Banco Montepio

13 NOVEMBER 2020

Consolidated Net Income of -€56.8Mn at the end of 3Q2020

Banco Montepio shows a positive evolution of loans to customers

Banco Montepio's loans to customers (gross) increased by €251Mn, as of 30 September 2020, compared to the amount recorded at the end of 2019. This reversal of the downward trend is due to the focus on the strategic growth on SMEs and middle market corporates, which segment recorded an increase of €426Mn, when compared to 31 December 2019.

At the loans to individuals' level, the Bank launched an offer of mortgage loans at the end of the 3Q2020, in a partnership with Worten (Sonae Group), which has shown a notably positive impact to date.

In the third quarter of 2020, the consolidated net income still recorded a negative amount that reached -€56.8Mn, compared to the €17.7Mn recorded in the same period of 2019. This result is due to the unfavorable impacts of the pandemic of COVID-19, which induced the need for a greater reinforcement of impairments and provisions, and led to a decrease in the activity levels of economic agents.

It is also important to highlight the positive evolution of the NPE ratio to 11.5%, which compares favorably with the same period of last year, as well as the improvement in the NPE coverage ratio by impairments, which evolved to 61.2% and 91.1% (when considering related collaterals).

Despite the unfavorable impact of the pandemic of COVID-19, the €50Mn issuance of subordinated debt and the reduction in RWAs benefited the Bank's capital ratio, which stood at

13.8%. The liquidity ratios, at the end of the third quarter, also remained comfortable and above the required regulatory levels.

Regarding the core business, the performance in Retail customers allowed customer deposits to reach €12.3Bn, due to the increase in demand deposits, which rose 11.0% when compared to December 2019.

Under the special aid scheme provided to families and businesses (related to COVID-19), Banco Montepio Group had granted, as of 30 September 2020, 38 thousand moratorium totaling 3.2 billion euros to individual customers and companies.

Digital transition

- Banco Montepio accelerated the process for the digital transition, adjusting the service model in order to improve service and increase efficiency.
- Through the contact center, it created a virtual agent, M.A.R.I.A., which, through Artificial Intelligence (AI) technology, improves the development of the contact, allowing the customer a more empathetic, customized experience and gradually building trust.
- Banco Montepio's new virtual assistant knows how to understand and classify customers' intentions, it already performs debit card activations, balance inquiries, records and transfer inquiries, with an average success rate of 75%. The customer satisfaction ratio in relation to M.A.R.I.A.'s service reaches 76% and will tend to improve as it learns from interactions with customers.
- It provided COVID-19 Government guaranteed credit lines specific simulators, for clients and non-clients, accessible through the public website. Through these simulators, innovative in the market, Banco Montepio supports SMEs and Social Economy Entities by providing decision support tools and by participating in the solving of current socio-economic problems arising from the pandemic.

Net Income

Core operating income[1], measured by the aggregate of income recorded in net interest income and commissions and excluding the impact coming from the subordinated debt issued, reached €270.0Mn in the first nine months of 2020, which compares with €275.7Mn in the same period of 2019, reflecting the impact of the reduction in economic activity emerged in the end of first quarter of 2020, which had an impact on the performance in the following quarters.

Net interest income stood at €173.1Mn in the first nine months of 2020, which compares to the €180.4Mn recorded in the same period of the previous year, incorporating the unfavourable effects of exogenous factors induced by the pandemic of COVID-19 and which determined lower levels of activity in individual customers and companies, while market interest rates were still at low and/or negative levels.

The performance of **Net interest income** in the first nine months of 2020, when compared to that presented in the same period of 2019, reveals the favourable impact resulting from the decrease in the cost of funding and the unfavourable effects related to the lower interest on loans to customers, both through volume and rate effects, with the reduction of interest in the own portfolio and, also, with the increase of interest in subordinated debt issues.

Net commissions recorded in the first nine months of 2020 totaled €84.5Mn, which compares with the €87.1Mn recorded in the same period of 2019, showing the impact of the reduction in economic activity emerged in the end of first quarter, and which extended in the following quarters due to the pandemic.

