-	-	47	1	-	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	1 168	-	6	177	-	(144)	-
Montepio Geral Associação Mutualista	2	9 150	1 136	-	-	(5 423)	967
Montepio Gestão de Activos - S. G. O. I. C., S.A.	-	-	423	8	-	-	-
Montepio Gestão de Activos Imobiliários, A.C.E.	-	-	-	(1 475)	-	(1 129)	43
Montepio Hording, S.G.P.S., S.A.	-	-	15	25	-	-	-
Montepio Investimento, S.A.	471	353	12	211	-	(435)	-
Montepio Residências para Estudantes, S.A.	-	-	-	-	-	(8)	-
Montepio Seguros, S.G.P.S., S.A.	-	-	-	-	-	-	-
Montepio Valor - S.G.O.I.C., S.A.	-	-	137	37	-	(279)	-
NovaCâmbios - Instituição de Pagamento, S.A.	26	-	28	2	-	-	-
PEF - Fundo de Investimento Imobiliário Fechado	-	-	6	-	-	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	2	-	-	-	-
Residências Montepio, Serviços de Saúde, S.A.	31	-	29	-	-	(57)	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	1	-	-	-	-	-
	1 846	10 302	8 280	(959)	496	(7 983)	1 010

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 2022 and financial year 2021, there were no transactions with Banco Montepio's Pension Fund.

48 Securitization of assets

As at 30 June 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 these live securitization operations as at 30 June 2022.

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 2022, 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	106 786	762 375	110 977	28 259
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	384 514	1 028 600	415 448	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	63 838	236 500	66 018	-
Pelican Finance No. 2 **	December 2021	euro	Mortgage loans	360 301	116 662	360 301	300 367	310 698
				2 387 776	671 800	2 387 776	892 810	338 957

* Includes nominal value, accrued interest and other adjustments.

** The presented values correspond to the total emission (set of the Bank Montepio with the Montepio Crédito).

Additionally, the detail of the securitized loans not derecognized, by securitization operation and contract nature, as at 30 June 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	105 987	383 155	62 949	-	552 091
Consumer loans and other				116 594	116 594
	105 987	383 155	62 949	116 594	668 685
Credit and overdue interest					
Less than 90 days	107	484	519	1	1 111
More than 90 days	692	875	370	67	2 004
	799	1 359	889	68	3 115
	106 786	384 514	63 838	116 662	671 800

As at 31 December 2021, the securitization operations realized by Banco Montepio are presented as follows:

(Euro thousand)

Issue	Settlement date	Currency	Assets transferred	Loans and advances: Initial amount	Loans and advances: Current amount	Securities issued: Initial nominal amount	Securities issued: Current nominal amount	Securities issued: Third party amount *
Pelican Mortgages No. 3	March 2007	euro	Mortgage loans	762 375	116 091	762 375	119 898	30 618
Pelican Mortgages No. 4	May 2008	euro	Mortgage loans	1 028 600	407 525	1 028 600	438 985	-
Aqua Mortgage No. 1	December 2008	euro	Mortgage loans	236 500	68 130	236 500	70 542	-
*Pelican Finance No. 2 ***	December 2021	euro	Mortgage loans	360 301	142 122	360 301	360 301	362 214
				2 387 776	733 868	2 387 776	989 726	392 832

* Includes nominal value, accrued interest and other adjustments.

** The presented values correspond to the total emission (set of the Bank Montepio with the Montepio Crédito).

Additionally, the detail of the securitized loans not derecognized, by securitization operation and contract nature, as at 31 December 2021, is presented as follows:

(Euro thousand)

	Non-derecognized securitization operations: Pelican Mortgage n.º 3	Pelican Mortgage n.º 4	Aqua Mortgage n.º 1	Pelican Finance n.º 2	Total
Domestic loans and advances					
Retail					
Mortgage	115 193	405 999	67 285	-	588 477
Consumer loans and other	-	-	-	142 117	142 117
	115 193	405 999	67 285	142 117	730 594
Credit and overdue interest					
Less than 90 days	96	546	540	-	1 182
More than 90 days	802	980	305	5	2 092
	898	1 526	845	5	3 274
	116 091	407 525	68 130	142 122	733 868

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.

The bonds issued by the securitization vehicles Pelican Mortgages no. 5 and Pelican Mortgages no. 6, which were liquidated during financial year 2021.

In the case of the more senior notes, these are recorded as Other financial assets at amortized cost (note 25), 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 2022, these are analysed as follows:

Issue	Bonds	Initial nominal amount (euro)	Current nominal amount (euro)	CEMG interest held (nominal amount) (euro)	Maturity date	*Rating (initial)* *Fitch*	Moodys	S&P	DBRS	*Rating (current)* *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.	BBB	A+	A1	AA
	Class B	14 250 000	2 604 803	2 604 803	2054	AA-	Aa2	AA-	n.a.	BBB	A-	Baa3	BBB
	Class C	12 000 000	2 193 519	2 193 519	2054	A	A3	A	n.a.	BB+	BBB+	Ba3	BB
	Class D	6 375 000	1 165 307	1 165 307	2054	BBB	Baa3	BBB	n.a.	BB	BBB-	Ba3	B+
	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+	A+	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.
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.
Pelican Finance n.º 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.	B-	n.a.	n.a.	n.a.
	Class X	1 000	-	-	2035	n.a.	n.a.	n.a.	n.a.	B-	n.a.	n.a.	n.a.

As at 31 December 2021, 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	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.
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.
Pelican Finance n.º 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	400	2035	n.a.	n.a.	n.a.	n.a.	B-	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.

49 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 potential losses for Banco Montepio.

The control and the efficient management of risk play a key role in the balanced and sustained development of Banco Montepio. In addition to contributing to the optimization of the profitability/risk binomial of the various lines of business, they also ensure the maintenance of an adequate risk profile in terms of solvency and liquidity.

The monitoring of these risks is centralized in the Risk Department, the unit responsible for the risk management function of Banco Montepio, which regularly informs the 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.

Self-employed individuals ("Empresários em nome individual" – "ENI") and Micro businesses are considered retail, being therefore subject to the respective scoring models.

There are also behavioural scoring models for retail portfolios, which are used to monitor the credit portfolio as well as to evaluate new credit proposals, being coupled with software-based scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large Companies, distinguished by activity sectors, such as the tertiary sector, or by ageing of the Company's activity, namely start-up Companies.

Regardless of the typology of the applicable model, any proposal, contract or credit Customer is classified into a single risk scale class, in ascending order of Probability of Default, with this scale being composed of 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 in order to minimize the risk of adverse selection, with risk classes for rejection having been defined.

Intervention limits are also defined for the different decisions, by operation amount and global Customer exposure, type of operation/collateral and assigned risk class. In this context, higher hierarchical positions must approve operations with higher exposures. The levels and limits are approved by the Board of Directors, and the highest decision level corresponds to the Board of Directors. At the intermediate levels, the collegial intervention of at least two persons is compulsory, one belonging to the commercial network and the other to the Credit Analysis Department, a body independent of the commercial structure. The Risk Department is the unit responsible for the development of the credit risk models (scoring and rating), and for the monitoring of Banco Montepio's risk control, on a global basis.

Within the scope of credit risk monitoring, internal reports are prepared with the main risk indicators of the credit portfolios and metrics on the use of the rating/scoring models. In terms of preventive monitoring, an alert system is in place for indicators of credit risk 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.10.4).

As part of the calculation of the estimated impairment losses, sensitivity analyses were carried out on the macroeconomic variables considered in the forward-looking models and the following results were obtained:

1. Macroeconomic projection degradation scenario of 10%: impact of 2.77% of total impairment of the loan portfolio;
2. Macroeconomic projection improvement scenario of 10%: impact of -2.56% 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 6.61% of total impairment of the loan portfolio;
2. Parameter improvement scenario of 5%: impact of -6.55% 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:

	2021	2022	2023
Unemployment Rate (2)			
Base Scenario	6.76%	5.89%	5.61%
Worst-case Scenario	6.76%	11.22%	10.66%
Best-case Scenario	6.76%	5.84%	5.44%
GDP Growth Rate (2)			
Base Scenario	3.76%	3.95%	2.13%
Worst-case Scenario	3.76%	-1.04%	2.70%
Best-case Scenario	3.76%	5.92%	2.17%
Growth Rate of Direct Investment in Assets (3)			
Base Scenario	1540.00%	27.08%	-13.66%
Worst-case Scenario	1540.00%	8.33%	8.33%
Best-case Scenario	1540.00%	20.83%	-1.72%
Private Consumption Expenditure Growth Rate (2)			
Base Scenario	6.31%	3.11%	2.10%
Worst-case Scenario	6.31%	-0.56%	2.30%
Best-case Scenario	6.31%	4.67%	1.84%
Government Balance Growth Rate as a Percentage of GDP (1)			
Base Scenario	15.70%	54.39%	41.28%
Worst-case Scenario	15.70%	-8.79%	46.92%
Best-case Scenario	15.70%	67.57%	52.90%
PSI Index Growth Rate (4)			
Base Scenario	21.14%	-1.41%	2.29%
Worst-case Scenario	21.14%	-23.44%	12.06%
Best-case Scenario	21.14%	8.10%	0.38%

(1) Source: Eurostat; Projections: Moody's Analytics
(2) Source: National Institute of Statistics; Projections: Moody's Analytics
(3) Source: International Monetary Fund; Projections Moody's Analytics
(4) Source: SIX Financial Information; Projections Moody's Analytics

In order to address the uncertainty associated with the current economic context, largely influenced by the military conflict taking place in Ukraine, and the respective potential impact on the quantification of the impairment of the customer loan portfolio, the Bank reviewed the probabilities of occurrence of macroeconomic scenarios, with the following percentages currently being considered:

1. Baseline scenario, with 55% probability of occurrence (60% in December 2021);

2. Pessimistic scenario, with 35% probability of occurrence (20% in December 2021);

3. Optimistic scenario, with 10% probability of occurrence (20% in December 2021).

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 46 thousand with reference to 30 June 2022).

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 2,448,780 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 2022	Dec 2021
Loans and deposits at credit institutions repayable on demand	65 462	84 240
Loans and advances to credit institutions	375 788	388 459
Loans and advances to customers	11 225 844	11 004 029
Financial assets held for trading	7 917	1 376
Financial assets at fair value through profit or loss	32 780	30 881
Financial assets at fair valur through other compensative income	80 366	81 023
Hedging derivatives	5 260	5 411
Other financial assets at amortized cost	4 049 078	3 530 569
Other assets	176 588	192 597
Guarantees granted	459 425	448 373
Irrevocable credit lines	810 221	958 453
Revocable credit lines	857 635	871 346
	18 146 364	17 596 757

The analysis of the main credit risk exposures by sector of activity, as at 30 June 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 through profit or loss	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
Jun 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	-	-	-	99 140	5 011	-	-	-	-	-	-	-	1 480	6 270	71
Extractive industries	-	-	-	17 805	234	-	-	-	-	-	-	-	1 309	2 634	14
Manufacturing industries	-	-	-	1 045 790	95 578	-	530	5 016	15	-	-	-	23 414	98 356	1 994
Electricity generation and distribution, gas steam and air conditioning	-	-	-	78 114	8 332	-	-	-	-	-	-	-	906	9 606	15
Water supply	-	-	-	55 196	1 173	-	-	-	-	-	-	-	1 935	2 904	13
Construction	-	-	-	427 482	57 164	-	151	-	-	-	-	-	103 354	87 930	8 280
Wholesale and retail trade	-	-	-	891 805	72 735	-	112	-	-	-	-	-	47 173	135 925	1 487
Transport and storage	-	-	-	305 190	14 828	-	-	-	-	-	-	-	5 666	17 188	581
Accommodation and catering activities	-	-	-	580 309	21 253	-	-	-	-	-	-	-	9 391	29 040	391
Information and Communication	-	-	-	55 132	2 635	-	-	-	-	5 260	-	-	2 700	18 581	242
Financial and insurance activities	65 462	378 103	2 315	686 149	96 616	2 856	-	9 479	496	-	-	-	207 907	219 498	149
Real estate activities	-	-		560 972	27 280	-	78	-	-	-	-	-	14 752	90 854	1 090
Consulting, scientific, technical and similar	-	-	-	196 242	6 018	-	-	-	-	-	-	-	17 022	29 535	198
Administrative and supporting service activities	-	-	-	109 007	2 879	-	129	-	-	-	-	-	4 912	25 951	171
Public administration and defence, compulsory social security	-	-	-	29 735	566	5 061	-	60 599	116	-	4 055 067	5 989	104	404	9
Education	-	-	-	65 834	2 052	-	-	-	-	-	-	-	185	5 522	24
Human Health Services and Social action activities	-	-	-	295 890	5 589	-	-	-	-	-	-	-	2 011	17 409	200
Artistic activities, shows and recreational	-	-	-	56 671	2 478	-	-	-	-	-	-	-	9 235	6 180	481
Other services	-	-	-	77 828	5 917	-	126	-	-	-	-	-	2 697	6 434	73
Retail															
Mortgage Loans	-	-	-	5 646 447	32 042	-	31 654	1 190	2	-	-	-	-	-	-
Others	-	-	-	424 959	19 473	-	-	4 738	27	-	-	-	3 272	-	700
	65 462	**378 103**	**2 315**	**11 705 697**	**479 853**	**7 917**	**32 780**	**81 022**	**656**	**5 260**	**4 055 067**	**5 989**	**459 425**	**810 221**	**16 183**

