Banco Montepio

Market Discipline Report

2020

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Declaration of responsibility

The present declaration of responsibility is issued by the Board of Directors (BD) with regards to the Market Discipline Report within the scope of the disclosure requirements laid down in Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013, concerning the prudential requirements for credit institutions and for investment companies, so as to complement the information required within the scope of the financial statements and under the terms of Article 70, number 2 of the Commercial Companies Code.

Since there was no provision in the regulations, this report has not been audited by Banco Montepio's Statutory Auditor. However, this report includes information disclosed in the consolidated and audited Financial Statements reported in the Annual Report for 2020.

The relevant events occurred during 2020, as well as Banco Montepio's Social Commitment Charter Proposal, which can be consulted on pages 12 to 17 of the Annual Report for 2020.

On 11 March 2020, the World Health Organisation qualified the public health emergency caused by the severe acute respiratory syndrome coronavirus 2 (SARS- CoV- 2) (commonly referred to as Covid-19), which led to the declaration of a state of emergency in Portugal, through President of the Republic decree 14-A/2020 of 18 March.

The Covid-19 pandemic has brought in numerous challenges and led to profound changes in personal and business relations. Rising to the imposed challenges, Banco Montepio (BM) implemented a Business Continuity Plan and activated the Crisis Management Office which regularly monitored (and continues to regularly monitor) the impact of the contingencies on the Institution's core activities, particularly at the operational level. At the same time, in order to meet the immediate needs of the Customers, Suppliers and Employees, the Bank fast-tracked the ongoing digital transition and the optimisation and innovation of its processes and procedures, with a view to increasing its efficiency both in terms of its response to Clients and within its internal organisation. Further information regarding the impacts of the Covid-19 pandemic and Banco Montepio's response can be found on pages 60 to 62 of the Annual Report for 2020.

With regard to the information disclosed in the Market Discipline Report, the BD of Banco Montepio:

- Confirms that all procedures deemed necessary were carried out and that, to its knowledge, all the provided information is true and accurate;
- Ensures the quality of all provided information; including information relative to or originating in entities included in the Banco Montepio Group;
- Informs that information related to the provisions laid out in Article 432, number 2 of Regulation (EU) 575/2013 of the European Parliament and of the Council was not omitted;
- Undertakes to disclose, in good time, any significant changes which may take place during the financial year following that which this document refers to.

The Board of Directors, to the best of its knowledge, declares that the risk management system implemented in the Group is appropriate for ensuring the correct execution of the business strategy, considering the profile and size of the Group, and that the procedures and measures aimed at ensuring that the prudential and risk limits are complied with are adequate.

The management and supervisory bodies receive regular information on the risks to which the institution's activity is subject, as well as on the methodologies used in their mediation and control, requesting from the risk management function all the changes and information they need for compliance with the Banco Montepio Group's Risk Management Policy.

The Bank has an independent risk management function, whose functions and hierarchical and functional reporting lines are formalised, thus ensuring that the function has adequate authority, independence and status.

Declaration on the overall risk profile and its relation with the business strategy

The risk appetite is based on certain principles – namely soundness, sustainability and profitability – and defined according to the business strategy and positioning in the intended market, whose responsibility falls under the BD. Within the scope of the annual process of identification and review of risks, the Group examines the risks that it faces in its activities, from a consolidated perspective, and identifies those which are materially relevant, complemented by the individual perspective concerning the main entities. In this regard, goals are established according to the desired level of return and strategy, tolerance levels, i.e. risk variation range which may lead to discussions and decisions on corrective measures, and limits which, if exceeded, may lead to immediate corrective measures.

The Risk Appetite Statement reflects the principles of risk acceptance that guide and form part of the Group's strategy, which includes a series of comprehensive high-level limits in terms of material (financial and non-financial) risks.

The definition of risk appetite ensures its alignment with the other organisational components (business strategy and global vectors of risk strategy), as well as with the planning and budgeting exercises, ICAAP (Internal Capital Adequacy Assessment Process), ILAAP (Internal Liquidity Adequacy Assessment Process) and the Recovery Plan. In addition, it seeks to ensure that the risk appetite is well understood by the whole organisation, mainly by the business units responsible for decision-making, origination and investment, which can affect risk exposure and its monitoring.

The establishment of risk appetite takes into account the maintenance of solid balance sheet ratios, through a strong capital position and a stable and safe liquidity profile, enabling stress situations to be faced. The BD intends to ensure that there are sufficient levels of capital to cover potential losses, above the minimum limits required by the supervisory authorities, with an efficient balance sheet structure enabling the maintenance of a stable financing capacity and strong liquidity reserves, limiting the risk of potential liquidity problems and ensuring the continuity of its operations, without the intervention of the supervisory authorities, and the protection of its depositors and holders of non-subordinated debt.

Hence, the defined risk appetite under the business strategy and aimed at ensuring sustained growth with adequate capital and liquidity levels is based on the following pillars of action in risk management:

- Increase risk-adjusted profitability, by assessing the RORC of credit operations, and to increase the Bank's profitability: strengthening the recurring component of total operating income with a focus on credit, but reducing exposure to non-performing assets: non-performing loans (NPL), real estate, financial holdings and participation units, and increasing the core business of retail and commercial banking and increasing operational efficiency by reducing the Bank's cost to income.
- Improve the risk profile of the credit portfolio: aim towards business growth with suitable risk levels, with the reference being an average internal rating of 8 for individuals and 9 for companies, as well as compliance with the macroprudential recommendation with respect to consumer credit.
- Diversify risk: limit credit concentration by economic group and increment business in new sectors, with the consequent reduction of the weight of construction and real estate development.
- Change the paradigm of real estate financing risk: finance projects in which the capital risk is unequivocally assumed by the investors and not by the Bank, as such, it should not, as a principle, finance land and the own funds brought in by the borrowers should be more than 25% (except in financing the purchase of the Bank's own real estate, where it can be higher than 20%).
- Optimise the use of capital: promote the granting of credit in operations with lower capital consumption, such as, for example, Government guaranteed credit lines sponsored by Mutual Guarantee Companies (*Sociedades de Garantia Mútua* (SGM)) and financing credit lines backed by the European Investment Fund (EIF), operations with pledge of deposits, granting of permanent home loans and other retail and SME loans
- Manage liquidity and interest rate risk, and capital adequacy, taking into account regulatory requirements, maximisation of profitability, and the business and market environment, within the limits defined in the risk appetite of the BM Group.
- Maintain a robust reputational position among customers, investors and the public in general, supported by the strength and firmness of a centenary institution in the banking market.

The high-level definition of risk management and risk appetite is supported by a several capital metrics, quality of assets (NPL, Real Estate, average rating and concentration in terms of sectors, among others), profitability and liquidity, which arise from Banco Montepio's business plan and strategy, conduct and reputation risk indicators.

Indicators	Dec/2020	Dec/2019
CET1 ratio (phasing in)	11.6%	12.4%
T1 ratio (phasing in)	11.6%	12.4%
Total Capital Ratio (phasing in)	13.8%	13.9%
Leverage Ratio (phasing in)	6.0%	7.0%
LCR Ratio	200.7%	179.9%
NPE Ratio (EBA)	10.4%	12.3%
Net income before taxes / Average net assets	-0.7%	0.3%
Net income before taxes / Average equity	-8.8%	3.1%

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1. Introductory Note

1. Caixa Económica Montepio Geral, caixa económica bancária, S.A - with registered office at Rua Castilho, n.º 5, 1250 066 Lisbon and registered at the Lisbon Commercial Registry under the unique registry and tax identification number 500792615 - incorporated in 1844 (hereinafter referred to as Banco Montepio or BM), is a credit institution, a type of savings bank which has adopted the form of a public limited liability company that is governed by the applicable legal provisions and respective Articles of Association. The share capital of BM amounts to 2,420,000 thousand euros and is fully paid up.
2. This document was prepared taking into consideration Instruction 5/2018 of the Banco de Portugal (which implements in the Portuguese legal system the EBA/2016/11 and EBA/GL/2017/01 guidelines), the EBA/GL/2018/01, the Implementing Regulations (IR) 2016/200 and 1423/2013 and the requirements set out in Part VIII of Regulation (EU) 575/2013 of the European Parliament and the Council of 26 June 2013 (also known as CRR - Capital Requirements Regulation), concerning the prudential requirements for credit institutions and for investment companies, so as to complement the information required within the scope of the financial statements and its objective is to disclose information on the risk management processes and the adequacy of the capital on a consolidated basis, as well as detailed information on own funds, own funds requirements and the risks assumed by Banco Montepio.
3. The information presented complies with the prudential requirements and regulations, the international accounting standards or recommendations of the regulatory authorities at a European level, when applicable, and reflect the information on a consolidated basis for the Banco Montepio Group (hereinafter referred to as BM Group or Group), with reference to 31 December 2020.
4. Unless otherwise specified, the amounts presented are expressed in thousands of euros.
5. The references to the governing bodies and corporate structure are based on the governance model in force at the reference date of this report, as of 31 December 2020.