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[1] Core operating income: net interest income and commissions and excluding the impact of subordinated debt.

Results from financial operations amounted to €6.7Mn in the first nine months of 2020, evolving unfavorably when compared to the €46.9Mn recorded in the same period of 2019, as a consequence of the higher non-recurring gains in the sale of securities accomplished in 2019 and the lower results in derivatives recorded in the first nine months of 2020.

Other operating results stood at -€10.2Mn in the first nine months of 2019, which compares with €1.3Mn recorded in the same period of 2019, essentially reflecting the 2019 gains of €9.7Mn with the sale of assets recorded at amortized cost and €11.5Mn with the sale of a portfolio of NPL.

Operating costs totaled €192.8Mn in the first nine months of 2020, which compares with the €189.7Mn that had been recorded in the same period of 2019, highlighting the effects of salary updates and investments made in technological renovation and modernization within the scope of the digital transformation that Banco Montepio has underway, despite the synergies obtained in the renegotiation of some contracts, particularly in consultancy and property conservation and repair.

Loan impairments accounted for in the first nine months of 2020 reached €140.0Mn, revealing an increase of €65.9Mn when compared to the same period of 2019, incorporating the increase in credit risk determined by the COVID-19 pandemic and the reinforcement of impairment levels for some defaulted credit exposures.

The aggregate of **other impairments and provisions**, related to other financial assets, other assets and provisions, amounted to €11.7Mn in the first nine months of 2020 and compares with the amount of €15.1Mn recorded in the same period. 2019, as a result of the evolution of credit risk, including debt instruments and real estate received in foreclosures.

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The contribution of **discontinued operations** in the first nine months of 2020, after deducting non-controlling interests, stood at €5.9Mn, in line with the amount recorded in the same period of 2019, despite the impacts determined by the worsening of the economic environment due to the pandemic and by the downgrade of the Angolan Republic rating, affecting the exposures to sovereign risk and, consequently, demanding additional impairment charges.

Balance Sheet

Total assets stood at €17.524Mn at the end of the third quarter of 2020, which compares with €17.740Mn on 31 December 2019, essentially reflecting the positive evolution in the loan portfolio, partially offset by a reduction in the amount invested in securities.

The growth of the aforementioned loan portfolio was carried out within a framework of strict credit risk underwriting discipline, which, together with a set of measures that were approved and implemented in the areas of credit monitoring and recovery, contributed to an improvement in the credit portfolio quality indicators.

Following the measures referred to above, the **quality of the loan portfolio**, assessed by the proportion of non-performing exposures (NPE) over total loans, evolved favorably with the NPE ratio decreasing from 12.5% on 30 September 2019 to 11,5% at the end of September 2020.

The **NPE coverage by impairments**, benefiting from the reinforcement of impairments made in the first nine months of 2020, as a consequence, namely, of the macroeconomic scenarios update due to the COVID-19 pandemic and to the increase in some exposures' impairments, recorded an improvement from 48.0% on 30 September 2019 to 61.2% at the end of the third quarter of 2020.

The **NPE coverage by impairments** considering, not only the impairments, but also the collaterals and the associated financial guarantees, presented a favorable evolution from 81.6% at the end of the third quarter of 2019 to 91.1% on 30 September 2020.

At the end of the third quarter of 2020 **Customer deposits** totaled €12.346Mn, which compares with €12.525Mn recorded on 31 December 2019.

Customer deposits, despite the benchmark interest rates being at their lowest historically and, or negative in some maturities, incorporate the management accomplished of the price component, which, together with the increase in the proportion of sight deposits, favored the performance of the net interest income in the first nine months of 2020.

Equity also recorded the adverse effect of exogenous factors, in particular those related to the evolution of the foreign exchange and the fair value reserves, in the latter also incorporating the effect of the realization of gains with the sale of securities that, together, induced a reduction of €42.0Mn in equity in the first nine months of 2020.