The analysis of the mains credit risk exposures by sector of activity, as at 31 December 2021, 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 through profit or loss	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 2021	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	-	-	-	90 453	5 064	-	-	-	-	-	-	-	876	5 598	124
Extractive industries	-	-	-	15 187	587	-	-	-	-	-	-	-	1 216	2 258	8
Manufacturing industries	-	-	-	935 192	85 984	-	845	3 995	444	-	-	-	22 707	109 367	1 638
Electricity generation and distribution, gas steam and air conditioning	-	-	-	84 430	5 204	-	-	-	-	-	-	-	993	10 798	5
Water supply	-	-	-	48 245	1 072	-	-	-	-	-	-	-	1 782	5 393	13
Construction	-	-	-	423 019	65 230	-	470	-	-	-	-	-	94 739	88 734	7 578
Wholesale and retail trade	-	-	-	819 467	73 470	-	233	-	-	-	-	-	41 393	144 362	1 559
Transport and storage	-	-	-	295 505	18 137	-	-	-	-	-	-	-	5 643	15 075	188
Accommodation and catering activities	-	-	-	571 107	26 122	-	-	-	-	-	-	-	8 295	24 828	508
Information and Communication	-	-	-	51 789	2 007	-	-	-	-	5 411	-	-	1 596	21 872	122
Financial and insurance activities	84 240	390 553	2 094	677 963	97 793	1 376	-	9 388	1 560	-	-	-	214 588	333 942	214
Real estate activities	-	-	-	582 032	27 180	-	87	-	-	-	-	-	15 802	102 784	1 006
Consulting, scientific, technical and similar	-	-	-	201 491	6 349	-	-	-	-	-	-	-	14 764	32 509	286
Administrative and supporting service activities	-	-	-	103 693	3 766	-	263	-	-	-	-	-	5 086	23 626	913
Public administration and defence, compulsory social security	-	-	-	37 452	572	-	-	63 426	124		2 972 600	4 619	104	277	13
Education	-	-	-	62 656	2 471	-	-	-	-	-	-	-	185	4 260	36
Human Health Services and Social action activities	-	-	-	273 206	8 107	-	-	-	-	-	-	-	1 529	16 944	388
Artistic activities, shows and recreational	-	-	-	56 758	3 021	-	-	-	-	-	-	-	9 969	7 396	683
Other services	-	-	-	82 660	6 556	-	126	-	-	-	-	-	3 698	8 430	77
Retail	-	-	-			-	-	-	-	-	-	-	-	-	-
Mortgage Loans	-	-	-	5 675 514	37 804	-	28 857	1 315	2	-	-	-	-	-	-
Others	-	-	-	415 681	22 975	-	-	5 658	629	-	562 588	-	3 408	-	717
	84 240	**390 553**	**2 094**	**11 503 500**	**499 471**	**1 376**	**30 881**	**83 782**	**2 759**	**5 411**	**3 535 188**	**4 619**	**448 373**	**958 453**	**16 076**

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 459,425 thousand (31 December 2021: Euro 448,193 thousand), the irrevocable credit facilities amounting to Euro 810,221 thousand (31 December 2021: Euro 958,453 thousand) and the revocable credit facilities in the amount of Euro 857,635 thousand (31 December 2021: Euro 817,346 thousand), broken down between collective and individual analysis, is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
Stage impacts	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Collective analysis	**10 209 078**	**166 490**	**10 042 588**	**10 511 703**	**180 314**	**10 331 389**
Stage 1	8 455 391	21 777	8 433 614	8 743 003	23 405	8 719 598
Stage 2	1 492 957	37 517	1 455 440	1 493 972	40 674	1 453 298
Stage 3	260 730	107 196	153 534	274 728	116 235	158 493
Collective analysis	**3 612 180**	**329 546**	**3 282 634**	**3 132 707**	**335 233**	**2 797 474**
Stage 1	2 329 651	16 858	2 312 793	1 606 830	9 958	1 596 872
Stage 2	570 195	15 790	554 405	794 413	25 092	769 321
Stage 3	712 334	296 898	415 436	731 464	300 183	431 281
	13 821 258	**496 036**	**13 325 222**	**13 644 410**	**515 547**	**13 128 863**

As at 30 June 2022 and 31 December 2021, the detail of the application of Stages to other financial assets is presented as follows:

(Euro thousand)

	Jun 2022			Dec 2021		
Stage impacts	**Gross value**	**Impairment**	**Net value**	**Gross value**	**Impairment**	**Net value**
Amortized cost (AC)	**4 583 053**	**5 989**	**4 577 064**	**3 535 188**	**4 619**	**3 530 569**
Stage 1	4 583 053	5 989	4 577 064	3 535 188	4 619	3 530 569
Fair value (FVOIC)	**81 022**	**656**	**80 366**	**83 781**	**2 759**	**81 022**
Stage 1	78 692	201	78 491	81 294	2 009	79 285
Stage 2	2 330	455	1 875	2 487	750	1 737
Loans and advances to other institutions	**378 103**	**2 315**	**375 788**	**390 553**	**2 094**	**388 459**
Stage 1	377 296	2 290	375 006	390 553	2 094	388 459
Stage 2	807	25	782	-	-	-
	5 042 178	**8 960**	**5 033 218**	**4 009 522**	**9 472**	**4 000 050**

As at 30 June 2022 and 31 December 2021, the detail of the loans and advances subject to collective analysis, structured by segment and by Stage, is as follows:

(Euro thousand)

Segment	Jun 2022 Book value	Jun 2022 Impairment	Jun 2022 Net value	Dec 2021 Book value	Dec 2021 Impairment	Dec 2021 Net value
Retail	**6 470 574**	**47 429**	**6 423 145**	**6 488 362**	**56 205**	**6 432 157**
Mortgage loans	*5 765 649*	*27 505*	*5 738 144*	*5 771 440*	*35 180*	*5 736 260*
Stage 1	4 925 603	848	4 924 755	5 029 547	604	5 028 943
Stage 2	769 055	5 323	763 732	649 708	6 246	643 462
Stage 3	70 991	21 334	49 657	92 185	28 330	63 855
Consumer credit	*443 748*	*18 251*	*425 497*	*456 139*	*19 483*	*436 656*
Stage 1	366 839	1 414	365 425	366 771	1 078	365 693
Stage 2	54 753	3 939	50 814	64 579	3 537	61 042
Stage 3	22 156	12 898	9 258	24 789	14 868	9 921
Credit cards	*261 177*	*1 673*	*259 504*	*260 783*	*1 542*	*259 241*
Stage 1	243 068	620	242 448	240 176	520	239 656
Stage 2	15 150	57	15 093	18 530	195	18 335
Stage 3	2 959	996	1 963	2 077	827	1 250
Corporate	**3 738 504**	**119 061**	**3 619 443**	**4 023 341**	**124 109**	**3 899 232**
Non Construction	*3 347 245*	*106 096*	*3 241 149*	*3 645 772*	*111 077*	*3 534 695*
Stage 1	2 633 305	17 186	2 616 119	2 822 938	19 761	2 803 177
Stage 2	587 979	25 729	562 250	700 208	28 729	671 479
Stage 3	125 961	63 181	62 780	122 626	62 587	60 039
Construction	*391 259*	*12 965*	*378 294*	*377 569*	*13 032*	*364 537*
Stage 1	286 576	1 709	284 867	283 570	1 443	282 127
Stage 2	66 019	2 469	63 550	60 948	1 966	58 982
Stage 3	38 664	8 787	29 877	33 051	9 623	23 428
	10 209 078	**166 490**	**10 042 588**	**10 511 703**	**180 314**	**10 331 389**

As at 30 June 2022 and 31 December 2021, impairment is detailed as follows:

(Euro thousand)

Jun 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	3 598 299	325 207	3 738 505	119 060	7 336 804	444 267	6 892 537
Mortgage loans	6 417	821	5 765 648	27 506	5 772 065	28 327	5 743 738
Other loans	7 464	3 518	704 925	19 924	712 389	23 442	688 947
	3 612 180	329 546	10 209 078	166 490	13 821 258	496 036	13 325 222

(Euro thousand)

Dec 2021	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	3 119 089	330 331	4 023 342	124 108	7 142 431	454 439	6 687 992
Mortgage loans	6 748	1 046	5 771 440	35 181	5 778 188	36 227	5 741 961
Other loans	6 870	3 856	716 921	21 025	723 791	24 881	698 910
	3 132 707	335 233	10 511 703	180 314	13 644 410	515 547	13 128 863

As at 30 June 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 2022			
	Stage 1	Stage 2	Stage 3	Total
Gross value at the beginning of the period	10 349 833	2 288 385	1 006 192	13 644 410
Transfer for stage 1	650 736	(646 195)	(4 541)	-
Transfer for stage 2	(621 137)	655 790	(34 653)	-
Transfer for stage 3	(25 663)	(42 489)	68 152	-
Write-Offs	(28)	(751)	(142 789)	(143 568)
Exposure of new net derecognition credits refunds and other variations	431 301	(191 588)	80 703	320 416
Gross value at the end of the period	10 785 042	2 063 152	973 064	13 821 258

(Euro thousand)

	Jun 2022			
	Stage 1	Stage 2	Stage 3	Total
Impairment losses at the beginning of the period	33 363	65 766	416 418	515 547
Transfer for stage 1	3 777	(3 765)	(12)	-
Transfer for stage 2	(13 030)	14 759	(1 729)	-
Transfer for stage 3	(11 399)	(12 023)	23 422	-
Write-Offs	(28)	(751)	(142 789)	(143 568)
Exposure of new net derecognition credits refunds and other variations	25 952	(10 679)	108 784	124 057
Impairment losses at the end of the period	38 635	53 307	404 094	496 036

As at 31 December 2021, the transfer between Stages, related to loans and advances to customers (gross loans and advances and impairment) is presented as follows:

(Euro thousand)

	Dec 2021			
	Stage 1	Stage 2	Stage 3	Total
Gross value at the beginning of the period	8 477 762	3 657 693	1 344 316	13 479 771
Transfer for stage 1	1 328 465	(1 323 188)	(5 277)	-
Transfer for stage 2	(393 522)	406 310	(12 788)	-
Transfer for stage 3	(28 948)	(146 664)	175 612	-
Write-Offs	(521)	(1 198)	(291 127)	(292 846)
Exposure of new net derecognition credits refunds and other variations	966 597	(304 568)	(204 544)	457 484
Gross value at the end of the period	10 349 833	2 288 385	1 006 192	13 644 409

(Euro thousand)

	Dec 2021			
	Stage 1	Stage 2	Stage 3	Total
Impairment losses at the beginning of the period	24 406	105 489	646 144	776 039
Transfer for stage 1	5 526	(5 513)	(13)	-
Transfer for stage 2	(10 181)	10 528	(347)	-
Transfer for stage 3	(7 833)	(33 349)	41 182	-
Write-Offs	(521)	(1 198)	(291 127)	(292 846)
Exposure of new net derecognition credits refunds and other variations	21 966	(10 191)	20 579	32 354
Impairment losses at the end of the period	33 363	65 766	416 418	515 547

As at 30 June 2022 and 31 December 2021, the fair value analysis of collaterals associated with Banco Montepio's total credit portfolio, is as follows:

(Euro thousand)

Fair value of collaterals	Jun 2022	Dec 2021
Individual analysis		
Securities and other financial assets	*184 773*	*139 411*
Real estate - Mortgage loans	*11 543*	*12 436*
Real estate - Construction and CRE	*1 867 222*	*2 035 380*
Other real estate	*1 436 952*	*1 510 202*
Other guarantees	*388 507*	*403 414*
Collective analysis - Stage 1		
Securities and other financial assets	*765 834*	*416 589*
Real estate - Mortgage loans	*10 820 454*	*11 134 391*
Real estate - Construction and CRE	*586 680*	*498 013*
Other real estate	*879 203*	*792 495*
Other guarantees	*130 493*	*98 601*
Collective analysis - Stage 2		
Securities and other financial assets	*83 089*	*76 282*
Real estate - Mortgage loans	*1 840 116*	*1 346 240*
Real estate - Construction and CRE	*149 462*	*150 022*
Other real estate	*358 922*	*462 332*
Other guarantees	*22 492*	*28 379*
Collective analysis - Stage 3		
Securities and other financial assets	*4 554*	*3 044*
Real estate - Mortgage loans	*142 521*	*169 224*
Real estate - Construction and CRE	*44 078*	*36 889*
Other real estate	*67 591*	*66 634*
Other guarantees	*3 404*	*3 825*
	19 787 890	**19 383 803**

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 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

	Jun 2022		Dec 2021	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate	5 937 993	350 023	5 733 584	353 082
Construction and CRE	1 398 811	94 244	1 408 847	101 357
Retail mortgage loans	5 772 065	28 327	5 778 188	36 227
Retail other loans	712 389	23 442	723 791	24 881
	13 821 258	496 036	13 644 410	515 547

The loans and advances portfolio, by segment and by production year, as at 30 June 2022, is presented as follows:

(Euro thousand)

	Corporate			Construction and CRE			Mortgage loans			Other loans		
Production year	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment
2004 and previous	413	29 425	2 126	576	50 205	17 369	37 132	1 032 842	6 716	19 110	16 133	298
2005	105	11 113	486	138	9 848	3 255	9 529	435 505	2 896	4 965	5 234	99
2006	153	20 870	1 942	138	17 028	5 402	11 505	541 621	4 415	13 238	18 684	3 282
2007	296	11 500	983	163	30 053	7 495	11 834	551 189	5 092	35 989	40 185	877
2008	1 058	31 897	1 471	335	15 839	2 797	6 213	288 383	2 569	56 991	74 414	556
2009	1 664	60 946	1 916	385	21 068	3 765	3 372	176 085	1 250	44 932	49 134	1 802
2010	1 467	65 114	2 900	282	26 281	5 595	3 405	202 270	1 263	32 446	22 298	585
2011	1 920	85 268	2 083	351	14 714	2 424	1 259	72 238	404	26 157	24 285	1 542
2012	1 940	68 532	4 253	348	23 808	6 836	769	44 720	261	18 637	11 769	288
2013	3 641	206 017	29 869	313	19 021	1 760	992	56 263	142	17 870	15 702	901
2014	4 662	292 577	28 627	1 047	63 374	3 543	1 183	70 360	148	20 440	24 092	1 630
2015	5 052	250 081	80 316	563	22 582	1 500	1 362	82 512	128	17 743	24 705	1 986
2016	6 541	438 579	20 114	922	66 870	5 401	1 949	139 562	438	28 238	34 182	1 386
2017	7 434	346 396	20 383	784	194 551	7 667	2 694	205 101	319	20 181	28 402	1 310
2018	9 460	393 198	44 094	1 486	76 503	2 754	2 838	227 599	464	30 660	51 429	1 444
2019	9 744	490 351	39 253	1 442	130 089	6 642	3 456	290 084	766	23 664	57 786	1 648
2020	11 835	1 171 229	34 661	1 593	207 429	5 450	3 769	353 713	438	19 491	62 869	1 813
2021	14 140	784 412	22 053	2 070	216 731	3 002	6 601	680 008	414	26 935	102 025	1 833
2022	12 046	1 180 488	12 493	1 613	192 817	1 587	2 939	322 010	204	11 217	49 061	162
	93 571	5 937 993	350 023	14 549	1 398 811	94 244	112 801	5 772 065	28 327	468 904	712 389	23 442

The loans and advances portfolio, by segment and by production year, as at 31 December 2021, is presented as follows:

(Euro thousand)

	Corporate			Construction and CRE			Mortgage loans			Other loans		
Production year	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment	No. Of operations	Amount	Impairment
2004 and previous	483	35 720	1 202	602	55 238	19 872	39 002	1 116 660	8 447	19 829	16 799	467
2005	130	12 434	603	151	12 967	3 705	9 891	462 157	3 914	5 093	5 244	125
2006	193	23 930	1 937	148	17 730	5 850	11 963	574 524	6 681	13 524	19 556	3 662
2007	400	22 677	1 095	187	33 155	9 241	12 343	584 744	6 716	37 006	41 679	922
2008	1 177	39 080	1 302	355	16 203	1 369	6 407	303 618	3 119	58 564	77 267	607
2009	1 880	78 816	2 491	414	21 804	3 746	3 481	185 900	1 434	46 307	50 994	1 867
2010	1 642	75 149	3 822	317	29 917	6 079	3 540	214 091	1 554	33 467	23 315	696
2011	2 219	94 945	3 105	365	15 432	2 201	1 307	76 273	467	26 958	25 342	1 702
2012	1 954	82 344	4 720	354	24 576	6 952	807	47 585	421	19 278	12 575	343
2013	4 065	247 303	29 956	376	22 388	1 699	1 038	60 129	243	18 586	17 229	1 088
2014	5 493	366 089	29 589	1 428	67 465	3 724	1 232	74 983	194	21 486	26 900	2 137
2015	5 560	297 652	80 909	637	26 852	1 650	1 450	89 891	131	18 713	28 321	2 554
2016	7 336	488 479	29 363	968	80 411	10 199	2 041	148 682	398	29 661	39 330	1 949
2017	9 314	397 554	24 822	904	242 218	8 215	2 818	219 124	332	21 554	32 992	1 357
2018	10 477	465 625	41 444	1 608	89 584	2 730	2 973	242 758	525	32 120	57 782	1 391
2019	10 579	572 767	38 815	1 786	168 726	7 400	3 603	307 386	898	24 702	65 300	1 605
2020	13 544	1 269 976	36 974	1 815	238 814	4 231	3 866	370 281	366	20 793	71 610	1 514
2021	17 794	1 163 044	20 933	2 257	245 367	2 494	6 686	699 402	387	27 633	111 556	895
	94 240	5 733 584	353 082	14 672	1 408 847	101 357	114 448	5 778 188	36 227	475 274	723 791	24 881

The gross exposure of loans and advances and impairment, individual and collective, by segment, as at 30 June 2022 and 31 December 2021, is analysed as follows:

(Euro thousand)

	Jun 2022									
	Corporate		Construction and CRE		Retail mortgage loans		Retail other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 838 719	249 757	759 579	75 450	6 417	821	7 464	3 518	3 612 179	329 546
Collective	3 099 274	100 266	639 232	18 794	5 765 648	27 506	704 925	19 924	10 209 079	166 490
	5 937 993	350 023	1 398 811	94 244	5 772 065	28 327	712 389	23 442	13 821 258	496 036

(Euro thousand)

	Dec 2021									
	Corporate		Construction and CRE		Retail mortgage loans		Retail other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	2 331 878	248 056	787 211	82 275	6 748	1 046	6 870	3 856	3 132 707	335 233
Collective	3 401 706	105 026	621 636	19 082	5 771 440	35 181	716 921	21 025	10 511 703	180 314
	5 733 584	353 082	1 408 847	101 357	5 778 188	36 227	723 791	24 881	13 644 410	515 547

The gross exposure of loans and advances and impairment, individual and collective, by activity sector for Companies, as at 30 June 2022 and 31 December 2021, is analysed as follows:

(Euro thousand)

	Jun 2022											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	323 700	52 889	454 757	68 331	216 457	40 006	435 880	22 561	2 167 505	141 421	3 598 299	325 208
Collective	391 260	12 964	823 998	29 500	933 503	34 223	247 972	5 830	1 341 772	36 542	3 738 505	119 059
	714 960	65 853	1 278 755	97 831	1 149 960	74 229	683 852	28 391	3 509 277	177 963	7 336 804	444 267

(Euro thousand)

	Dec 2021											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	315 446	60 120	395 882	58 823	200 134	42 781	471 765	22 155	1 734 962	146 451	3 118 189	330 330
Collective	377 569	13 032	768 898	29 403	883 678	32 255	244 066	6 050	1 750 031	43 369	4 024 242	124 109
	693 015	73 152	1 164 780	88 226	1 083 812	75 036	715 831	28 205	3 484 993	189 820	7 142 431	454 439

The amount of restructured loans and advances by stage and by segment, as at 30 June 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

	Jun 2022									
	Corporate		**Construction and CRE**		**Mortgage loans**		**Other loans**		**Total**	
	Exposure	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**
Stage 2	70 725	3 758	8 694	444	29 974	250	5 580	451	114 973	4 903
Stage 3	377 980	179 104	137 936	43 881	29 598	9 245	14 296	7 985	559 810	240 215
	448 705	182 862	146 630	44 325	59 572	9 495	19 876	8 436	674 783	245 118

(Euro thousand)

	Dec 2021									
	Corporate		**Construction and CRE**		**Mortgage loans**		**Other loans**		**Total**	
	Exposure	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**	**Exposure**	**Impairment**
Stage 2	27 904	1 557	5 082	259	21 590	133	5 371	241	59 947	2 190
Stage 3	355 534	179 128	124 670	49 475	41 583	12 857	15 901	8 914	537 688	250 374
	383 438	180 685	129 752	49 734	63 173	12 990	21 272	9 155	597 635	252 564

The gross exposure of performing and non-performing loans and advances, as at 30 June 2022 and 31 December 2021, is analysed as follows:

(Euro thousand)

	Jun 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	of which in default	of which impairment	of which forborne	on performing exposure	of which forborne	on non-performing exposure	of which forborne	on non-performing exposure	of which forborne
Loans represented by securities (a)	5 019 504	-	-	33 000	33 000	33 000	-	8 892	-	14 272	-	-	-
Other balance sheet credit exposures (b)	13 459 430	46 127	115 025	854 883	854 883	854 288	560 570	85 383	4 902	380 267	240 234	368 167	352 742
Off-balance sheet exposures (c)	2 127 281	4 433	38	85 865	85 865	85 865	487	7 080	1	9 103	4	-	-

(a) Includes debt intruments of the financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.
(b) Includes loans and advances to customers, cash and deposits at central banks and other loans and advances to credit institutions and foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, guarantees and documentary credit provided.

(Euro thousand)

	Dec 2021												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due >30 days and <= 90 days	Of which performing loans	Of which non-performing	of which in default	of which impairment	of which forborne	on performing exposure	of which forborne	on non-performing exposure	of which forborne	on non-performing exposure	of which forborne
Loans represented by securities (a)	4 005 011	-	-	33 000	33 000	33 000	-	9 959	-	14 272	-	-	-
Other balance sheet credit exposures (b)	14 411 559	27 741	59 768	891 952	891 952	891 038	537 968	92 250	2 188	392 464	250 354	393 710	270 609
Off-balance sheet exposures (c)	2 224 202	1 285	280	81 433	81 433	81 433	419	6 788	2	9 270	21	-	-

(a) Includes debt intruments of the financial asset available for sale and commercial paper and bonds recognisd under loans and advances to customers.
(b) Includes loans and advances to customers, cash and deposits at central banks and other loans and advances to credit institutions and foreign exchange operations to be settled.
(c) Includes revocable and irrevocable credit facilities, guarantees and documentary credit provided.