2. Scope

6. BM is a savings bank, incorporated in the form of a public limited liability company (Sociedade Anónima), with 99% of its share capital subscribed by Montepio Geral – Associação Mutualista and the remainder of its share capital subscribed by other shareholders.

7. BM holds a number of equity stakes in entities that aim to offer a broad and diversified range of banking and financial products and services, and which contribute with their earnings to the mutualist goals. In this context, the Group positions itself as a diversified banking and financial group, a centennial institution of reference in the national market made up of Portuguese capital, aligned with its mutualist nature and objectives, which lend it unique features in the sectors in which it operates and in Portuguese society. Further information can be consulted at https://www.bancomontepio.pt/institucional/investor-relations

8. The scope of the information disclosed in this report is the consolidated basis for prudential purposes of the BM Group which does not differ from the accounting consolidation perimeter. The EU LI1 and EU LI2 templates will thus not be disclosed.

9. Under the strategic redefinition of its international holdings, and with a view to refocusing its approach to the African market, Banco Montepio is committed to taking measures to ensure the deconsolidation of the subsidiary Finibanco Angola, and to assessing the strategic options available to Banco Montepio Geral Cabo Verde under the new legal, economic and financial framework of the country. Considering this strategy, in accordance with the IFRS5, the activities developed by the subsidiaries Banco MG - Cabo Verde, Sociedade Unipessoal, S.A. and Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. were deemed to be discontinued operations and the activities developed by Finibanco Angola are henceforth fully recorded in the income account and balance sheet, notwithstanding the commitment referred to above. Accordingly, in the financial statements, the earnings of the subsidiaries Banco MG - Cabo Verde and Montepio Valor are henceforth stated in an income account heading named “Income of discontinued operations” and, in the balance sheet under the headings named “Non-current assets held for sale – Discontinued operations” and “Non-current liabilities held for sale – Discontinued operations”. However, for the purposes of prudential reporting and the calculation of capital requirements on a consolidated basis, the total assets and liabilities of these subsidiaries are consolidated under the full consolidated method (i.e. not considering the reclassification of assets and liabilities in accordance with IFRS 5). Likewise, in this report, the tables presented related to the prudential information include the balance sheet (and off-balance sheet) components of the entities subject to the application of IFRS 5, which correspond to the subsidiaries Banco MG - Cabo Verde and Montepio Valor.

10. Without prejudice to the principles and rules that govern intra-Group relations, and as far as BM is aware, there is no significant, current or foreseen, impediment to the prompt transfer of own funds or repayment of liabilities among BM and its subsidiaries. With regards to Angola, the rules in force in the country can condition the fluidity of fund transfers. Based on the amounts of deposits of the Group in Finibanco Angola, as well as on the liquidity indicators of BM, we do not anticipate significant impacts on the Group's liquidity in a scenario where the fluidity of funds is conditioned.

11. Pursuant to points d) and e) of Article 436 of the CRR, there are no subsidiaries included in the consolidation perimeter for prudential purposes and that are subject to the calculation of own funds.

12. The following table shows the entities included in the consolidation perimeter in accordance with the international accounting standards and applicable prudential rules. In addition, information is presented relative to the country in which each entity is based, BM's equity stake in its share capital, including its activity sector. The accounting consolidation methods of BM shown in the table below correspond to the full consolidation method or the equity method:

Equity method: it is considered for associated companies, since the date the Group acquires significant influence until the date it ceases. Associates are those entities in 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. Conversely, 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 by the Group is usually evidenced in at least one of the following ways:

- representation on the Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Group and the investee;
- interchange of the management team;
- provision of essential technical information.

The consolidated financial statements include the attributable part of the total results and reserves of associated companies accounted on an equity basis. When applying the equity method, unrealised gains or losses on transactions between the Group and its associates are eliminated. Dividends attributed by associates are reduced to the amount of the investment in the consolidated balance sheet. The accounting policies of Associates are changed whenever necessary to ensure that they are applied consistently by all Group companies. When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment and any other medium and long-term interests in that associate is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has a legal obligation to assume those losses on behalf of an associate.

Comprehensive: is considered for subsidiaries (including investment funds and securitisation vehicles) controlled by the Group. The Group controls an entity when:

- it is exposed, or has rights, to variability in returns from its involvement with that entity,
- it may appropriate them through its power over the relevant activities of that entity (de facto control);
- it has the ability to affect those variable returns through the power it exercises over the relevant activities of the entity.

As established in IFRS 10, the Group analyses the purpose and structure of the way in which the operations of an entity are carried out in order to assess the control over the entity.

The financial statements of subsidiaries are fully consolidated from the date on which the Group acquires control until the date on which control ceases. Third party participation in these companies is presented in the caption Non-controlling interests.

Accumulated losses are attributed to non-controlling interests in the proportions held, which may imply the recognition of negative non-controlling interests.

The accounting policies of subsidiaries are changed whenever necessary to ensure that they are applied consistently by all Group companies.

Table 1 | EU LI3 Entities of the consolidation perimeter of the BM Group

Name of the entity Dec/20	Accounting consolidation method	Regulatory consolidation method	Activity	Head office	% Share
Caixa Económica Montepio Geral	Full	Full	Banking	Portugal	100%
Montepio Holding SGPS, S.A.	Full	Full	Holding company	Portugal	100%
Montepio Investimento, S.A.	Full	Full	Banking	Portugal	100%
Montepio Crédito, Instituição Financeira de Crédito, S.A.	Full	Full	Specialised Credits	Portugal	100%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Full	Full	Investment fund management	Portugal	100%
Finibanco Angola, S.A.	Full	Full	Banking	Angola	80%
Banco Montepio Geral - Cabo Verde, Sociedade Unipessoal, S.A.	Full	Full	Banking	Cape Verde	100%
Montepio - Gestão de Activos Imobiliários, A.C.E.	Equity Method	Equity Method	Management of real estate assets	Portugal	29%
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	Equity Method	Equity Method	Hotels, restaurants and similar activities	Portugal	20%
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Polaris - Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
PEF - Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto	Full	Full	Real estate investment fund	Portugal	100%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Full	Full	Real estate management	Portugal	100%
CESource, ACE	Equity Method	Equity Method	Management of IT resources	Portugal	18%
Pelican Mortgages No. 3	Full	Full	Securitisation of Credits	Portugal	100%
Pelican Mortgages No. 4	Full	Full	Securitisation of Credits	Portugal	100%
Aqua Mortgages No. 1	Full	Full	Securitisation of Credits	Portugal	100%
Pelican Mortgages No. 5	Full	Full	Securitisation of Credits	Portugal	100%
Pelican Mortgages No. 6	Full	Full	Securitisation of Credits	Portugal	100%
Pelican Finance No. 1	Full	Full	Securitisation of Credits	Portugal	100%
Aqua Finance No. 4	Full	Full	Securitisation of Credits	Portugal	100%

(1) Impact on prudential capital indicators results from the calculation of the capital requirements relative to the equity method value recorded in the consolidated balance sheet.
(2) Stake sold on 24 April 2019

Name of the entity Dec/19	Accounting consolidation method	Regulatory consolidation method	Activity	Head office	% Share
Caixa Económica Montepio Geral	Full	Full	Banking	Portugal	100%
Montepio Holding SGPS, S.A.	Full	Full	Holding company	Portugal	100%
Montepio Investimento, S.A.	Full	Full	Banking	Portugal	100%
Montepio Crédito, Instituição Financeira de Crédito, S.A.	Full	Full	Specialised Credits	Portugal	100%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Full	Full	Investment fund management	Portugal	100%
Finibanco Angola, S.A.	Full	Full	Banking	Angola	80%
Banco Montepio Geral - Cabo Verde, Sociedade Unipessoal, S.A.	Full	Full	Banking	Cape Verde	100%
Montepio - Gestão de Activos Imobiliários, A.C.E.	Equity Method	Equity Method	Management of real estate assets	Portugal	26%
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	Equity Method	Equity Method	Hotels, restaurants and similar activities	Portugal	20%
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Polaris - Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
PEF - Fundo de Investimento Imobiliário Fechado	Full	Full	Real estate investment fund	Portugal	100%
Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto	Full	Full	Real estate investment fund	Portugal	100%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Full	Full	Real estate management	Portugal	100%
CESource, ACE	Equity Method	Equity Method	Management of IT resources	Portugal	18%
Pelican Mortgages No. 3	Full	Full	Securitization of Credits	Portugal	100%
Pelican Mortgages No. 4	Full	Full	Securitisation of Credits	Portugal	100%
Aqua Mortgages No. 1	Full	Full	Securitisation of Credits	Portugal	100%
Pelican Mortgages No. 5	Full	Full	Securitisation of Credits	Portugal	100%
Pelican Mortgages No. 6	Full	Full	Securitisation of Credits	Portugal	100%
Pelican Finance No. 1	Full	Full	Securitisation of Credits	Portugal	100%
Aqua Finance No. 4	Full	Full	Securitisation of Credits	Portugal	100%

(1) Impact on prudential capital indicators results from the calculation of the capital requirements relative to the equity method value recorded in the consolidated balance sheet.
(2) Stake sold on 24 April 2019

3. Risk management in the Banco Montepio Group

13. During the past two years, the Group presented the following ratios and risk indicators:

Table 2 | Main capital and liquidity indicators

thousands of euros

CRD IV/CRR Phasing-in	Dec/2020	Dec/2019
Common Equity Tier 1	1,114,188	1,273,868
Risk Weighted Assets	9,576,942	10,298,618
CET1 Ratio	11.6%	12.4%
T1 Ratio	11.6%	12.4%
Total Capital Ratio	13.8%	13.9%
Leverage Ratio	6.0%	7.0%
LCR Ratio	200.7%	179.9%

3.1 Risk management policy and governance

Global risk management principles

14. The Group's overall risk management includes a series of policies, procedures, limits and 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, supported by, among others, the following main elements:

- Risk appetite table;
- Risk management strategy;
- Organisational structure, policies and procedures;
- Risk identification and assessment;
- Internal capital and liquidity planning and management;
- Monitoring and overall reporting of risk and internal capital;
- Stress tests;
- Contingency planning.