On 30 September 2020 **Equity** reached €1,350Mn, reflecting the previously mentioned exogenous adverse impacts, the accounting of negative net income for the first nine months of 2020 in the amount of €56.8Mn and, to a lesser extent, the effects resulting from the determination of a positive actuarial deviation in the Pension Fund of €5.3Mn and the reclassification of a perpetual domestic issue of €6.3Mn as subordinated liabilities.

Capital

The **Total capital ratio** at the end of the third quarter of 2020 stood at 13.8%, benefiting from the positive effects of the €50Mn subordinated debt issue carried out in the first half of 2020, as well as from the entry into force of Regulation (EU) 2020/873 of the European

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Parliament and of the Council, of 24 June 2020, which made it possible to mitigate the impact of the net income decrease.

Risk-weighted assets (RWA) decreased by €210Mn at the end of the third quarter of 2020, when compared to the amount recorded on 31 December 2019, as a result of the ongoing balance sheet management and also due to the entry into force of the abovementioned Regulation, namely at the level of the adjustment factor related to risk exposures on small and medium-sized companies.

The capital ratios at 30 September 2020 also include the exogenous adverse effects brought about by the COVID-19 pandemic that produced unfavorable impacts through the Angolan Kwanza devaluation, as well as the negative effect determined by the evolution of deferred tax assets.

Key Indicators

	Sep-19	Sep-20	Change YoY
ACTIVITY AND RESULTS (€ million)			
Total assets	18 713	17 524	(6,4%)
Gross Loans to customers	12 239	12 491	2,1%
Customers' deposits	12 574	12 346	(1,8%)
Net income	17,7	(56,8)	(<100%)
SOLVENCY (a)			
Common Equity Tier 1 ratio	13,8%	11,7%	(2,1 p.p.)
Total Capital ratio	15,3%	13,8%	(1,5 p.p.)
Risk weighted assets (€ million)	10 338	10 089	(2,4%)
LIQUIDITY RATIOS			
Loans to customers (net) / Customers' deposits (b)	91,8%	94,1%	2,3 p.p.
Loans to customers (net) / On-balance sheet customers' resources (c)	86,1%	85,3%	(0,8 p.p.)
ASSET QUALITY			
Cost of credit risk	0,8%	1,5%	0,7 p.p.
Non-performing exposures (NPE) (d) / Gross Loans to customers	12,5%	11,5%	(1,0 p.p.)
NPE (d) coverage by credit risk Impairments	48,0%	61,2%	13,2 p.p.
NPE (d) coverage by credit risk Impairments and associated collaterals and financial guarantees	81,6%	91,1%	9,5 p.p.
PROFITABILITY AND EFFICIENCY			
Total operating income / Average total assets (b)	2,3%	1,9%	(0,4 p.p.)
Net income before income tax / Average total assets (b)	0,3%	(0,6%)	(0,9 p.p.)
Net income before income tax / Average total equity (b)	3,2%	(7,9%)	(11,1 p.p.)
Cost-to-income (Operating costs / Total operating income) (b)	58,8%	75,4%	16,6 p.p.
Cost-to-Income, excluding specific impacts (e)	69,1%	74,3%	5,2 p.p.
Staff costs / Total operating income (b)	36,4%	46,3%	9,9 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)			
Employees			
Banco Montepio Group	3 948	3 927	(21)
Banco Montepio	3 559	3 530	(29)
Branches			
Domestic network - Banco Montepio	329	328	(1)
International Network (f)	24	24	0
Representation Offices - Banco Montepio	5	5	0

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

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

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

(d) EBA definition.

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

(f) Includes corporate centres.