The fair value of the collateral underlying the loans and advances portfolio of the Corporate, Construction and Commercial Real Estate (“CRE”), and Mortgage segments, as at 30 June 2022, is presented as follows:

(Euro thousand)

	Construction and CRE				Real estate			
	Real estate		Other collateral		Real estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 506	584 987	9 627	668 154	90 084	12 336 771	236	6 539
>= 0,5 M€ and <1M€	504	351 767	272	177 650	582	361 439	1	500
>= 1 M€ and <5M€	517	1 118 621	154	256 718	66	101 741	-	-
>= 5 M€ and <10M€	73	508 483	10	72 272	2	14 683	-	-
>= 10 M€ and <20M€	43	578 615	2	28 578	-	-	-	-
>= 20 M€ and <50M€	17	489 613	3	116 000	-	-	-	-
>= 50M€	13	1 607 506	3	201 080	-	-	-	-
	5 673	5 239 592	10 071	1 520 452	90 734	12 814 634	237	7 039

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 2021, is presented as follows:

(Euro thousand)

	Construction and CRE				Mortgage			
	Real estate		Other collateral		Real estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	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 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

Segment/Ratio	Jun 2022			Dec 2021		
	No. Of real estate	Total exposure	Impairment	No. Of real estate	Total exposure	Impairment
Corporate						
With out real estate (*)	-	4 683 586	250 856	-	4 438 919	246 059
< 60%	2 286	521 163	29 009	2 349	461 128	28 124
>= 60% and < 80%	652	336 367	29 283	681	363 052	35 045
>= 80% and < 100%	680	360 855	37 680	802	419 426	39 207
>= 100%	21	36 021	3 195	6	51 059	4 647
Construction and CRE						
With out real estate (*)	-	582 237	24 840	-	523 074	24 746
< 60%	947	392 359	19 666	973	422 414	22 638
>= 60% and < 80%	415	265 553	16 649	456	254 997	16 863
>= 80% and < 100%	600	129 522	22 839	633	181 964	27 166
>= 100%	72	29 142	10 250	66	26 398	9 944
Mortgage						
With out real estate (*)	-	30 912	1 641	-	31 840	2 413
< 60%	61 895	2 690 555	8 603	61 433	2 621 020	9 295
>= 60% and < 80%	22 013	1 924 350	5 954	22 990	1 968 716	8 728
>= 80% and < 100%	6 556	1 096 282	7 746	7 067	1 119 245	10 632
>= 100%	270	29 967	4 385	319	37 368	5 159

(*) Includes operations with other associated collaterals, namely financial collaterals.

The fair value and the net value of real estate received in recovery of loans, by asset type, as at 30 June 2022 and 31 December 2021, are presented as follows:

(Euro thousand)

Assets	Jun 2022		
	Number of properties	Fair value assets	Book value
Land	**1 181**	**237 239**	**221 835**
Urban	932	195 112	182 864
Rural	249	42 127	38 971
Buildings under construction	**392**	**57 674**	**51 236**
Commercial	59	6 402	6 142
Housing	235	50 758	44 591
Other	98	514	503
Constructed buildings	**1 138**	**133 460**	**118 731**
Commercial	487	71 837	64 976
Housing	329	56 037	48 588
Other	322	5 586	5 167
	2 711	428 373	391 802

(Euro thousand)

Assets	Dec 2021		
	Number of properties	Fair value assets	Book value
Land	**1 319**	**262 753**	**244 145**
Urban	1 085	219 141	202 841
Rural	234	43 612	41 304
Buildings under construction	**377**	**57 549**	**51 064**
Commercial	41	5 043	4 846
Housing	238	51 822	45 568
Other	98	684	650
Constructed buildings	**1 359**	**159 660**	**142 366**
Commercial	584	86 667	78 155
Housing	398	66 210	58 026
Other	377	6 783	6 185
	3 055	479 962	437 575

The time elapsed since the receipt in recovery/execution of real estate received in recovery of loans, as at 30 June 2022 and 31 December 2021, is presented as follows:

(Euro thousand)

Elapsed time since recovery/execution	Jun 2022				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**1 841**	**4 434**	**68 351**	**147 209**	**221 835**
Urban	246	3 493	63 598	115 527	182 864
Rural	1 595	941	4 753	31 682	38 971
Buildings under construction	**261**	**401**	**20 519**	**30 055**	**51 236**
Commercial	166	59	2 473	3 444	6 142
Housing	95	342	17 878	26 276	44 591
Other	-	-	168	335	503
Constructed buildings	**12 672**	**20 455**	**17 313**	**68 291**	**118 731**
Commercial	3 292	15 373	9 619	36 692	64 976
Housing	9 021	3 121	7 398	29 048	48 588
Other	359	1 961	296	2 551	5 167
	14 774	25 290	106 183	245 555	391 802

(Euro thousand)

Elapsed time since recovery/execution	Dec 2021				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**2 467**	**8 037**	**73 585**	**160 056**	**244 145**
Urban	908	7 322	67 097	127 514	202 841
Rural	1 559	715	6 488	32 542	41 304
Buildings under construction	**59**	**4 352**	**16 225**	**30 428**	**51 064**
Commercial	59	358	2 179	2 250	4 846
Housing	-	3 819	14 046	27 703	45 568
Other	-	175	-	475	650
Constructed buildings	**25 984**	**15 960**	**19 964**	**80 458**	**142 366**
Commercial	14 143	8 891	11 441	43 680	78 155
Housing	11 201	4 691	8 209	33 925	58 026
Other	640	2 378	314	2 853	6 185
	28 510	28 349	109 774	270 942	437 575

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 Department. 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 Department. Maximum exposure limits are established per Customer/group of Customers related to each other, activity sectors, as well as limits for the concentration of the largest depositors.

Market risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and/or prices of the different financial instruments that compose it, considering both the existing correlations between them and the respective volatilities.

Banco Montepio regularly calculates its “VaR” both for its own trading portfolio as well as for that of the financial assets at fair value through other comprehensive income (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 bonds, and as at 30 June 2022 this represented 96.7% (31 December 2021: 91.6%) 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 2022 and 31 December 2021.

Regarding the credit quality of debt securities, circa 99.5% of the portfolio is investment grade (31 December 2021: 99.2%). Of note are the Spanish, Portuguese and Italian sovereign bonds with a rating of BBB+, BBB and BBB-, respectively, and that represent 93.2% (31 December 2021: 95.4%) of the bond portfolio. Concerning the composition of the portfolio, one verifies a decrease in the weight of the exposure to Italian and Spanish sovereign debt (of 6.1 percentage points to 66.6%) offset by an increase in the exposure to Portuguese sovereign debt (from 22.5% to 26.7%) and by the entry in 2022 of debt issued by AAA issuers (2.7% of the total).

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 2022		Dec 2021		Change	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
AAA	112 347	2.7	-	-	112 347	-
AA+	884	-	453	-	431	95.1
AA	25 988	0.6	-	-	25 988	-
AA-	1 384	-	454	-	930	204.8
A+	102 255	2.5	406	-	101 849	25 086.0
A	-	-	101 804	3.3	(101 804)	(100.0)
BBB+	1 191 191	28.9	955 731	31.5	235 460	24.6
BBB	1 095 274	26.6	684 967	22.6	410 307	59.9
BBB-	1 571 941	38.1	1 273 794	41.9	298 147	23.4
BB-	14 545	0.4	-	-	14 545	-
BB	-	-	14 987	0.5	(14 987)	(100.0)
NR	6 202	0.2	6 360	0.2	(158)	(2.5)
Total	4 122 011	100.0	3 038 956	100.0	1 083 055	35.6

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 67,872 thousand (31 December 2021: Euro 70,975 thousand), the position in Other financial assets at amortized cost stood at Euro 4,049,078 thousand (31 December 2021: Euro 2,967,981 thousand) and the position in Financial assets held for trading stood at Euro 5,061 thousand.

Regarding the trading portfolio, as at 30 June 2022 and 31 December 2021, the main VaR indicators are as follows:

(Euro thousand)

	Jun 2022	**Average**	**Minimum**	**Maximum**	**Dec 2021**
Market VaR	257	420	7	996	7
Interest rate risk	168	357	-	955	-
Exchange risk	32	145	-	233	6
Price risk	12	36	6	84	-
Spread risk	80	125	-	173	-
Diversification effect	*(35)*	*(242)*	-	*(448)*	-

The value of the VaR of the trading portfolio increased from 31 December 2021 to 30 June 2022 given the resumption of the regular negotiation of securities following, in the scope of the negotiation strategy, the closing of positions in portfolio shares and bonds at the end of the previous year. It should be noted that the VaR of the trading portfolio remained at moderate levels during the half year, despite the general increase in volatility levels resulting from the exogenous shocks of the war in Ukraine and the general rise in prices, a situation that can be understood in the context of the risk mitigation measures inherent to the aforementioned situation.

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 2022 and 31 December 2021:

(Euro thousand)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
30 June 2022					
Assets					
Debt securities	38 595	41 481	58 004	2 123 181	1 968 544
Loans and advances	6 449 399	3 048 778	1 261 617	697 480	378 443
Others	30 379	-	-	-	63 515
Off-balance sheet	986	756 654	22 008	21 332	-
Total	6 519 359	3 846 913	1 341 629	2 841 993	2 410 502
Liabilities					
Debt securities issued	292 184	812 254	155 972	501 267	14 506
Term deposits	1 650 463	899 424	1 595 605	2 109 587	-
Others	2 978	-	1 154 898	1 781 892	287 083
Off-balance sheet	768 167	756 654	14	113	1 071
Total	2 713 792	2 468 332	2 906 489	4 392 859	302 660
GAP (Assets - Liabilities)	3 805 567	1 378 581	(1 564 860)	(1 550 866)	2 107 842
31 december 2021					
Assets					
Debt securities	22 544	38 162	13 305	1 186 064	1 875 387
Loans and advances	6 422 001	2 907 608	1 255 067	512 749	310 041
Others	89 599	32 537	-	-	50 375
Off-balance sheet	1 041	-	756 654	25 018	-
Total	6 535 185	2 978 307	2 025 026	1 723 831	2 235 803
Liabilities					
Debt securities issued	349 223	-	811 226	651 267	36 545
Term deposits	1 712 280	1 153 293	1 444 060	2 040 140	-
Others	195 311	-	-	2 951 505	274 358
Off-balance sheet	758 996	-	15	119	1 145
Total	3 015 811	1 153 293	2 255 301	5 643 031	312 048
GAP (Assets - Liabilities)	3 519 374	1 825 014	(230 275)	(3 919 200)	1 923 755

The following table present the interest rate gaps, in the first half of 2022 and financial year 2021:

(Euro thousand)

	Jun 2022				Dec 2021			
	June	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate GAP	4 176 263	3 647 467	4 176 263	3 118 670	3 118 670	2 987 559	3 118 670	2 856 447

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 2022, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a change in the economic value expected from the banking portfolio in the negative amount of Euro 54,215 thousand (31 December 2021: negative amount of Euro 73,338 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 2022 and financial year 2021, as well as the respective average balances and the interest for the financial year:

(Euro thousand)

	Jun 2022			Dec 2021		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest generating assets						
Deposits at central banks and other credit institutions	2 308 742	-0.34	(3 979)	2 195 913	-0.33	(7 414)
Other loans and advances to credit institutions	369 343	0.35	656	849 546	0.13	1 129
Loans and advances to customers	11 473 578	1.79	102 974	11 481 378	1.94	225 310
Securities portfolio	3 448 984	0.28	4 782	4 503 759	0.14	6 439
Other assets at fair value	1 437	0.42	3	2 279	0.26	6
Other (including derivatives)			3 263	-	-	14 561
	17 602 084	**1.22**	**107 699**	**19 032 875**	**1.24**	**240 031**
Interest generating liabilities						
Deposits from ECB	2 890 766	-0.77	(11 226)	2 522 430	-0.92	(23 563)
Deposits from other credit institutions	437 958	-0.01	(12)	973 206	0.15	1 454
Deposits from customers	12 827 932	0.05	2 966	12 539 982	0.08	9 608
Senior debt	2 040 402	0.97	9 990	2 762 186	0.80	22 423
Subordinated debt	217 886	8.61	9 435	216 406	9.09	19 939
Other (including derivatives)			3 850	-	-	16 386
	18 414 944	**0.16**	**15 003**	**19 014 210**	**0.24**	**46 247**
Net interest income		**1.05**	**92 696**		**1.00**	**193 784**

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 2022 and 31 December 2021, is analysed as follows:

(Euro thousand)