15. The elements mentioned are developed within the scope of the global risk reporting table, which is the responsibility of the Risk Management Function (RMF), which performs its duties independently of the other risk-taking areas.

16. The RMF reports information on a regular basis to the Risk Committee, an autonomous body that comprises elements with non-executive functions, composed of three members, which includes a Chairman, appointed by the BD. Banco Montepio's Risk Committee is responsible for overseeing the risk management framework at Group level and at the level of the entities that make up its prudential consolidation perimeter. In this sense, the development and changes to the risk management framework of the Group and the Bank, namely regarding the definition of its risk appetite, are subject to opinion by the Risk Committee, and the final approval is the responsibility of the BD.

17. Also within the scope of the Risk Management Function, the Audit Committee stands out as Banco Montepio's supervisory body, which oversees the effectiveness of the risk management system. It is responsible, without prejudice to the other competences attributed to it by law or the Articles of Association, for exercising a role of continuous assessment of Banco Montepio, particularly with regard to financial performance, the definition of the institution's strategy and general policies, the Group's corporate structure and the decisions that should be considered strategic due to their amount and risk.

18. Additional information on the RMF can be found on pages 105 and 106 of the Annual Report.

19. Throughout 2020, in articulation with the BD and the various departments of the organic structure of BM, and with the Risk Department (RID) in particular, as the entity responsible for the RMF, the Risk Committee conducted a detailed analysis of the themes related to the competencies conferred on it. During this year, the Risk Committee held fourteen meetings, with members of the BD, the Chief Risk Officer (CRO) and the various departments of BM or of the Group having taken part.

20. In addition, various Committees providing support to the management body had been constituted as at the reference date of this report, as forums of debate and support to decision-making, through formulation of proposals and recommendations to the body in the areas of their scope of intervention.

21. Committees providing support to the Executive Committee have been constituted, as forums of debate and support to decision-making, through formulation of proposals and recommendations in the areas of their scope of intervention. The Credit Committee (COMCRED) holds weekly meetings, where loan operations area appraised and decided in accordance with the policy and regulation on loan concession. The Assets and Liabilities Committee (COMALCO) is responsible for following up the management of Capital, Balance Sheet and Profit and Loss Account. Its duties include, in particular, the issue of proposals or recommendations with a view to the management of liquidity or capital positions, considering the scenarios of evolution of the activity, the macroeconomic context and the indicators relative to the real and projected evolution of the different risks. Under its risk management function, the Risk Department also participates in the Impairment Committee (COMIMP), the Non-Performing Asset Monitoring Committee (COMAANP), the Business Committee (COMNEG), the Pension Fund Monitoring Committee (COMAFP), as well as in the regular meetings of the Crisis Management Office, and business recovery, activated under the Bank's response to the Covid-19 pandemic crisis in order to ensure the operational continuity of the Bank's critical functions and to ensure business continuity.

Risk appetite framework

22. The risk appetite framework (RAF) comprises the main element of the Group’s risk management system, consisting of a global and integrated management approach, according to which the strategy and risk appetite are established, communicated and monitored within the organisation.

23. This framework is supported by the risk management policies, governance processes, indicators and their limits, as well as by the information systems necessary for its establishment, and its objective is to promote:

- The effective transmission to and awareness raising of all of the Group’s employees regarding the risks that the Group is exposed to;

- The knowledge of the strategy outlined by the management body to manage and control those risks;
- Informed decision-making, at the different operational levels, consistent with the Group's objectives.

24. The risk limits underlying the implementation of the risk management strategy and the maintenance of appropriate levels of capital and liquidity result from the Risk Appetite Statement (RAS) approved by the BD, taking into account:
    - The definition of the high-level risk strategy and risk appetite;
    - The recognition of the relevant risks, based on the identification and assessment exercises, from which the relevant risk categories and factors are defined for the pursuit of the strategic objectives;
    - The analysis of the risk taking capacity and materialisation of the risk appetite, which consists in the assessment of the internal risk-taking capacity taking into account, namely, the available internal capital and liquidity;
    - The identification of risk metrics, which involves the definition of quantitative metrics, for each material risk category, which permit the implementation of objectives and risk limits, in conformity with the defined appetite;
    - The establishment of objectives and risk limits, where for each category risk limits and/or risk objectives are defined, underpinned by the assessment metrics that result from the previously described process;
    - The integration in the strategic planning processes, whereby the RAS must integrate by principle, in an interdependent scheme, the planning and management processes of BM and of each of the entities of its consolidation perimeter.
25. There is an instituted process of monitoring and reporting of the approved risk limits and objectives. The RAS must be reviewed and updated at least annually, approved by the BD and supported by the RMF, within the scope of the strategic planning processes, or as the result of a change in business strategy or of an extraordinary event.

Risk management strategy

26. The risk management strategy is established in conformity with the Group's risk appetite statement and takes into account the following aspects:
    - Solvency;
    - Liquidity;
    - Profitability based on risk adjusted return.
27. The risk management strategy includes the main business segments and must be sufficiently granular - so that each of the material risk categories must be associated to the entity's plans to accept, manage and control those risks.

28. Global risk management is based on the identification and assessment of the financial and non-financial risks of the institution, and on the implementation of management and control approaches, differentiated according to the relevance of each risk category and its factors. The process is supported by a Risk Taxonomy, which includes the risk categories and concepts defined transversally for the Group:

Risk category	Risk Subcategory/Risk Factor
Strategy risk	Risk of changes in the business environment Business model risk
Internal Governance risk	Internal governance structure Risk management structure and risk culture Infrastructure, data and reporting
Credit risk	Default risk Country risk Credit risk (spread) Foreign exchange credit risk Specialised lending risk Counterparty credit risk Migration risk Counterparty concentration risk Sectoral concentration risk Regional concentration risk Securitisation risk Residual risk Risk of reduction of amounts receivable Settlement and delivery risk

Risk category	
Trading book's market risk	General position risk (debt instruments) Specific position risk (debt instruments) Credit spread risk Risk from equity instruments Migration risk Default risk Commodities risk Options risk Credit valuation adjustment risk Basis risk Sovereign risk Trading book interest rate risk Concentration risk / Liquidity risk
FX risk	Transaction risk Conversion risk Economic risk
Banking book market risk	General position risk (debt instruments) Specific position risk (debt instruments) Credit spread risk Equity instrument risk Migration risk Default risk Sovereign risk Concentration risk / Liquidity risk
Banking book interest rate risk	Revaluation risk Yield curve risk Basis risk Option risk
Operational Risk	Internal fraud External fraud Employment practices and safety at work practices Customers, products and commercial practices Damage to physical assets Disruption of activity Implementation, delivery and management of processes Outsourcing risk
Information and communication technologies	
Liquidity and funding risk	Wholesale funding risk Retail funding risk Cost of funding risk Intraday risk Liquidity and/or financing foreign exchange risk Intra-group liquidity and/or funding risk Liquidity concentration and/or funding risk Cash flow mismatch risk
Model risk	
Reputational risk	
Compliance risk	Compliance risk Money laundering and terrorism financing risk.
Pension fund risk	
Real estate risk	
Other	Insurance risk Step-in risk Other concentration risks Risk of excessive leverage Group risk

29. In the risk identification and assessment procedures, prospective scenarios must be considered, according to the Group's business strategy, enabling a prospective analysis of the risks. In addition to that, the RMF must challenge the results of those procedures based on historical risk

events and their impacts. The RMF is responsible for implementing and coordinating a risk identification and assessment process, which guarantees, at least once a year, that the main financial and non-financial risks are identified, assessed, reported and managed/controlled.

Internal capital and liquidity planning and management

30. The capacity to absorb risks depends on internal capital and available liquidity. Therefore, the Group develops consistent and coherent processes over time, for the planning of its capital and liquidity levels, basing itself on (i) the current and long-term objectives of the risk management strategy; (ii) the indicators and limits of the risk appetite framework; and (iii) the assessment of the adequacy of that capital and liquidity.