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Consolidated Income Statement

(million euro)	Sep-19	Sep-20	Change YoY (€Mn)	Change %
Interest and similar income	245,6	220,7	-24,9	-10,1%
Interest and similar expense	65,2	47,6	-17,6	-27,0%
NET INTEREST INCOME	**180,4**	**173,1**	**-7,3**	**-4,0%**
Dividends from equity instruments	6,8	1,7	-5,1	-75,0%
Net fee and commission income	87,1	84,5	-2,6	-3,0%
Net gains/(losses) from financial operations	46,9	6,7	-40,2	-85,7%
Other operating results	1,3	-10,2	-11,5	<-100%
TOTAL OPERATING INCOME	**322,5**	**255,8**	**-66,7**	**-20,7%**
Staff Costs	117,4	118,4	1,0	0,9%
General and administrative expenses	47,9	49,2	1,3	2,7%
Depreciation and amortization	24,4	25,2	0,8	3,3%
OPERATING COSTS	**189,7**	**192,8**	**3,1**	**1,6%**
Loan impairments	74,1	140,0	65,9	88,9%
Other financial assets impairments	7,8	6,8	-1,0	-12,8%
Other assets impairments	6,3	1,9	-4,4	-69,8%
Provisions net of reversals and annulments	1,0	3,0	2,0	>100%
Share of profit of associates under the equity method	0,2	-0,5	-0,7	<-100%
EARNINGS BEFORE TAX AND NON-CONTROLLING INTERESTS	**43,8**	**-89,2**	**-133,0**	**<-100%**
Tax	32,1	-26,5	-58,6	<-100%
Non-controlling interests	1,5	1,4	-0,1	-4,4%
Profit/(loss) from discontinuing operations	7,4	7,3	-0,1	-1,4%
NET INCOME	**17,7**	**-56,8**	**-74,5**	**<-100%**

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Consolidated Balance Sheet

(million euro)	Dec-19	Sep-20	Change YTD (€M)	Change YTD (%)
Cash and deposits at central banks	1 004	959	-45	-4,4%
Loans and advances to credit institutions repayable on demand	29	36	7	22,3%
Other loans and advances to credit institutions	276	304	28	10,3%
Loans and advances to customers	11 465	11 612	147	1,3%
Financial assets held for trading	36	33	-3	-8,1%
Financial assets at fair value through profit or loss (FVPL)	385	365	-20	-5,1%
Financial assets at fair value through other comprehensive income (FVOCI)	1 860	501	-1 359	-73,1%
Hedging derivatives	11	16	5	43,5%
Other financial assets at amortised cost	899	2 003	1 104	122,8%
Investments in associates	4	4	0	-9,9%
Non-current assets held for sale - Discontinuing operations	217	153	-64	-29,3%
Investment properties	145	134	-11	-7,5%
Property and equipment	248	250	2	0,6%
Intangible assets	34	33	-1	-2,5%
Current tax assets	15	3	-12	-80,4%
Deferred tax assets	435	468	33	7,7%
Other Assets	678	650	-28	-4,2%
TOTAL NET ASSETS	**17 740**	**17 524**	**-216**	**-1,2%**
Deposits from central banks	1 291	1 374	83	6,4%
Deposits from other financial institutions	522	545	23	4,4%
Deposits from customers	12 525	12 346	-179	-1,4%
Debt securities issued	1 390	1 320	-70	-5,0%
Financial liabilities held for trading	13	12	-1	-10,2%
Hedging derivatives	1	1	0	82,9%
Non-current liabilities held for sale – Discontinuing operations	134	88	-46	-34,5%
Provisions	32	35	3	10,6%
Current tax liabilities	2	1	-1	-43,9%
Other subordinated debt	158	216	58	36,8%
Other liabilities	221	236	15	6,9%
TOTAL LIABILITIES	**16 288**	**16 174**	**-114**	**-0,7%**
Share Capital	2 420	2 420	0	0,0%
Other equity instruments	6	0	-6	-100,0%
Other reserves and retained earnings	-1 008	-1 023	-15	-1,5%
Consolidated net profit/ (loss) for the period attributable to the shareholders	22	-57	-79	-362,9%
Total equity attributable to the shareholders	1 440	1 340	-100	-7,0%
Non-controlling interests	12	10	-2	-13,4%
TOTAL EQUITY	**1 452**	**1 350**	**-102**	**-7,0%**
TOTAL LIABILITIES AND EQUITY	**17 740**	**17 524**	**-216**	**-1,2%**

* Non-current assets held for sale reclassified as Other assets in Dec-19

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Disclaimer

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The figures and financial information now disclosed are unaudited.

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