	Jun 2022						
	Euro	US Dollar	Sterling Pound	Canadian dollar	Swiss Franc	Other foreign currencies	Total
Assets by currency							
Cash and deposits at central banks	1 779 098	6 997	1 133	522	874	409	1 789 033
Loans and advances to credit institutions payable on demand	27 610	31 185	937	473	2 672	2 585	65 462
Other loans and advances to credit institutions	355 051	20 607	115	-	15	-	375 788
Loans and advances to customers	11 176 110	48 697	-	-	-	1 037	11 225 844
Financial assets held for trading	8 815	449	-	-	-	-	9 264
Financial assets at fair value through profit or loss	221 740	-	-	-	-	-	221 740
Financial assets at fair value through other comprehensive income	102 423	-	-	-	-	-	102 423
Hedging derivatives	5 260	-	-	-	-	-	5 260
Other financial assets at amortized cost	4 501 592	75 472	-	-	-	-	4 577 064
Investments in associated companies	319 541	-	-	-	-	-	319 541
Non-current assets held for sale	8 997	-	-	-	-	-	8 997
Other tangible assets	180 915	-	-	-	-	-	180 915
Intangible assets	40 344	-	-	-	-	-	40 344
Current tax assets	7 309	-	-	-	-	-	7 309
Deferred tax assets	454 787	-	-	-	-	-	454 787
Other assets	709 894	80	1 140	-	-	-	711 114
Total assets	19 899 486	183 487	3 325	995	3 561	4 031	20 094 885
Liabilities by currency							
Deposits from central banks	2 892 760	-	-	-	-	-	2 892 760
Deposits from other credit institutions	373 226	25 147	154	43	7	52	398 629
Deposits from customers	12 822 397	114 422	16 531	26 598	2 913	4 776	12 987 637
Debt securities issued	1 123 190	-	-	-	-	-	1 123 190
Financial liabilities related to transferred assets	668 642	-	-	-	-	-	668 642
Financial liabilities held for trading	12 706	-	-	-	-	-	12 706
Hedging derivatives	480	-	-	-	-	-	480
Provisions	24 527	-	-	-	-	-	24 527
Current tax liabilities	930	-	-	-	-	-	930
Deferred tax liabilities	211 289	-	-	-	-	-	211 289
Other liabilities	245 161	3 506	-	3 235	672	1 678	254 252
Total liabilities	18 375 308	143 075	16 685	29 876	3 592	6 506	18 575 042
Exchange forward transactions		(47 644)	12 818	28 678	-	5 887	
Exchange gap		(7 232)	(542)	(203)	(31)	3 412	
Stress Test		1 446	109	41	8	(682)	

(Euro thousand)

	Dec 2021							
	Euro	US Dollar	Sterling Pound	Canadian dollar	Swiss Franc	Brazilian real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	2 926 574	10 663	1 998	937	3 241	-	331	2 943 744
Loans and advances to credit institutions payable on demand	22 892	35 339	1 099	23 468	911	-	531	84 240
Other loans and advances to credit institutions	320 958	67 485	-	-	16	-	-	388 459
Loans and advances to customers	10 955 565	48 464	-	-	-	-	-	11 004 029
Financial assets held for trading	1 376	-	-	-	-	-	-	1 376
Financial assets at fair value through profit or loss	288 340	-	-	-	-	-	-	288 340
Financial assets at fair value through other comprehensive income	103 157	-	-	-	-		-	103 157
Hedging derivatives	5 411	-	-	-	-	-	-	5 411
Other financial assets at amortized cost	3 530 569	-	-	-	-	-	-	3 530 569
Investments in associated companies	319 648	-	-	-	-	-	-	319 648
Non-current assets held for sale	47 833	-	-		-			47 833
Other tangible assets	183 798	-	-	-	-	-	-	183 798
Intangible assets	37 474	-	-	-	-	-	-	37 474
Current tax assets	6 539	-	-	-	-	-	-	6 539
Deferred tax assets	470 602	-	-	-	-	-	-	470 602
Other assets	617 481	30 021	2	-	681	-	-	648 185
Total assets	19 838 217	191 972	3 099	24 405	4 849	-	862	20 063 404
Liabilities by currency								
Deposits from central banks	2 892 065	-	-	-	-	-	-	2 892 065
Deposits from other credit institutions	567 436	30 360	87	14	25	-	698	598 620
Deposits from customers	12 615 452	116 057	13 714	28 780	2 804	-	4 667	12 781 474
Debt securities issued	1 215 119	-	-	-	-	-	-	1 215 119
Financial liabilities related to transferred assets	730 253	-	-	-	-	-	-	730 253
Financial liabilities held for trading	7 470	-	-	-	-	-	-	7 470
Hedging derivatives	335	-	-	-	-	-	-	335
Provisions	27 886	-	-	-	-	-	-	27 886
Current tax liabilities	561	-	-	-	-	-	-	561
Deferred tax liabilities	217 265	-	-	-	-	-	-	217 265
Other liabilities	202 557	1 915	77	2 632	45	-		207 226
Total liabilities	18 476 399	148 332	13 878	31 426	2 874	-	5 365	18 678 274
Exchange forward transactions		(22 343)	10 711	6 948	(2 033)	-	4 805	
Exchange gap		21 297	(68)	(73)	(58)	-	302	
Stress Test		(4 259)	14	15	12	-	(60)	

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 2022, the LCR value was 262.03% (31 December 2021: 260.9%).

As at 30 June 2022, the net stable funding ratio, designated NSFR, stood at 119.8% (31 December 2021: 123.6%).

As at 30 June 2022, Banco Montepio’s financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Up to 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 892 760	-	-	-	-	2 892 760
Deposits from other credit institutions	398 629	-	98 622	-	-	300 007
Deposits from customers	12 987 637	-	8 116 200	832 041	1 520 594	2 518 802
Debt securities issued	1 123 190	-	-	5 259	750 000	367 931
Financial liabilities associated with transferred assets	668 642	-	-	-	-	668 642
Financial liabilities held for trading	12 706	-	59	60	194	12 393
Other subordinated debt	211 289	-	-	-	4 966	206 323
Other liabilities	254 252	254 252	-	-	-	-
Total liabilities	**18 549 105**	**254 252**	**8 214 881**	**837 360**	**2 275 754**	**6 966 858**

As at 31 December 2021, Banco Montepio’s financing structure was as follows:

(Euro thousand)

Liabilities	Total	Undetermined	Up to 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 892 065	-	-	-	-	2 892 065
Deposits from other credit institutions	598 620	-	298 613	-	-	300 007
Deposits from customers	12 781 474	-	7 898 694	1 103 629	1 343 738	2 435 413
Debt securities issued	1 215 119	-	3 099	-	751 405	460 615
Financial liabilities associated with transferred assets	730 253	-	-	-	-	730 253
Financial liabilities held for trading	7 470	-	-	(267)	246	7 491
Other subordinated debt	217 265	-	-	-	10 942	206 323
Other liabilities	207 226	207 226	-	-	-	-
Total liabilities	**18 649 492**	**207 226**	**8 200 406**	**1 103 362**	**2 106 331**	**7 032 167**

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 2022 and 31 December 2021, on the assets and related collaterals:

(Euro thousand)

Assets	Jun 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	5 832 201	-	14 262 684	-
Equity instruments	-	-	212 364	267 131
Debt securities	1 797 578	1 552 415	3 203 823	2 320 945
Other assets	-	-	1 887 340	-

(Euro thousand)

Assets	Dec 2021			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets
Assets from the reporting institution	5 995 075	-	14 068 328	-
Equity instruments	-	-	279 593	279 593
Debt securities	2 111 704	1 889 571	1 869 077	1 715 235
Other assets	-	-	1 876 185	-

(Euro thousand)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2022	Dec 2021
	Carrying amount of selected financial liabilities	
Associated liabilities, contingent liabilities and securities borrowed	3 205 473	3 390 158
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	5 730 129	5 967 186

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 2022 and 31 December 2021 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 2022, to Euro 2,017,152 thousand (31 December 2021: Euro 839,871 thousand).

It should be noted that the total value of collaterals available at the European Central Bank (ECB), as at 30 June 2022, amounts to Euro 4,895,521 thousand (31 December 2021: Euro 3,778,297 thousand) with a usage of Euro 2,955,130 thousand (31 December 2021: Euro 2,957,530 thousand):

	(Euro thousand)	
	Jun 2022	**Dec 2021**
Total eligible collateral	**5 374 963**	**4 576 410**
Total collateral in the pool	4 895 521	3 778 297
Collateral outside the pool	479 442	798 113
Used collateral	**3 357 811**	**3 736 539**
Collateral used for ECB	2 955 130	2 957 530
Collateral committed to other financing operations	402 681	779 009
Collateral available for ECB	**1 940 391**	**820 767**
Total available collateral	**2 017 152**	**839 871**

Note: collateral amount considers the applied haircut

Real estate risk

Real estate risk results from possible negative impacts on Banco Montepio's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from the exposure in real estate assets, whether from the foreclosure of properties or judicial auction in the scope of credit recovery processes or from investment units in real estate funds held in the securities' portfolio. These exposures are monitored through scenario analyses that attempt to estimate the potential impacts of changes in the real estate markets in the portfolios of these real estate assets and make available the information elements necessary for the definition of the real estate risk management policy.

As at 30 June 2022 and 31 December 2021, 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 2022	**Dec 2021**
Real estate received in recovery of credit	391 802	437 575
Investment units in real estate funds	148 615	216 979
	540 417	654 554
Stress test	(54 042)	(65 455)

Stress test results correspond to the estimated impact on equity (before taxes) of a negative 10% variation in the values of real estate and investment units in real estate funds.

Notwithstanding that described in the accounting policy disclosed in note 1 h) in relation to properties, the net realizable value of the inventories is determined based on a valuation made by an independent appraiser. Real estate appraisals are based on assumptions on which the influence of the economic and financial situation and the market's ability to transact the available offer, at each moment, are decisive. In this way, the realization of the appraisal value determined by the independent appraisers is dependent on the verification of the assumptions used in the respective appraisals, meaning that the evolution of the macroeconomic conditions and the real estate market may translate into changes in these same assumptions, and, consequently, have an impact on the recoverability of the appraised value of the properties. The real estate appraisal reports, considered for the valuation of said inventories, consider the global pandemic situation experienced at the moment, with no additional uncertainty factors having been identified in same.

Operational risk and Going concern

Operational risk corresponds to the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events. Banco Montepio adopted the standard method to quantify its own capital requirements for operational risk, supported on the existence of an operational risk management system based on the identification, assessment, monitoring, measurement, mitigation and reporting of this type of risk.

The operational risk management model implemented complies with the 3-lines-of-defence principle.

The Risk Department exercises the corporate function of operational risk management of Banco Montepio which is supported by the existence of participants in different organic units that ensure the proper implementation of the operational risk management.

Regarding operational risk monitoring as at 30 June 2022, the collection and analysis of operational risk loss events were continued.

One of the essential aspects in the management of this specific type of risk is the prior identification of the relevant operational risks whenever a product, process or system is implemented or revised, as well as the monitoring of action plans aimed at avoiding or mitigating the effects of materialization of risks with greater frequency/severity of loss events or with greater residual value, within the scope of the self-assessment process.

Monitoring

Within the scope of Banco Montepio's Operational Risk Management System, the key risk indicators (KRIs) aim to monitor the exposure factors associated with the main risks, allowing to measure and monitor the risk appetite and anticipate the occurrence of losses through preventive actions.

In this sense, the defined limits were regularly monitored and action plans were promoted in cases where they were exceeded.

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

Operational Risk Self-Assessment

The operational risk management cycle implemented at Banco Montepio is based on the preparation of a table of activities and respective operational risks and controls, allowing the identification of the potential exposure of each body/organic unit to operational risk, determining its risk profile and prioritizing eventual risk mitigation actions. Operational risks are mapped considering seven main categories: internal fraud; external fraud; employment and occupational safety practices; Customer, product and commercial practices; damage to physical assets; activity disruptions and system failures; and execution, delivery and management of processes. Operational risks and the respective controls are regularly self-assessed, usually in the form of workshops with the representatives of each body/organic unit and with the support of the Risk Department.

Based on the results of the self-assessments - carried out in terms of impacts and frequencies for risks and the percentage of effectiveness for controls - a residual risk tolerance matrix is established, which will support the level of risk considered acceptable to the institution and which will allow to identify the risks for which additional mitigation measures will have to be considered.

Business Continuity Management

The business continuity management cycle is supported by a set of assessment, design, implementation and monitoring activities, integrated in a continuous improvement cycle that aims to make business processes more resilient, allowing to ensure the continuity of operations in the case occurrence of events that cause the interruption of activity.