31. The regulatory requirements are used as a minimum reference to calculate and assess internal capital adequacy. Taking into consideration the risk profile of the institution and its business strategy, the RMF develops its own methodologies and models to quantify the risks that the Group is materially exposed to.

32. The quantification of risks is used by the RMF to analyse and control the adequacy of the institution’s internal capital, assessing in a comprehensive manner the sufficiency of the capital and financing plans related to the risk profile of the entity and the market environment. The analyses conducted by the RMF are presented on a regular basis to the BD, which is responsible for defining and approving any action plans, objectives and risk limits with a view to controlling the adequacy of internal capital.

33. The assessment of the adequacy of the institution’s liquidity is guided by the principles of (i) maintenance of an adequate structure of financing of the Group’s activity, considering the characteristics of its assets, liabilities and off-balance sheet items, as well as the respective residual or behavioural maturities; and (ii) existence of sufficient levels of liquidity to cope with adverse scenarios.

Stress tests and contingency planning

34. Within the scope of overall risk management, the RMF must, on a regular basis, conduct stress tests on key risks, which have the following targets: (i) identify new risks or emerging risks; (ii) assess exposure to material risks; and (iii) support the internal capital adequacy assessment. The management body is responsible, under the proposal of the RMF, for defining objectives and limits for the results of the stress tests.

35. 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.

36. 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.

37. 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.

38. 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.

39. 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 changes in risk factors such as interest rates, credit spreads, deposits withdrawals, margins of assessment of eligible assets applied by the ECB, ratings (of the Group and counterparties), portfolio loss ratios, collateral, among others.

40. 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).

41. Based on the results of the internal capital monitoring processes, the evaluation of the overall risk profile of the entity and, in particular, the results of the stress tests, the presentation of a capital or liquidity contingency plan may be requested.

42. The plan aims to identify the measures that can be taken to promptly correct a situation in which the entity is in financial imbalance, or at risk of becoming financially imbalanced.

43. In addition, the BM Group, and each of its entities, has a business continuity management framework, based on concrete plans for an alternative recovery of its activities that allows them to deal with the occurrence of any disruptive events, in accordance with the defined business continuity policy.

3.2 Additional information on the governance system

44. During 2020, a one-tier governance model was in force at Caixa Económica Montepio Geral, caixa económica bancária, S.A., hereinafter Banco Montepio, composed of a Board of Directors, which includes an Audit Committee, and a Statutory Auditor.

45. Pursuant to Article 13, number 1, point m) of the Articles of Association of Banco Montepio and Article 6 of the Regulations of the Board of Directors, the Board of Directors (BD) approved the constitution of three internal Committees composed exclusively of non-executive members: the Risk Committee (CR), the Remunerations, Appointments and Evaluations Committee (CRNA) and the Corporate Governance, Ethics and Sustainability Committee (CGSES), and delegated the current management of Banco Montepio to an Executive Committee:

- 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 areas. Further detail on the Risk Committee can be found on pages 647 and 648 of the Annual Report.
- Within the scope of its activity, the Remuneration, Appointments and Evaluations Committee observes the interests of Banco Montepio, considering the long-term interests of the shareholders and investors, and weighing up the interests of other relevant players for the institution's sustainability, as well as the public interest, in order to prevent decision-making by the management body being dominated by any person or small group of people in detriment of the general interests of Banco Montepio. Further details on the Remuneration, Appointments and Evaluations Committee can be found on pages 648 and 649 of the Annual Report.
- The mission of the **Corporate Governance, Ethics and Sustainability Committee** is to support the Board of Directors in the definition of governance policies and structures**,** sustainability and social responsibility policies, policies on conflicts of interest, principles on ethics and codes of conduct to be adopted by Banco Montepio and its subsidiaries. Further details on the Corporate Governance, Ethics and Sustainability Committee can be found on page 649 of the Annual Report.
- The **Executive Committee** is responsible for exercising the powers of the current management of the Bank that are delegated to it by the Board of Directors, except for the powers related to matters whose delegation is prohibited by law, or those that the Board of Directors reserves for itself, under the terms of its Regulations. Further details on the Executive Committee can be found on page 649 and 650 of the Annual Report.

46. Pursuant to Article 4 of the Regulations of the Remunerations, Nominations and Assessment Committee (CRNA), it is responsible for matters relating to Remunerations, Nominations and Assessments, in addition to those attributed by law, the Articles of Association of BM and by the BD.

47. With regard to Remunerations, the CRNA is responsible for ensuring that the remuneration policy and practices encourage the sustainable development of the institution. The CRNA, should formulate, at least on an annual basis, informed and independent judgements on the remuneration policy and practices, with a view to the annual submission to the General Meeting of a statement on the remuneration policy of the members of the management body, forwarding to the General Meeting the reports prepared on the remuneration policy and practices, proposing to the BD the criteria to be used in the annual process of assessment and establishment of the variable component of the remuneration of the members of the Executive Committee, where the CRNA should comment on the adequacy of the proposed arrangement of supplementary retirement pensions, due to old age or disability, of the directors approved by the General Meeting, under the terms of Article 402 of the Commercial Companies Code, and verify the implementation of and compliance with the remuneration procedures adopted by the competent governing body, including verification of the independence between the remuneration of the employees who perform risk management and control functions, and the institution's results.

48. Concerning Nominations, the CRNA is responsible for formulating and conveying to the Board of Directors recommendations on candidate members of the management and supervisory bodies, including the "fit & proper" process, appraising the respective profile in terms of suitability, professional qualification, independence and availability to hold the position, commenting on

subsequent alterations or nominations for new duties and about nominations in terms of knowledge, skills, diversity and experience.

49. Finally, on matters of Assessment, the CRNA is responsible for proposing to the Board of Directors the approval, at the General Meeting, of the Policy of Selection and Evaluation of the Adequacy of the members of the management and supervisory bodies.

50. In 2020, the CRNA prepared a Policy of Selection and Evaluation of the Adequacy of the Members of the Management and Supervisory Body (MOAF) and Key Function Holders (TFE), with a view to ensuring that the Management and Supervisory Body and Key Function Holders have, at all times, all the requirements necessary for the performance of their duties, and that a process of assessment of this specific adequacy, in individual and collective terms, should be carried out on an annual basis.

51. This Policy was presented by the CRNA to the Board of Directors in order to be submitted for approval at the General Meeting of 30 June 2020, the legal deadline established in the current context of the Covid-19 pandemic framework.

52. Banco Montepio recognises as good practice the safeguarding of diversity and its Policies for the Selection and Assessment of Suitability of MOAFs and TFEs and Succession Policy for MOAFs highlight the importance of promoting gender balance in the composition of the management and supervisory body and, in general, establish that sufficient diversity should be ensured in terms of professional qualifications and experience, as well as opinions, experiences, age levels, gender, geographical and cultural origin. Thus, the assessment of this issue is underway and the necessary steps are being taken to establish, in the short term, objectives in terms of diversity and a policy to achieve them, to be considered in Banco Montepio and its subsidiaries, particularly with regard to the respective management and supervisory bodies. Specifically on gender diversity, the Remunerations, Nominations and Assessment Committee is working towards the establishment of objectives and targets to ensure gender diversity, with a view to increasing the number of people of the under-represented gender, and the Board of Directors is expected to approve, by the end of July 2021, the inclusion of this objective and targets in the MOAF and TFE Selection and Assessment Policy, with subsequent submission for final approval by the General Meeting.

53. Additional information on the governance system and the corporate bodies of BM can be consulted in the "Institutional" area (*https://www.bancomontepio.pt/institucional/investor-relations/governance*).

3.3 Process of identification, measurement and control of each risk

Credit risk

54. 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.

55. Credit risk management benefits from an adequate process of credit analysis and decision-making, based on a series of tools to support the decision-making process. The quantification of

credit risk is also supported by credit risk management models, including the calculation of impairment losses.

56. One of the fundamental principles of credit risk analysis is independence with regards to business decisions. In the analysis, instruments are used and rules are defined according to the materiality of the exposures, the familiarity with the types of risk under analysis (i.e. the capacity of modelling those risks) and the liquidity of the instruments.

57. The credit risk models play an essential role in the credit-decision procedure. Therefore, the procedure of decision of credit operation transactions is based on a set of policies making use of scoring models for retail portfolios and rating models for the non-retail segment.

58. Within the scope of the credit risk, regarding the analysis methodologies, the risk control techniques and models are essentially based on statistical models, supported by the experience of the institution in granting various types of credit and also, whenever possible, at the level of recovery.

59. The credit decisions depend on the risk classification and compliance with various rules on financial capacity and bidding behaviour.

60. There are acceptance scoring models for lending to individuals in retail portfolios, namely for mortgage loans, personal loans and for credit cards. Regarding Individual Entrepeneurs and Microenterprises, these are classified as retail, and, therefore, the respective scoring models are applied. For the retail portfolios, there are also behavioural scoring models, which are used in the monitoring of the credit portfolio, as well as in the assessment of new credit proposals, which are, when applicable, combined with acceptance scoring information.

61. In what regards credit to the non-retail segment, internal rating models are used for small, medium-sized and large companies, differentiated by sectors of activity, such as the tertiary sector, or by the number of years of company activity, namely startups.

62. Regardless of the type of applicable model, any proposal, contract or customer is classified in a category of the single risk scale, in ascending order of Probability of Default. This scale is composed of 19 categories, of which the first 15 correspond to performing risk categories, categories 16 to 18 correspond to credit incidents or registration of delinquency in the financial system or in the actual entity, and category 19 corresponds to the definition of default, according to the definition in force, which follows the guidelines of the regulatory authorities in terms of prudential requirements.

63. Limits delegated by different decision levels, by operation amount and client global exposure, type of operation/collateral and risk rating attributed are defined. In this regard, the greatest exposures must be scaled to higher hierarchical levels and delegation of powers in the various levels depends on the risk rating. The highest decision level corresponds to the BD, which in turn empowers the Credit Committee in accordance with the established internal regulations. In the intermediate levels, without intervention of the members of the management bodies, a loan approval can only be granted with the unanimity of the two agents - the four-eyes principle– one belonging to the commercial network and the other to the Credit Analysis Department (DAC), a body that is independent from the commercial structure and the RMF. The RID is the unit responsible for the development of the credit risk models (scoring and rating), and for the control and monitoring of the Group’s risk in overall terms, including BM in individual terms.

64. Within the scope of credit risk, weekly, monthly and quarterly reports on the evolution of credit risk for the various levels of the organisation, including the management bodies, are prepared by the RID. The internal reports contain the main risk indicators of the credit portfolios and metrics

on the use of the rating/scoring models. With regards to preventive monitoring, an alerts system is in force for indicators of increased credit risk (Early Warning Signs).

65. IFRS 9, which replaced IAS 19, entered into force on 1 January 2018. IFRS 9 is divided into three pillars:

- Classification and Measurement;
- Impairment; and
- Hedge accounting.

66. Regarding impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that comply with the SPPI criteria (Solely Payment of Principal and Interest), considering the expected credit loss of one year, or the expected credit loss up to the maturity of the financial instrument (ECL lifetime).

67. The Expected Credit Loss model (IFRS 9) replaces the incurred loss model (IAS 39).

68. According to this change, financial assets are classified into segments, based on the evolution of their credit risk.

- Stage 1: regular financial assets, i.e. without any indication of a significant increase in credit risk since initial recognition and which are not in default.
- Stage 2: financial assets with a significant increase in credit risk since initial recognition, based on the criteria that are defined in the internal standard on the recognition of a significant increase in credit risk or other financial assets (namely, Amounts due for collection, Other debtors, Other receivables or other assets). It should be noted that restructured credit due to financial difficulties is considered an indicator of a significant increase in credit risk, which is why the portfolio of credits marked as restructured is included in Stage 2;
- Stage 3: Non-performing financial assets, based on the non-performing loans indicators that are defined in the internal standard on non-performing or acquired or created credit-impaired financial assets, considered, for the purposes of the requirements in force, as impaired financial assets.

69. The measurement of expected losses (ECL) for the segment of homogeneous populations is the result of the product of probability of default (PD) of the financial asset, the loss given default (LGD) and the exposure on the date of default (EAD), discounted at the effective interest rate of the contract up to the reporting date.

70. The main difference between the measured impairment losses for financial assets classified in the stages refers to the time horizon of the probability of default.

71. The probability of default (PD) is one of the main differences in the calculation of IFRS 9 impairment (ECL), with two types of probability of default being estimated:

- 12-month PD: the probability of a default occurring in the next 12 months (for contracts belonging to Stage 1), which considers forward-looking information;
- 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; and
- PD = 100% for all contracts belonging to Stage 3.

72. In the group of individually significant clients, the clients' exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of credit recovery, namely considering the economic and financial viability of the debtor, existing collaterals and guarantees and the other factors considered relevant for this analysis.

73. The impairment amount for the Individually Significant clients is ascertained through the discounted cash-flows method, i.e., the impairment value corresponds to the difference between the credit value and the sum of the expected cash-flows relative to the various client's operations, updated as per the interest rates of each operation.

74. The individual analysis is the responsibility of DAEC and in assessing impairment losses the following factors are essentially considered:

- Total exposure of each customer and/or economic group, internal risk rating of the customer and/or economic group, staging associated to each operation and the existence of signs of impairment;
- Economic and financial viability of the customer or economic group and the capacity to generate future cash flows to meet debt repayment;
- Existence of collateral associated with each loan and respective valuation;
- Assets of clients or guarantors;
- Bankruptcy or insolvency of customers and/or guarantors;
- Expectation of the debt recovery period.

Concentration risk

75. Within the scope of the established risk appetite, limits and strategic objectives were defined for key indicators, with concentration risk being one of the relevant dimensions, namely in the sub-components of credit risk, liquidity risk and sovereign risk. The limits currently in force were approved in 2020 by the respective management body. As a process subject to annual review, it must be reassessed during this year.

76. In this way, based on the defined limits, the RID monitors the evolution of the risk profile in relation to risk appetite, which includes the concentration risk, with the respective reporting to the Executive Committee and to the Risk Committee, as well as every six months to the BD as a whole, in accordance with the Group's Risk Management Policy.

77. Credit concentration risk management considers four sub-categories of this risk that are considered materially relevant in the activity:

- **Counterparty concentration**: possibility of occurrence of significant losses arising from risk assumed before the counterparty or before a group of related counterparties.

  Within the scope of the control of the concentration risk of the counterparty credit risk, the Major Risks procedure aims to assess, among other objectives, compliance with the CRR requirements regulated by Notice 9/2014 of the Banco de Portugal regarding prudential limits by economic group. These limits correspond to a percentage of the eligible own funds of the Institution under analysis.

  The procedure in question covers all the exposures assumed before the counterparties, both in terms of assets and of the off-balance sheet items, on a consolidated and individual basis, for the entities subject to the prudential supervision of the Banco de Portugal. Within the scope of this procedure, reports are prepared at least quarterly for the Executive Committee within the context of the monitoring of the risk appetite, as well as for the Risk Committee on a regular basis.

  Within the scope of the control of the counterparty concentration risk, the procedure of the Largest Exposures aims to complement the control undertaken in terms of Major Risks. To this end, internally defined concepts, methodologies and metrics are used.

- **Concentration by risk category**: possibility of occurrence of significant losses arising from an exposure or a series of exposures assumed vis-à-vis high risk ratings.

  In the individual approval of the activity of specific business areas, limit matrices are defined by rating and by counterparty type. Exposure is monitored on a daily basis to ensure that the limits are respected.

  In addition, according to the internal policy of concentration risk, the monitoring of exposures to the Economic Groups is undertaken, taking into account the respective ratings. Within the scope of this procedure, reports are prepared at least every quarter for the Executive Committee within the context of risk appetite monitoring.

- **Sectoral concentration**: possibility of occurrence of significant losses arising from an exposure or a series of exposures assumed vis-à-vis a specific sector of economic activity.

  The process of sectoral distribution of the exposure aims to monitor the concentration at the level of the sectors of activity which are based on internally defined groupings, namely taking into account the existence of correlation between sectors (such as, for example, the aggregation of NACEs related to construction and real estate activities, regarding which limits are defined within the scope of the RAS. Within the scope of this procedure, reports are prepared at least every quarter for the management bodies within the context of risk appetite monitoring.

- **Geographic concentration**: possibility of occurrence of significant losses arising from an exposure or a series of exposures assumed vis-à-vis a specific country or geographic area.

Market risk

78. The concept of market risk reflects the possible loss that may be registered by a given portfolio as a result of changes to rates (interest and exchange rates) and/or to the prices of the different financial instruments composing it, taking into account both the correlations existing between them and the respective volatilities.

79. With respect to market risk information and analysis, there is regular reporting on own financial assets portfolios. Therefore, for the own portfolios of each Group entity, if applicable, various risk limits are defined and the VaR methodology is also used. Different exposure limits are also defined, including global VaR limits, by issuer taking into account the level of credit quality (rating), by country and by asset type/category. There are also Stop Loss limits and Loss Trigger limits defined for the positions held for negotiation and available for sale (positions accounted for as at fair value through other comprehensive income.

80. The VaR is calculated on a regular basis both for the trading book and for the other securities portfolios, and that value is ascertained on the basis of a day time horizon of 10 business days and at a significance level of 99% by the historical simulation method. The types of risk taken into account by the methodology are the interest rate risk, the exchange rate risk, the price risk, the credit risk and the commodities risk.

81. 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 Sovereign Debt Crisis of 2011. Regarding the trading book, specific risk reports are produced.

82. The RID produces specific reports for the Executive Committee and the Risk Committee on market risk exposure on a monthly basis and for the BD on a quarterly basis.

Banking book interest rate risk

83. The interest rate risk assessment arising from banking book operations is carried out by analysing risk sensibility, under a consolidated perspective.