Banco Montepio maintained a permanent monitoring of the rules issued by the Portuguese General Health Department, 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.

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 Department ensures the production of monthly reports with the evolution of the market value of the Pension Fund's portfolio and the associated risk indicators.

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-ons of 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 Department. Whenever a situation of non-compliance with the aforementioned limits is identified, the Risk Department 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 perspective 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 Department, 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 and Regulation (EU) no. 2020/873 of the European Parliament and Council, which introduced some amendments to the CRR in response to the

COVID-19 pandemic. Own funds include level 1 own funds (tier 1) and level 2 own funds (tier 2). Tier 1 includes level 1 core own funds (common equity tier 1 – CET1) and the additional level 1 own funds with the following composition:

- *Level 1 Core Own Funds or Common Equity Tier 1 (CET1):* this category includes the realized share capital (with the deduction of treasury shares held), eligible reserves (including fair value reserves), retained earnings, positive and certified retained earnings for the period or, if negative, the full amount. As regards the fair value reserves, within the scope of Regulation (EU) no. 2020/873, Banco Montepio adhered to the possibility of applying the prudential filters to the fair value reserves associated with sovereign debt. The value of reserves and retained earnings is adjusted for the reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. The book value of the amounts related to goodwill, other intangible assets (not associated with software), as well as the gap, if positive, between the assets and liabilities of the Pension Fund, is deducted. The amount of the prudent valuation calculated in accordance with articles no. 34 and 105 of the CRR is also deducted, as are the deferred tax assets related to tax losses. The value of the equity tranche is deducted in accordance with article 36 paragraph k) of the CRR, resulting from the synthetic and traditional securitizations carried out between 2020 and 2021. 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 70% in 2021. With the revision of Regulation (EU) no. 575/2013, of 27 June 2019, the applicable amount of insufficient coverage for non-productive exposures is now deducted if said exposures originated after 26 April 2019.
- *Level 1 Own Funds or Tier 1 (T1):* includes capital equivalent instruments, which conditions are in accordance with article 52 of Regulation (EU) no. 575/2013 and that have been approved by the Bank of Portugal. Non-controlling interests relating to additional own funds' minimum requirements of the institutions in which Banco Montepio does not hold full ownership are also eligible if they exist. The eventual shareholdings of T1 capital of financial institutions subject to deduction are deducted from this capital.
- *Level 2 Own Funds or Tier 2 (T2):* includes capital equivalent instruments, which conditions are in accordance with article 63 of Regulation (EU) no. 575/2013 of the European Union and that have been approved by the Bank of Portugal. Non-controlling interests relating to the own fund's minimum requirements of the institutions in which Banco Montepio does not hold full ownership are also eligible if they exist. The eventual shareholdings of T2 capital of financial institutions subject to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels of own funds previously referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating and market risk requirements, reference is made to the weighting of 250.0% of deferred tax assets arising from timing differences that depend on future profitability and financial shareholdings that are within the limit established for non-deduction from CET1. With respect to deferred tax assets arising from timing differences that do not depend on future profitability, these are subject to a 100.0% weighting for capital requirement purposes. The CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phase-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period.

With the entry into force of Regulation (EU) no. 2020/873 of the European Parliament and Council, the dynamic component of the transitional plan applied to the IFRS 9 impacts (Regulation (EU) no. 2017/2395) was revised, with the introduction of an additional plan regarding the impacts of increased IFRS 9 impairment occurring after 1 January 2020 in Stages 1 and 2. These increases are subject to a transitional plan to derecognize these impacts in 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024.

As referred, the effects of the regulation related to deferred tax assets that do not depend on future profitability (even if not very significant), as well as the effects resulting from the adoption of IFRS 9 are still being gradually introduced. This process is designated Phase-in. The full assumption of the new regulation, without considering transitory plans, is designated Full Implementation. The phase-in process is currently underway, and it is on this basis that an entity verifies that it has own funds for an amount not below the own funds' minimum requirements, thus certifying the adequacy of its capital. This relation is reflected in the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (ratio corresponding to the respective capital level as a percentage of the amount corresponding to 12.5 times the own funds' requirements).

For these ratios, regulatory minimums are indicated by CRD IV/CRR of 4.5% for CET1, 6.0% for Tier 1 and 8.0% for Total Capital. However, on these regulatory minimums are applied reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions). For 2021, 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 31 December 2021, had a Counter-cyclical Reserve of 0.005%. Regarding the Conservation Reserve, its value is 2.5%. Pursuant to these provisions, as at 30 June 2022 and 31 December 2021, the Common Equity Tier 1, Tier 1 and Total regulatory ratios were 7.0%, 8.5% and 10.5%, respectively.

However, as a result of the COVID-19 virus pandemic, in line with the decision taken by the ECB for significant institutions, the Bank of Portugal allows the less significant credit institutions subject to its supervision to operate, on a temporary basis, with a level lower than the combined capital reserve (OCR), considering that capital reserves were designed to allow credit institutions to resist especially adverse situations. As a result, the minimum regulatory ratios as at 30 June 2022 and 31 December 2021 for Common Equity Tier 1, Tier 1 and Total were 4.5%, 6.0% and 8.0%, respectively.

The summary of the calculation of Banco Montepio's capital requirements as at 30 June 2022 and 31 December 2021, under phase-in, is presented as follows:

(Euro thousand)

	Jun 2022	Dec 2021
Capital Common Equity Tier 1		
Realized share capital	2 420 000	2 420 000
Net income/(loss), reserves and retained earnings	(900 157)	(1 034 866)
Other regulatory adjustments	(393 439)	(235 732)
	1 126 404	1 149 402
Capital *Tier 1*	1 126 404	1 149 402
Capital *Tier 2*		
Subordinated debt	206 323	206 323
	206 323	206 323
Total own funds	1 332 727	1 355 725
Own funds requirements		
Credit risk	544 644	565 222
Market risk	395	-
Operating risk	43 624	43 624
Other requirements	37 638	40 700
	626 301	649 546
Prudential Ratios		
Common Equity Tier 1 Ratio	14.39%	14.16%
Tier 1 Ratio	14.39%	14.16%
Total Capital Ratio	17.02%	16.70%

It should be noted that the ratios, as at 30 June 2022 and 31 December 2021, consider the impact of the adherence to the special regime applicable to deferred tax assets, as described in note 29.

With the adoption of IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) no. 2017/2395 of the European Parliament and of the Council, Banco Montepio has chosen to apply the phase-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. If Banco Montepio did not apply this transitional plan, as well as the recent transitional plan defined in Regulation (EU) no. 2020/873, to the impacts arising from the adoption of IRFS 9, Banco Montepio's prudential ratios as at 30 June 2022 and 31 December 2021 would be:

(Euro thousand)

	Jun 2022	Dec 2021
Capital Common Equity Tier 1	1 082 804	1 060 884
Capital Tier 1	1 082 804	1 060 884
Total own funds	1 289 127	1 267 207
Own funds requirements	623 031	642 982
Prudential ratios		
Common Equity Tier 1 Ratio	13.90%	13.20%
Tier 1 Ratio	13.90%	13.20%
Total Capital Ratio	16.55%	15.77%

If only the transitional plan applied to the initial impacts of the adoption of IFRS 9 was considered, and the transitional plan applicable to the increase in Stage 1 and 2 impairment after 1 January 2020 was not considered, the prudential ratios of Banco Montepio as at 30 June 2022 and 31 December 2021 would be:

(Euro thousand)

	Jun 2022	Dec 2021
Capital Common Equity Tier 1	1 114 712	1 125 713
Capital Tier 1	1 114 712	1 125 713
Total own funds	1 321 035	1 332 036
Own funds requirements	625 365	647 995
Prudential ratios		
Common Equity Tier 1 Ratio	14.26%	13.90%
Tier 1 Ratio	14.26%	13.90%
Total Capital Ratio	16.90%	16.45%

50 Recently issued accounting policies

1. Impact of the adoption of new standards and amendments to the standards that became effective for annual periods beginning on 1 January 2022:

a) **IFRS 16** (amendment) 'Leases – COVID-19 related rent concessions beyond 30 June 2021'. This amendment extends the date of application of the IFRS 16 – 'Leases – COVID-19 related rent concessions' amendment from 30 June 2021 to 30 June 2022. allowing to recognise rent concessions related to COVID-19 as variable lease payments and not as a modification to the lease. The conditions of application of the practical expedient remain, and the extension of the practical expedient can only be applied by the lessees who applied the previous practical expedient.

b) **IAS 16** (amendment), 'Proceeds before intended use'. This amendment changes the accounting treatment of the proceeds obtained from the sale of products that resulted from the production test phase of property, plant and equipment, prohibiting their deduction to the acquisition cost of assets. This amendment is applied retrospectively without restating comparatives.

c) **IAS 37** (amendment), 'Onerous Contracts – Cost of Fulfilling a Contract'. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to direct labour and materials and the allocation of other expenses directly related to the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment must be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without restating comparatives.

d) **IFRS 3** (amendment), 'Reference to the Conceptual framework'. This amendment updates the references to the Conceptual Framework in the text of IFRS 3, without changing the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be given to contingent liabilities and liabilities under IAS 37 and IFRIC 21, incurred separately versus within a business combination. This amendment is applied prospectively.

e) **Improvements to the 2018-2020 standards**. The 2018-2020 annual improvements impact: IFRS 1, IFRS 9, IFRS 16 and IAS 41. This standard is still subject to endorsement by the European Union.

These amendments had no material impact on the financial statements of the Banco Montepio.

2. Standards (new and amended) published, which application is mandatory for annual periods beginning on or after 1 January 2023, already endorsed by the European Union:

a) IAS 1 (amendment), 'Disclosure of accounting policies' (effective for annual periods beginning on or after 1 January 2023). 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" (effective for annual periods beginning on or after 1 January 2023).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), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a general model "building block approach" or a simplified one "premium allocation approach". The "building block approach" is based on discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM'), which represents the unearned profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin, unless it becomes negative. IFRS 17 is applied retrospectively.

d) IFRS 17 (amendment), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This amendment includes specific changes in eight areas of IFRS 17, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the Statement of Financial Position; vii) recognition and measurement of the Income statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and ease transition. IFRS 17 is applied retrospectively. On the issue this amended the end date for applying IFRS 9 (temporary exemption or overlay approach) under the IFRS 4 standard, was extended to 1 January 2023, aligned with the effective date of IFRS 17.

Banco Montepio does not anticipate any significant impact derived from the application of these amendments to its financial statements.

3. Standards (new and amended) published, which application is mandatory for annual periods beginning on or after 1 January 2023, not yet endorsed by the European Union:

a) IAS 1 (amendment 'Presentation of financial statements – classification of liabilities' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union since it is being subject to a new revision by the IASB. This amendment intends to clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists but should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as the non-compliance with a given "covenant". This amendment also introduces a new definition of "settlement" of a liability. This amendment is applied retrospectively.

b) **IAS 12** (amendment), 'Deferred tax related to assets and liabilities arising from a single transaction' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. IAS 12 will require entities to recognise deferred tax on specific transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These applies to the recognition of: i) right-of-use assets and lease liabilities; and ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset, when not relevant for tax purposes. Such temporary differences are no longer subject to the initial recognition exemption for deferred taxes. The cumulative effect of initially applying the amendment is recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the earliest comparative period presented.

c) **IFRS 17** (amendment), 'Initial Application of IFRS 17 and IFRS 9 – Comparative Information' (effective for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. This amendment relates only to insurers' transitioning to the 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.

Banco Montepio does not anticipate any significant impact derived from the application of these amendments to its financial statements.

51 Transfer of assets

Banco Montepio carried out several financial asset sale operations, namely loans and advances to customers, to funds specialized in the recovery of loans. These funds take responsibility for the management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of same.

The financial assets sold under these operations are derecognized from the balance sheet of Banco Montepio, since the operations result in the transfer to the funds of a substantial portion of the risks and rewards associated with the assets as well as the control of same.

The funds specialized in the recovery of credit that acquired financial assets from Banco Montepio are closed funds, in respect of which the holders have no possibility of requesting the redemption of their investment units throughout the useful life of same.