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

85. Based on the financial characteristics of each contract, the respective forecast of the expected cash flows is carried out, according to the rate repricing dates and possible behaviour assumptions taken into consideration.

86. The aggregation, for each of the analysed currencies, of the expected cash flows on each time interval makes it possible to determine the interest rate gaps by repricing time period.

87. Following the Basel recommendations and Banco de Portugal Instruction 34/2018 of 26 December, the Group calculates, at least quarterly, its exposure to the exchange rate risk based on the methodology of the Bank of International Settlements (BIS), classifying all the assets, liabilities and off-balance items, which do not belong to the trading book, by levels of repricing.

88. In this context, limits are defined for exposure to interest rate risk factors which are monitored by ALCO, where any overrunning of the established limits requires the approval of the BD or the implementation of measures to cover the exposure.

89. 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.

90. The Risk Department submits interest rate monitoring reports to the Executive Committee, Risk Committee and BD at least on a quarterly basis.

Foreign exchange risk

91. Concerning the exchange rate risk of the banking book, in general, the different resources attracted are invested in different currencies through 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.

92. The defined limits of exposure to exchange rate risk include limits of position by currency (in consolidated terms and individual terms), as well as in terms of VaR, also being disaggregated in terms of the trading book and banking book. These limits are monitored by ALCO. In this regard, the established limits may only be exceeded in case of approval and the respective action plan must be analysed, which may involve the coverage of the exchange rate risk.

93. The RID submits specific reports to the Executive Committee and the Risk Committee on the exposure to exchange rate risk and to the BD on a half-yearly basis.

Liquidity risk

94. The liquidity risk reflects the Group's inability in fulfilling its obligations at the respective maturity, without incurring in significant losses arising from a disintegration of the financing conditions (financing risk) and/or from the sale of its assets at values below to the market values (market liquidity risk).

95. Liquidity risk is assessed using defined regulatory indicators, as well as other internal metrics for which there are established internal limits. This control is strengthened with the regular carrying out of stress tests, with the purpose of characterising the risk profile and ensuring that the Group complies with its obligations under normal business conditions, but also in a scenario of any stress or liquidity crisis.

96. The objective of controlling the liquidity levels is to maintain a satisfactory level of liquid assets so as to meet financial needs in the short, medium and long term. Liquidity risk is monitored on a daily basis, and various reports are drawn up for the purpose of control and follow-up and to support the decision-taking process in the context of the ALCO.

97. The development of the liquidity situation is carried out, specifically, based on the future cash flows estimated for various time horizons, considering the Group's balance sheet. The liquidity position on the day of the analysis and the amount of assets deemed highly liquid existing in the uncommitted securities portfolio are added to the ascertained values, thus determining the accumulated liquidity gap for many time horizons.

98. In addition to that, a follow-up of the liquidity positions from a prudential perspective is also carried out, as well as a follow-up of the level of compliance with 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 deposit to loans, of concentration of financing sources, of short-term financing and of eligible assets.

99. Limits are defined for various indicators of liquidity risk, which are monitored through monthly reports that are submitted by the Risk Department to the Executive Committee and the Risk Committee.

100. In addition, the liquidity risk is reported on a weekly basis by the Risk Department to the BD

101. As a consequence of the COVID-19 pandemic, negative economic impacts are expected, with consequences on banks' liquidity levels. In light of the current context and in line with the ECB's decision for significant institutions, Banco de Portugal said it would allow less significant credit institutions subject to its supervision to temporarily operate with liquidity levels below the liquidity coverage requirement (LCR).

Real estate risk

102. Real estate risk results from possible negative impacts on results or own funds, due to fluctuations in the market price of real estate assets.

103. Real estate risk arises from exposure in real estate assets, whether from properties given in lieu of repayment or judicial auction sale in the context of recovery procedures for loans or participation 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 changes to the real estate market on the portfolios of these real estate assets and provide the necessary information for the definition of the real estate risk management policy.

104. Monthly reports are prepared by the Strategic Planning and Control Department (DPEC) within the scope of control of the real estate activity as detailed below:

105. These monthly reports present Banco Montepio's performance in terms of controlling the reduction of exposure to real estate risk, on a consolidated basis and by entity, comparing it with that observed at the end of the previous year and with the ambition set out in the Funding and Capital Plan (FCP), identifying any deviations. This document is subject to review and appraisal by the Executive Committee and the Non-Performing Asset Monitoring Committee;

106. The ALCO Committee monitors, on a monthly basis, the degree to which the objective of the plan to reduce exposure to real estate risk is achieved.

107. The evolution of the real estate activity is also monitored, on a monthly basis, within the scope of BM's strategic planning control, which is reported to the BD.

Operational risk

108. Operational risk is regarded as the potential loss arising from failures or inadequacies in the internal procedures, in people or systems, or even the potential losses arising from external events.

109. The BM Group has approval from the Banco de Portugal to use 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.

110. 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.

111. At the level of risk monitoring, the main activities carried out consist in the process of collection and analysis of events of operational risk loss, in the analysis of the Key Risk Indicators, in the assessment of the exposure to operational risk and in the drawing up of periodic reports on the operational risk profile of the Institution. Specifically, there are quarterly reports of follow-up of the events of operational risk loss and of implemented mitigation measures that are drawn up and submitted to the Executive Committee and the Risk Committee. A report covering the analysis of all operational risk management instruments is also produced annually for the Executive Committee and the Risk Committee. These reports may also be submitted to the Board of Directors whenever the Board deems this appropriate.

112. Within the scope of the mitigation measures, action plans are prepared for the more significant risks, identified based on the previously referred to operational risk management tools.

113. In addition to that, a business continuity management procedure has been implemented, supported by a series of activities of assessment, of design, of implementation and monitoring, integrated in an ongoing improvement cycle.

114. This procedure is crucial as a risk mitigating instrument, making the business procedures more resilient and enabling the continuity of operations in case of occurrence of events which cause the interruption of the activity, and also taking into account the defined Recovery Time Objective (RTO).

115. The following powers are defined within the operational risk management governance:

- **Board of Directors (BD)**: the BD is responsible for establishing a culture of operational risk control through the involvement of the entire institution. The BD is responsible for defining and approving the policy for management of operational risk at BM, from an individual and Group perspective. The BD is responsible for ensuring the resources that allow the operational risk to be managed appropriately and effectively. In particular, the BD is responsible for:
    i. Approval of the risk level deemed acceptable, taking into account the identification of the operational risk sub-categories for which additional mitigation measures should be considered as a result of the assessment process for these risks and controls applied;
    ii. Analysing and deciding on the policies, methodologies, models and limits for quantifying operational risks relevant to BM's activity;
- **Executive Committee:** responsible for ensuring the implementation of the policy approved by the BD for the management of the operational risk and deciding on the action plans proposed to it.
- **Risk Committee:** as an advisory body to the BD and Executive Committee on specialised risk matters, this body is responsible for following up and monitoring compliance with the policy approved for operational risk management. The Risk Committee regularly monitors the evolution of operational risk indicators and, at least once a year, or whenever justified, shall assess the adequacy of the operational risk management policy.
- **Risk Department (RID):** the RID is responsible for the corporate operational risk management of the BM Group, supported by interlocutors in different organic units and entities of the Group who ensure the proper implementation of the operational risk management cycle.
- **Other organic units**: as the first line of defence, all employees of the organic units are responsible for identifying operational risk focuses and recording events in order to provide the RID with information that enables it to identify measures and action plans to mitigate the operational risk.

116. The operational risk management system is based on the 3 lines of defence model. Thus, the responsibility for operational risk management lies with the functional areas, designated by:

- **1st Lines of Defense**, which have the responsibility of identifying and reporting on operational risk events. As a first line of defence, all employees of the Organic Units are responsible for identifying operational risk focuses and recording events in the available internal application (MGIRO), in order to provide the RID with information that enables it to identify measures and action plans to mitigate operational risk. It is also the responsibility of the Organic Units to carry out annual Self Assessment exercises of the operational risks related to their business functions.
- The RIDI, as a 2nd Line of Defence, performs the corporate function of operational risk management for the Banco Montepio Group. It is supported by the existence of interlocutors in the Group's different Organic Units and entities that ensure the appropriate implementation of the operational risk management cycle.

- The operational risk management function is assigned to an internal department of the RID **(Operational Risk Department - ORID)**, which is responsible for developing methodologies, metrics and structures to prevent, identify and analyse the organisation's operational risk, with the duty of periodic reporting to the management and supervisory bodies. Operational risk management aims to contribute to the effectiveness of Banco Montepio Group's internal control system, taking into account the established risk appetite, with a view to adequately controlling all activities and processes, in order to limit losses arising from operational risk, while remaining within the limits defined by the BD and mitigating the relevant negative impacts.

117. Throughout 2020, the Executive Committee and the Crisis Management Office took all the necessary measures to ensure the safeguarding of employees, customers and business continuity, scrupulously following the recommendations of the Health officials and the Government on this matter. Whenever necessary, measures were taken regarding the type of attendance at the Branch network and the organisation of the Central Services:

- The **branch network** continued to operate with a conditioned attendance system and, whenever this was not possible, by appointment, given the nature and scope of the functions that require face-to-face work. Numerous measures were taken, including the use of masks and visors in the branch network and the placement of acrylic barriers in customer service, as well as the use of alcohol gel solutions and more frequent cleaning.
- Regarding **the Central Services**, remote working has become mandatory, since the first case in Portugal. It is worth highlighting the promotion of remote meetings through the use of digital means, the digitalisation of internal mail during confinement, the definition of isolation rooms and the mandatory use of mask and alcohol gel solutions in common circulation areas. In terms of access, also in line with the General Directorate of Health recommendations, schedules were made more flexible and preference was given to the use of private transport, also ensuring the possibility of parking even for employees who do not usually have an assigned parking space.

Compliance Risk

118. Compliance risk is mitigated by promoting a culture of ethics and compliance, and by the intervention of the compliance function in the Bank's main procedures that entail 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.

119. 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.

120. The compliance function has the necessary autonomy to perform its functions independently, reporting to the Board of Directors and the Audit Committee on relevant matters such as approval of the activities and training plan, the budget, as well as compliance policies, and also on any indications of breach of legal obligations or rules of conduct that may cause Banco Montepio and/or Group Companies to incur in an illicit administrative offence.

121. The executed activities are identified with appraisal of aspects that contribute to the characterisation of compliance risk, especially in the annual training plan of the employees and in institutional processes, associated with products and services with the consolidation of the process of prior analysis and monitoring of the offer of products and services of Banco Montepio, duties of disclosure of information to customers and, in general, providing specialised support on matters of control and compliance.

Pension fund asset risk

122. 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 the increase in the fund's liabilities as a result of the evolution of the different actuarial assumptions. When faced with scenarios of this type, unforeseen contributions are required so as to maintain the benefits defined by the Fund.

123. The Pension Fund Monitoring Committee holds regular meetings to analyse and monitor the management of Banco Montepio's Pension Fund. Moreover, the RID produces monthly reports on the evolution of the market value of the Pension Fund portfolio and associated risk indicators. The RID submits specific reports to the Executive Committee, the Risk Committee and the BD at least every quarter.

124. Considering the investment policy provisions of the Montepio Geral Pension Fund regarding the exposure to different risks and to the different legal provisions, those limits are controlled on a daily basis, through a detailed review of the "exceeded legal and investment limits". In this regard, there are a series of procedures that are carried out if the limits are exceeded.

125. The RID monitors the effect of the adopted measures and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that govern the Montepio Geral Pension Fund are also monitored.

126. In addition to verifying compliance with the investment policy and the legal and prudential limits, the managing body (Futuro) decided to strengthen control and monitoring through the use of various risk measures and a number of internal procedures aimed at maintaining a prudent management of risk. On this basis, a risk management model is used based on the technical perspective of the "QIS pension Funds" studies of EIOPA (European Insurance and Occupational Pensions Authority). The development of tolerance indicators for this model permits the monitoring of variations in these indicators, according to the defined investment policy for the Pension Fund.

Other risks

127. Regarding other risks - reputation risk, strategy and business risk - these are also monitored - up by the BD, which controls the risks and takes corrective measures in light of the obtained results relative to the objectives/limits established. It is important to note, in this regard, the monitoring undertaken within the scope of the ALCO, namely the control of deviations relative to the approved strategic plan and budget. The RID submits specific reports to the Executive Committee and the Risk Committee at least quarterly and to the BD on a half-yearly basis, which include other risks considered material in addition to those referred to in the previous sections.

3.4 Hedging policies and risk mitigating

128. For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. Specifically, real mortgage guarantees and financial collateral are relevant, as well as the provision of personal credit protection, namely collateral. Different hedging policies are defined for different types of credit.

129. In prudential terms, the direct reduction of the exposure value includes the credit operations collateralised by financial collateral, namely term deposits and securities. In financial collaterals, the market risk of the assets involved is considered, and, when applicable, an adjustment of the value of the collateral is carried out.

130. Regarding real mortgage guarantees, valuation and revaluation models are defined which are applied to the properties that may constitute collateral for credit operations, in the contracting phase and in the monitoring and subsequent follow-up of the risk. The asset evaluation is carried out by independent experts, and the management of evaluations and inspection is centralised in a unit of the institution, regardless of the commercial area.

131. According to the CRR, the requirements for the verification and reassessment of the assets' value is ensured, depending on the case, by statistical and computerised methods or by review or revaluation of the valuation value by the expert.

132. For personal credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided the latter's risk is better than the former's.

133. Processes for on- and off-balance sheet netting are not used and neither are credit derivatives held for hedging or mitigating risk of the positions in portfolio.

134. Trading portfolio market risk mitigation techniques essentially consist of hedging exposures for financial products with symmetric risk to decrease the net risk of exposures (or the partial or total sale of exposures to reduce exposure or cancel it completely).

135. With regards to the banking book, interest rate and foreign exchange rate risk mitigation techniques consist of hedging operations with derivatives to hedge interest rate or exchange rate risk and close positions through the sale of open exposures, when applicable.

4. Capital adequacy

4.1 Own funds and capital ratios

136. The Group's own funds are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV), CRR and Notice No. 10/2017 of the Banco de Portugal. Own funds include Tier 1 capital and Tier 2 capital. Tier 1 includes common equity tier 1 (CET1) capital and additional tier 1 capital with the following composition:

- *Common Equity Tier 1 (CET1) capital*: This category includes the paid-up share capital (with deduction of treasury shares), eligible reserves (including the fair value reserves), retained earnings, positive and certified retained earnings for the period or wholly if negative. The value of reserves and retained earnings is adjusted by 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 minority interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to the minority shareholders. The balance sheet value of the amounts related to goodwill, other intangible assets, as well as the difference, if positive, between assets and the pension fund’s liabilities, is deducted. The value of the prudent valuation calculated in accordance with Article 34 and 105 of the CRR is also deducted, as well as the deferred tax assets associated with tax losses. With regards to financial investments in financial sector entities and to deferred tax assets arising from temporary differences that depend on future profitability, the values of those items are deducted, providing that they are, individually, above 10% of CET1, or, subsequently, above 15% of CET1 when considered in aggregate (only in the non-deducted part in the first barrier of 10% and only taking into consideration the significant financial investments). The non-deducted values will be subject to a weight of 250% for the total risk-weighted assets. Regarding financial investments in financial institutions, the eventual deduction is proportionally realised on the respective held capital levels. Within the scope of the implementation of the requirements defined in CRR a transition plan was defined which permitted the gradual recognition of the most significant impacts of this new regulation. In 2018 this transition plan reached total recognition (i.e. of 100%) for almost all of the items covered. For deferred tax assets, which do not depend on future profitability, the transitional cumulative recognition plan is maintained on a 10% annual basis, on the balance sheet as at 1 January 2014. In 2020 it will be of 50%. With the revision of Regulation (EU) 575/2013, on 27/06/2020, the applicable amount of insufficient coverage for non-performing exposures became subject to deduction, if the exposure was originated after 26 April 2020.

- *Tier 1 (T1) capital:* Includes capital equivalent instruments, whose conditions comply with the requirements defined in article 52 of CRR and that have obtained approval from the Banco de Portugal. The non-controlling interests relating to the minimum additional own funds' requirements of the institutions for which the Group does not hold full ownership are also eligible. Furthermore, possible holdings of T1 capital of financial institutions subject to deduction are deducted from the above mentioned capital.

- *Tier 2 (T2) capital:* includes quasi-equity instruments, whose conditions comply with the requirements defined in Article 63 of CRR and that have been approved by the Banco de Portugal. The non-controlling interests relating to the minimum total own funds' requirements of institutions for which the Group does not hold full ownership are equally eligible. Furthermore, possible holdings of T2 capital of financial institutions subject to deduction are deducted from the above mentioned capital.

137. Total Own Funds or Total Capital consist of the sum of the three levels of own funds previously referred to.

138. With regards to the calculation of risk-weighted assets, in addition to credit, operating and market risks requirements, it is important to mention the weighting of 250% of deferred tax assets arising from temporary differences which depend on future profitability and investments which are within the limit established for non-deduction to CET1. With respect to deferred tax assets arising from temporary differences which do not depend on future profitability, these are subject to a weighting of 100% for the purposes of capital requirements. The Credit Valuation Adjustment (CVA) requirement is also determined.

139. With the adoption of IFRS 9 - Financial instruments, applicable from 1 January 2018 and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, the Group has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a period of 5 years. Therefore, in 2020, Banco Montepio prudentially recognises only 30% of the impact related to the adoption of IFRS 9.