These investment units are held by several banks in the market that ceded the loans, in percentages that vary throughout the useful life of the funds, but it is ensured that each bank, separately, does not hold units representative of more than 50% of the capital of the funds.

The funds have a specific management structure (General Partner), fully independent from the seller banks, and that is selected on the date of the incorporation of the funds.

The management structure of the fund has as main responsibilities to:

- Define the objective of the fund; and
- Manage the fund on an exclusive basis, determining the objectives and investment policy and the conduct of the management and business of the fund.

The management structure is remunerated through management commissions charged to the funds.

Generally, these funds, in which Banco Montepio holds minority positions, incorporate companies under Portuguese law in order to acquire the loans from the banks, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds, fully subscribed by the funds that hold the share capital of the companies, matches the fair value of the asset transferred, determined in accordance with a negotiation process based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company holding the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the transfer value of the loans to the Portuguese-law companies.

These junior bonds, when subscribed by Banco Montepio, grant the right to a contingent positive value if the value of the assets transferred exceeds the nominal value of the senior bonds plus their related interest.

However, considering that these junior bonds reflect a valuation difference of the assets transferred, based on valuations performed by independent entities and a negotiation process between the parties, the junior bonds are fully provided against.

Therefore, following the asset sale operations carried out, Banco Montepio subscribed:

- Investment units of the funds, in which the cash flows that will allow their recovery arise mainly from a broad set of assets transferred by the various participant banks (where Banco Montepio has a clear minority interest). These securities are booked in the portfolio of financial assets at fair value through profit or loss and are measured at fair value based on the quotation value, as disclosed by the funds and audited at each year end;
- Junior bonds (with a higher subordination level), issued by the Portuguese-law companies controlled by the funds, which are fully provided against because they reflect the best estimate of the impairment of the financial assets transferred.

In this context, of not holding control but maintaining some exposure to certain risks and rewards, Banco Montepio, in accordance with IFRS 9 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the operation, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence over the funds or the companies holding the assets, Banco Montepio derecognized the assets transferred and recognized the assets received in return as follows:

(Euro thousand)

	Jun 2022 Amounts associated with the transfer of assets			Dec 2021 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 2022 and 31 December 2021, the assets received under these operations are as follows:

(Euro thousand)

	Jun 2022	Dec 2021
	Senior securities	
Fundo Vega, FCR	23 689	23 985
Fundo de Reestruturação Empresarial, FCR	4 771	4 790
	28 460	28 775

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).

52 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 2022, the periodic contribution made by Banco Montepio amounted to Euro 4,707 thousand (30 June 2021: Euro 4,357 thousand), based on a contribution rate of 0.060%.

Resolution measure applied to Banco Espírito Santo, S.A. (BES)

As part of its responsibility while supervisory and resolution authority of the Portuguese financial sector, the Bank of Portugal, on 3 August 2014, decided to apply to Banco Espírito Santo, S.A. (“BES”) a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its activity to a transition bank called Novo Banco, S.A. (“Novo Banco”), created especially for this purpose.

To realize the share capital of Novo Banco, the Resolution Fund, while sole shareholder, provided Euro 4,900 million, of which Euro 365 million corresponding to its own financial resources. A loan was granted by a bank syndicate to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution weighted according to several factors, including their size. The remaining amount (Euro 3,900 million) came from a repayable loan granted by the Portuguese State.

Following the implementation of the referred resolution measure, on 7 July 2016, the Resolution Fund stated that it would review and evaluate the steps to be taken following the publication of the report on the results of the independent valuation exercise, carried out to estimate the level of credit recovery for each class of lenders in the hypothetical scenario of a normal insolvency process of BES as at 3 August 2014. Under the applicable law, if it turns out that lenders which credits have not been transferred to Novo Banco assume a greater loss than they would hypothetically have had BES entered into a liquidation process immediately prior to the application of the resolution, these lenders are entitled to receive the difference from the Resolution Fund.

On 31 March 2017, the Bank of Portugal announced that it had selected Lone Star Fund for the purchase of Novo Banco, which was concluded on 17 October 2017, through the injection by the new shareholder of Euro 750 million, which will be followed by a new capital injection of Euro 250 million, to be completed within the period of three years. With this operation, Novo Banco's status as transition bank ceased, with Lone Star Fund now holding 75% of the share capital of Novo Banco and the Resolution Fund the remaining 25%, albeit without the corresponding voting rights.

On 26 February 2018, the European Commission released the non-confidential version of the State aid approval decision underlying the sale process of Novo Banco, which includes a contingent capitalization mechanism whereby the Resolution Fund may be called upon to carry out capital injections if certain conditions materialize related to the performance of a restricted set of assets of Novo Banco and the evolution of the bank's capital levels.

This mechanism is triggered annually, based on the annual accounts of Novo Banco certified by the respective auditor, with the possibility of intra-annual assessments being foreseen, but only in the event of non-compliance, by Novo Banco, with the prudential requirements. For the purpose of this mechanism, the differences in the valuation of assets (positive or negative) are considered in relation to their book value, net of impairments, recorded as at 30 June 2016 (circa Euro 7.9 thousand million according to the information provided by Novo Banco). Hence, economic losses or gains resulting from, for example, the sale of assets or the restructuring of loans, but also the impairment, or its reversal, recorded by Novo Banco, in accordance with the accounting standards, as well as the costs of financing associated with the maintenance of the assets in the balance sheet of Novo Banco, are considered.

Under the referred mechanism, own financial resources resulting from contributions paid, directly or indirectly, by the banking sector, complemented by a State loan amounting to Euro 430 million under the framework agreement celebrated between the Portuguese State and the Resolution Fund were used. According to the information provided by Novo Banco, as at 31 December 2017, the net value of the assets covered by the perimeter of the contingent capitalization mechanism amounted to approximately Euro 5.4 thousand million.

On 6 May 2019, the Resolution Fund made the payment of Euro 1,149 million to Novo Banco with reference to the accounts of 2018, having used its own resources, resulting from contributions due, directly and indirectly, by the banking sector, and resorted to a loan from the State in the amount of Euro 850 million, which corresponds to the maximum annual financing limit agreed between the Resolution Fund and the State in October 2017.

In May 2020, the Resolution Fund made the payment of Euro 1,035 million to Novo Banco with reference to the accounts of 2019, which resulted from the execution of the agreements celebrated in 2017, in connection with the sale of 75% of the Resolution Fund's shareholding in Novo Banco, complying with all the procedures and limits defined therein, and resorted to a loan from the State in the amount of Euro 850 million.

On 4 June 2021, the Resolution Fund 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 CEMG 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 CEMG 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 2022 and 31 December 2021, the Bank has been the subject of several administrative offense processes instituted by the Bank of Portugal, for alleged practices and infractions in regulatory matters that are applicable to the Bank, in an amount of possible fines of approximately Euro 9 million.

The evolution of these processes is regularly monitored by the Bank's Board of Directors, with technical-legal intervention under the responsibility of its Legal Department and, in certain cases, by law firms, 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, 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 2022.

53 Subsidiaries and associates and Non-current assets held for sale of Banco Montepio

As at 30 June 2022 and 31 December 2021, the companies directly or indirectly held by Banco Montepio are as follows:

					Group		Bank
Subsidiary	**Head office**	**Share capital**	**Currency**	**Activity**	**% of control**	**% of effective part**	**% of direct part**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. - Em Liquidação	Praia	992 000 000	Cape Verde Escudo	Banking	100.00%	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Porto	175 000 000	Euro	Managements of shareholding	100.00%	100.00%	100.00%

(Euro)

Subsidiary	**Head office**	**Share capital**	**Activity**	**% held**
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	10 000 000	Accomodation, catering and similar/hotels with restaurant	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	2 449 707	Management of real estate	26.00%
CESource, ACE	Lisboa	-	Management of IT systems	18.00%

As at 30 June 2022 and 31 December 2021, Banco Montepio held investment units in investment funds as follows:

Company	Inception year	Acquisition year	Headquarters	% stake	Consolidation method
Valor Arrendamento – Fundo de Investimento Imobiliário Fechado	2013	2013	Lisboa	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisboa	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisboa	100%	Full

54 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 2022, as follows:

(Euro thousand)

	Gross carrying amount of exposures subject to restructuring measures				Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions		Collateral and financial guarantees received on 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	**115 024**	**560 571**	**560 571**	**560 571**	**(4 901)**	**(240 234)**	**352 742**	**260 573**
Central administrations	-	2 318	2 318	2 318	-	(246)	-	-
Other financial companies	407	78 372	78 372	78 372	(81)	(35 372)	35 885	35 743
Non-financial corporations	77 068	407 164	407 164	407 164	(4 056)	(179 707)	237 064	178 410
Households	37 549	72 717	72 717	72 717	(764)	(24 909)	79 793	46 420
Loans commitments given	38	466	466	466	(1)	(4)	-	-
	115 062	**561 037**	**561 037**	**561 037**	**(4 902)**	**(240 238)**	**352 742**	**260 573**

Credit quality of productive and non-productive exposures for days in arrears

(Euro thousand)

	Grosss carrying amount											
	Productive exhibitions			Non-productive exhibitions								
		No late or lat <= 30 days	Overdue >30 days <= 90 days		Reduce probbility 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	**12 604 547**	**12 558 420**	**46 127**	**854 883**	**424 558**	**32 243**	**63 936**	**26 319**	**157 216**	**41 277**	**109 336**	**854 883**
Central banks	1 678 384	1 678 384	-	-	-	-	-	-	-	-	-	-
Central administrations	108 547	108 547	-	2 318	-	-	-	2 318	-	-	-	2 318
Credit institutions	397 999	397 999	-	-	-	-	-	-	-	-	-	-
Other financial companies	342 864	342 499	365	80 837	32 668	1 069	34 029	19	11 903	-	1 150	80 837
Non-financial corporations	3 816 175	3 797 175	19 000	631 332	303 930	21 272	20 872	17 671	134 717	35 261	97 610	631 332
Of which SME s	3 316 262	3 297 262	19 000	606 560	285 216	20 647	15 439	17 671	134 717	35 261	97 610	606 560
Households	6 260 578	6 233 816	26 762	140 396	87 960	9 902	9 035	6 311	10 596	6 016	10 576	140 396
Debt securities	**4 986 503**	**4 986 503**	**-**	**33 000**	**-**	**-**	**-**	**-**	**33 000**	**-**	**-**	**33 000**
Central administrations	4 099 766	4 099 766	-	-	-	-	-	-	-	-	-	-
Other financial companies	588 900	588 900	-	33 000	-	-	-	-	33 000	-	-	33 000
Non-financial corporations	297 837	297 837	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	**2 041 416**	**-**	**-**	**85 864**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central administrations	2 356	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	217 498	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	210 784	-	-	9	-	-	-	-	-	-	-	-
Non-financial corporations	1 140 547	-	-	82 376	-	-	-	-	-	-	-	-
Households	470 231	-	-	3 479	-	-	-	-	-	-	-	-
	19 632 466	**17 544 923**	**46 127**	**973 747**	**424 558**	**32 243**	**63 936**	**26 319**	**190 216**	**41 277**	**109 336**	**887 883**

Credit quality of productive and non-performing exposures and respective provisions

(Euro thousand)

	Carrying amount - Productive exhibitions	Of which, stage 1	Of which, stage 2	Carrying amount - Non-productive exhibitions	Of which, stage 3	Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions - Productive exposures - accumulated impairments and provisions	Of which, stage 2	Of which, stage 3	Non-productive exposures - Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions	Of which, stage 3	Deduction of accumulated partial assets	Collateral and financial guarantees and received - About productive exhibitions	About non-productive exhibitions
Loans and advances	**12 604 547**	**10 918 094**	**1 685 922**	**854 883**	**854 288**	**(85 383)**	**(35 165)**	**(50 219)**	**(380 267)**	**(380 267)**	**(172 332)**	**8 490 257**	**368 167**
Central banks	1 678 384	1 678 384	-	-	-	-	-	-	-	-	-	-	-
Central administrations	108 547	106 355	2 192	2 318	2 318	(671)	(255)	(415)	(246)	(246)	(246)	10 821	-
Credit institutions	397 999	397 192	807	-	-	(2 315)	(2 291)	(25)	-	-	-	-	-
Other financial companies	342 864	338 671	4 193	80 837	80 837	(4 988)	(4 718)	(270)	(36 397)	(36 397)	(600)	30 379	37 057
Non-financial corporations	3 816 175	3 016 858	798 786	631 332	630 737	(62 754)	(24 758)	(37 996)	(294 020)	(294 020)	(171 486)	2 561 190	249 332
Of which SME s	3 316 262	2 590 524	725 371	606 560	605 965	(56 243)	(21 157)	(35 086)	(286 136)	(286 136)	(142 936)	2 356 757	243 224
Households	6 260 578	5 380 634	879 944	140 396	140 396	(14 655)	(3 143)	(11 513)	(49 604)	(49 604)	-	5 887 867	81 778
Debt securities	**4 986 503**	**4 949 273**	**5 577**	**33 000**	**33 000**	**(8 892)**	**(8 374)**	**(518)**	**(14 272)**	**(14 272)**	**-**	**4 349**	**-**
Central administrations	4 099 766	4 099 766	-	-	-	(6 094)	(6 094)	-	-	-	-	-	-
Other financial companies	588 900	554 932	2 314	33 000	33 000	(600)	(145)	(455)	(14 272)	(14 272)	-	-	-
Non-financial corporations	297 837	294 575	3 263	-	-	(2 198)	(2 135)	(63)	-	-	-	4 349	-
Off-balance sheet exposures	**2 041 417**	**1 666 653**	**374 764**	**85 864**	**85 864**	**(7 079)**	**(4 035)**	**(3 046)**	**(9 103)**	**(9 103)**	**-**	**-**	**-**
Central administrations	2 356	2 351	6	-	-	(3)	(3)	-	-	-	-	-	-
Credit institutions	217 498	73 506	143 992	-	-	(37)	(1)	(36)	-	-	-	-	-
Other financial companies	210 784	203 345	7 439	9	9	(98)	(9)	(90)	-	-	-	-	-
Non-financial corporations	1 140 547	942 930	197 617	82 376	82 376	(5 976)	(3 259)	(2 718)	(9 092)	(9 092)	-	-	-
Households	470 232	444 521	25 710	3 479	3 479	(965)	(763)	(202)	(11)	(11)	-	-	-
	19 632 467	**17 534 020**	**2 066 263**	**973 747**	**973 152**	**(101 354)**	**(47 574)**	**(53 783)**	**(403 642)**	**(403 642)**	**(172 332)**	**8 494 606**	**368 167**

This caption, as at 31 December 2021, is presented as follows:

(Euro thousand)

	Gross carrying amount of exposures subject to restructuring measures				Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions		Collateral and financial guarantees received on restructed exposures	
	About productive restructured exhibitions	About non-productive restructured exhibitions	Of which, in default	Of which, in situations of impairment	About productive restructured exhibitions	About non-productive restructured exhibitions		Of which, collateral and financial guarantees received on non-productive exposures with restructuring measures
Loans and advances	59 767	537 968	537 968	537 968	(2 188)	(250 354)	270 609	228 781
Other financial companies	359	48 324	48 324	48 324	(23)	(12 119)	36 362	36 194
Non-financial corporations	31 357	406 380	406 380	406 380	(1 729)	(207 612)	159 366	141 940
Households	28 051	83 264	83 264	83 264	(436)	(30 623)	74 881	50 647
Loans commitments given	280	398	398	398	(2)	(17)	-	-
	60 047	**538 366**	**538 366**	**538 366**	**(2 190)**	**(250 371)**	**270 609**	**228 781**

Qualidade de crédito das exposições produtivas e não produtivas por dias em atraso

(Euro thousand)

	Grosss carrying amount - Productive exhibitions	No late or lat <= 30 days	Overdue >30 days <= 90 days	Non-productive exhibitions	Reduce probbility of payment that is not overdue or overdue for <= 90 days	Overdue > 90 days <= 180 days	Overdue > 180 days <= 1 year	Overdue > 1 year <= 2 years	Overdue > 2 years <= 5 years	Overdue > 5 years <= 7 years	Overdue > 7 years	Of which, in default
Loans and advances	**13 519 607**	**13 491 866**	**27 741**	**891 952**	**507 425**	**11 850**	**28 617**	**75 008**	**113 328**	**80 714**	**75 010**	**891 952**
Central banks	2 857 815	2 857 815	-	-	-	-	-	-	-	-	-	-
Central administrations	104 408	104 408	-	-	-	-	-	-	-	-	-	-
Credit institutions	405 404	405 404	-	-	-	-	-	-	-	-	-	-
Other financial companies	284 495	284 494	2	49 571	49 504	1	-	19	47	-	-	49 571
Non-financial corporations	3 603 125	3 595 573	7 551	676 474	342 917	6 438	22 712	66 947	100 690	72 193	64 577	676 474
Of which SME s	3 161 710	3 154 170	7 540	646 797	313 298	6 438	22 710	66 892	100 688	72 193	64 577	646 797
Households	6 264 360	6 244 172	20 188	165 907	115 004	5 411	5 905	8 042	12 591	8 521	10 433	165 907
Debt securities	**3 972 012**	**3 972 012**	**-**	**33 000**	**-**	**-**	**-**	**-**	**33 000**	**-**	**-**	**33 000**
Central administrations	3 019 871	3 019 871	-	-	-	-	-	-	-	-	-	-
Other financial companies	595 339	595 339	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	356 802	356 802	-	33 000	-	-	-	-	33 000	-	-	33 000
Off-balance sheet exposures	**2 142 769**	**-**	**-**	**81 433**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central administrations	2 676			-								-
Credit institutions	295 625			-								-
Other financial companies	246 403			5								-
Non-financial corporations	1 111 929			78 790								-
Households	486 136			2 638								-
	19 634 388	**17 463 878**	**27 741**	**1 006 385**	**507 425**	**11 850**	**28 617**	**75 008**	**146 328**	**80 714**	**75 010**	**924 952**

Credit quality of productive and non-performing exposures and respective provisions

(Euro thousand)

	Carrying amount - Productive exhibitions	Of which, stage 1	Of which, stage 2	Carrying amount - Non-productive exhibitions	Of which, stage 3	Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions - Productive exposures - accumulated impairments and provisions	Of which, stage 1	Of which, stage 2	Non-productive exposures - Accumulated impairments, accumulated negative changes in fair value resulting from credit risk and provisions	Of which, stage 3	Deduction of accumulated partial assets	Collateral and financial guarantees and received - About productive exhibitions	About non-productive exhibitions
Loans and advances	**13 519 607**	**11 627 439**	**1 891 057**	**891 952**	**891 039**	**(92 250)**	**(30 423)**	**(61 828)**	**(392 464)**	**(392 464)**	**(198 495)**	**8 231 154**	**393 710**
Central banks	2 857 815	2 857 815	-	-	-	-	-	-	-	-	-	-	-
Central administrations	104 408	103 280	1 128	-	-	(579)	(398)	(181)	-	-	-	512	-
Credit institutions	405 404	405 404	-	-	-	(2 094)	(2 094)	-	-	-	-	-	-
Other financial companies	284 495	282 528	1 967	49 571	49 571	(4 114)	(4 018)	(97)	(12 198)	(12 198)	-	14 734	37 246
Non-financial corporations	3 603 125	2 556 402	1 045 612	676 474	675 686	(68 122)	(21 237)	(46 885)	(319 891)	(319 891)	(198 495)	2 339 658	260 170
Of which SME s	3 161 710	2 285 636	875 323	646 797	646 009	(57 498)	(19 251)	(38 247)	(306 167)	(306 167)	-	2 154 140	254 084
Households	6 264 360	5 422 010	842 350	165 907	165 782	(17 341)	(2 676)	(14 665)	(60 375)	(60 375)	-	5 876 250	96 294
Debt securities	**3 972 012**	**3 931 295**	**11 859**	**33 000**	**33 000**	**(9 958)**	**(8 700)**	**(1 259)**	**(14 272)**	**(14 272)**	**-**	**6 086**	**-**
Central administrations	3 019 871	3 019 871	-	-	-	(4 730)	(4 730)	-	-	-	-	-	-
Other financial companies	595 339	563 995	2 487	-	-	(750)	(1)	(750)	-	-	-	-	-
Non-financial corporations	356 802	347 429	9 372	33 000	33 000	(4 478)	(3 969)	(509)	(14 272)	(14 272)	-	6 086	-
Off-balance sheet exposures	**2 142 770**	**1 755 861**	**386 907**	**81 433**	**81 433**	**(6 806)**	**(3 377)**	**(3 428)**	**(9 270)**	**(9 260)**	**-**	**-**	**-**
Central administrations	2 676	2 664	12	-	-	(1)	(1)	-	-	-	-	-	-
Credit institutions	295 625	142 957	152 668	-	-	-	-	-	-	-	-	-	-
Other financial companies	246 403	238 599	7 804	5	5	(156)	(4)	(152)	-	-	-	-	-
Non-financial corporations	1 111 929	925 532	186 396	78 790	78 790	(5 219)	(2 645)	(2 573)	(9 235)	(9 225)	-	-	-
Households	486 137	446 109	40 027	2 638	2 638	(1 430)	(727)	(703)	(35)	(35)	-	-	-
	19 634 389	**17 314 595**	**2 289 823**	**1 006 385**	**1 005 472**	**(109 014)**	**(42 500)**	**(66 515)**	**(416 006)**	**(415 996)**	**(198 495)**	**8 237 240**	**393 710**

55 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.

56 Subsequent events

Banco Montepio analyses events occurring after the balance sheet date, i.e., the favourable and unfavourable events that occur between the balance sheet date and the date on which the financial statements are authorized for issue. Consequently, two types of events can be identified:

- Those that provide proof of conditions that existed at the balance sheet date (adjusting events);
- Those that are indicative of conditions that arose after the balance sheet date (non-adjusting events occurring after the balance sheet date).

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

There were no relevant transactions and/or events, after 30 June 2022, that merit disclosure and/or adjustment in the financial statements.

TRANSLATION NOTE

These Financial Statements and Notes to the Financial Statements are a free translation from the original version in the Portuguese language. In the event of misrepresentations or discrepancies the original version shall prevail.

DECLARATION OF CONFORMITY OF THE BOARD OF DIRECTORS

DECLARATION OF CONFORMITY OF THE BOARD OF DIRECTORS

This declaration is issued under the terms of paragraph c) of no. 1 of article 245 and the current paragraph c) of no. 1 of article 29-G 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 2022, 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, 15 September 2022

EXTERNAL AUDITOR'S REVIEW REPORTS

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 2022 (which shows total assets of Euros 19,842,210 thousand and total shareholder's equity of Euros 1,540,961 thousand, including non-controlling interests of Euros 17,640 thousand and a consolidated net profit attributable to shareholders of Euros 23,328 thousand), the interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and the accompanying explanatory notes to these interim condensed consolidated financial statements.

Management's responsibility

The Management is responsible for the preparation of the interim condensed consolidated financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, as well as to create and maintain appropriate systems of internal control to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the accompanying interim condensed consolidated financial statements. We conducted our review in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Those standards require that we conduct the review in order to conclude whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

A review of financial statements is a limited assurance engagement. The procedures performed mainly consist of making inquiries and applying analytical procedures, and evaluating the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs). Accordingly, we do not express an opinion on these consolidated financial statements.

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
Tel: +351 213 599 000, Fax: +351 213 599 999, www.pwc.pt
Matriculada na CRC sob o NIPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

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 2022 are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

16 September 2022

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 2022 (which shows total assets of Euros 20,094,885 thousands and total shareholder's equity of Euros 1,519,843 thousands, including a net profit of Euros 9,050 thousand), the interim condensed individual statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and the accompanying explanatory notes to these interim condensed financial statements.

Management's responsibility

The Management is responsible for the preparation of the interim condensed financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, as well as to create and maintain appropriate systems of internal control to enable the preparation of interim condensed financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the accompanying interim condensed financial statements. We conducted our review in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Those standards require that we conduct the review in order to conclude whether anything has come to our attention that causes us to believe that the interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

A review of financial statements is a limited assurance engagement. The procedures performed mainly consist of making inquiries and applying analytical procedures, and evaluating the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs). Accordingly, we do not express an opinion on these financial statements.

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Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
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Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that accompanying interim condensed financial statements of Caixa Económica Montepio Geral, caixa económica bancária, S.A. as at 30 June 2022 are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

16 September 2022

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

REPORT AND ACCOUNTS

1ST HALF **2022**

bancomontepio.pt

Banco Montepio