140. With the entry into force of Regulation 2020/873 of the European Parliament and Council, the dynamic component of the transitional plan applied to IFRS9 impacts (Regulation (EU) 2017/2395) was revised and an additional plan was introduced regarding the impacts of IFRS9 impairment accruals occurring after 01/01/2020 in Stages 1 and 2. These accruals are subject to a transitional derecognition plan for these impacts of 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024. With regard to the transitional plan applicable to impairment accruals in Stages 1 and 2 between 01/01/2018 and 31/12/2019 Banco Montepio has no impacts subject to this plan. Also under this regulation, Banco Montepio joined the transitory regime applied to unrealised gains and losses assessed at fair value through other comprehensive income, corresponding to exposures to central governments, regional governments or local authorities, in accordance with article 468 of the CRR.

141. As previously mentioned, in 2020, the effects of the new Basel III regulation regarding deferred tax assets, which do not depend on future profitability (provided that on balance sheet as at 31 December 2013), as well as the effects resulting from the adoption of IFRS 9 are still subject to a gradual recognition. This gradual recognition process is known as phasing-in. The full adoption of the new regulation, without considering transition plans, is known as full implementation. The phasing-in process is currently in force, and it is on this basis that one verifies whether a given entity has an amount of own funds that is no less than that of its own funds requirements, thus certifying the adequacy of its capital. This relationship is reflected in the different capital ratios, namely the 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).

142. The following tables exhibit the breaking down of own funds and the reconciliation of own funds with the balance sheet.

Table 3 | Reconciliation of own funds and balance sheet

(thousands of euros)

	dez/20	dez/19
(+) Equity		
Capital	2,420,000	2,420,000
Other equity instruments	0	6,323
Own securities	0	0
Revaluation reserves	-28,295	809
Other reserves and retained earnings	-993,159	-1,008,378
Of which associated with the actuarial deviation of the pension fund	-301,212	-300,878
Of which initial recognition IFRS 9 (net credit impairment DTA)	-143,655	-104,904
Net income for the period	-80,686	21,684
Minority interests	9,299	11,550
Total Equity	**1,327,159**	**1,451,988**
Other equity instruments not eligible for CET1	0	-6,323
Minority interests not eligible for CET1	-6,235	-6,952
Result for the year not eligible for FPPN1	0	0
Adjustments associated to the transition plan applied to the IFRS 9 impacts	112,184	89,168
Other regulatory adjustments	-318,921	-254,014
Of which: Intangible assets	*-35,829*	*-34,785*
Of which: Deferred tax assets	*-274,211*	*-216,803*
Alternative deduction to risk weighting 1250%	*-6,707*	*0*
Common Equity Tier 1 (CET1) capital	**1,114,188**	**1,273,868**
Minority interests eligible for T1	225	252
Tier 1 (T1) capital :	**1,114,413**	**1,274,120**
Subordinated Liabilities (recorded as equity)	0	6,323
Subordinated Liabilities (recorded as liabilities)	206,548	150,000
Other regulatory adjustments	0	0
Of which: prudential amortisation of subordinated liabilities	*0*	*0*
Tier 2 (T2) capital	**206,548**	**156,323**
Total Capital (T1+T2)	**1,320,961**	**1,430,443**

143. The following table exhibits the main characteristics of the own funds instruments issued, according to what is described in Article 437, points b) and c) of the CRR. The instruments issued consist of share capital (ordinary shares) and subordinated debt.

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Table 4 | Main characteristics of own funds instruments

Characteristics of Own Funds Instruments(1)	Shares	MONTEPIO EMTN 35 SUB 2018/2028	FINIBANCO VALOR INVEST 2010	MONTEPIO EMTN 36 SUB 2019/2029	MONTEPIO EMTN 37 SUB 2020/2030
Issuer	CEMG	CEMG	CEMG	CEMG	CEMG
Unique identifier (for example, CUSIP, ISIN or Bloomberg identifier for private placement	PTCMH0AM0027	PTCMGUOM0026	PTFNI1OM0011	PTCMGVOM0025	PTCMGBOM0037
Governing law(s) of the instrument	Portuguese	Portuguese	Portuguese	Portuguese	Portuguese
Regulatory treatment					
Transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
Post-transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
Eligible at solo / group / solo and group	Solo and group	Solo and group	Solo and group	Solo and group	Solo and group
Instrument type	Ordinary shares	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
Amount recognised in regulatory capital (in millions of euros)	2,420.0	50.0	6.3	100.0	50.0
Nominal amount issued of the instrument (in millions of euros)	2,420.0	50.0	15.0	100.0	50.0
Issuance price	1	100%	100%	100%	100%
Redemption price		Repayment at par	Repayment at par	Repayment at par	Repayment at par
Accounting classification	Share Capital	Other subordinated liabilities	Other subordinated liabilities	Other subordinated liabilities	Other subordinated liabilities
Date of Issuance	9/14/2017	27/Dec/2018	02/Feb/2010	03/Apr/2019	09/Jun/2020
Perpetual / Dated		Dated	Perpetual	Dated	Dated
Maturity Date		27/Dec/2028	No maturity	03/Apr/2029	09/Jun/2030
Issuer call subject to prior supervisory approval		Yes	Yes	Yes	Yes
Optional call date / contingent call dates and redemption amount		27/Dec/2023	02/Feb/2015	03/Apr/2024	09/Jun/2025
Subsequent call dates			At any moment after 02/Feb/2010, subject to 30 days' notice		
Dividend / Coupon		Fixed + Variable	Fixed + Variable / Minimum limit	Fixed + Variable	Fixed + Variable
Coupon rate / Related index if applicable		8% until 27/Dec/2023 Mid Swap Rate + 7.77% after 27/Dec/2023	7% until 2/Feb/2012 Euribor6M+2.75%, with a minimum of 5% after 2/Aug/2012	10.5% until 03/Apr/2024 Mid Swap Rate + 10.514% after 03/Apr/2024	9.5% until 09/Apr/2024 Mid Swap Rate + 9.742% after 09/Apr/2024
Existence of a dividend stopper	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of maturity)	Total	Mandatory	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Total	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem		No	No	No	No
Non-cumulative or cumulative		N.A.	N.A.	N.A.	N.A.
Convertible or non-convertible		Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N.A.	N.A.	N.A.	N.A.	N.A.
If convertible, fully or partially	N.A.	N.A.	N.A.	N.A.	N.A.
If convertible, conversion rate	N.A.	N.A.	N.A.	N.A.	N.A.
If convertible, mandatory or optional conversion	N.A.	N.A.	N.A.	N.A.	N.A.
If convertible, specify instrument type convertible into	N.A.	N.A.	N.A.	N.A.	N.A.
If convertible, specify issuer of instrument it converts into	N.A.	N.A.	N.A.	N.A.	N.A.
Write-down features	N.A.	N.A.	N.A.	N.A.	N.A.
If write-down, write-down trigger(s)	N.A.	N.A.	N.A.	N.A.	N.A.
If write-down, full or partial	N.A.	N.A.	N.A.	N.A.	N.A.
If write-down, permanent or temporary	N.A.	N.A.	N.A.	N.A.	N.A.
If temporary write-down, description of write-up mechanism	N.A.	N.A.	N.A.	N.A.	N.A.
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)		Senior Creditors	Senior Creditors	Senior Creditors	Senior Creditors
Non-compliant transitioned features		No	No	No	No
If yes, specify non-compliant features					

(1) Indicate "N.A." if the issue is not relevant.

(2) Characteristics reflect the changes introduced at the Meetings of Bondholders held in May/15.

144. In addition to the information presented in the following table, the full terms and conditions of all the eligible issuances of Additional Tier 1 and Tier 2 can be consulted at the following electronic addresses.

Table 5 | Full terms and conditions of own funds instruments

ISIN	Address
PTCMGVOM0025	https://www.bancomontepio.pt/iwov-resources/SitePublico/documentos/pt_PT/informacao-financeira-montepio/funding-programes/programa-obrigacoes-caixa/montepio-final-terms-obrigacoes-caixa-01042019.pdf
PTCMGUOM0026	https://www.bancomontepio.pt/iwov-resources/SitePublico/documentos/pt_PT/informacao-financeira-montepio/funding-programes/programa-obrigacoes-caixa/montepio-final-terms-obrigacoes-caixa-28122018.pdf
PTFNI1OM0011	https://www.bancomontepio.pt/iwov-resources/SitePublico/documentos/pt_PT/informacao-financeira-montepio/funding-programes/convocatoria-ag-obrigacionistas/PTFNI1OM0011-condicoes-finais-atualizadas-30062020.pdf
PTCMGBOM0037	https://www.bancomontepio.pt/iwov-resources/SitePublico/documentos/pt_PT/informacao-financeira-montepio/funding-programes/programa-obrigacoes-caixa/montepio-final-terms-obrigacoes-caixa-08062020.pdf

145. Pursuant to Article 437, points d) and e) of the CRR, a table is published disclosing the applied filters, deductions and items not deducted from own funds. It should be noted that no restrictions are applied to the calculation of own funds, in accordance with point e) of the abovementioned Article. In order to better understand the information provided, it will be broken down into three parts, in the following tables.

Table 6 | Main items of own funds

(thousands of euros)

Common Equity Tier 1 (CET1) capital: instruments and reserves	(A) Amount at the reporting date	(B) Regulation (EU) 575/2013 article reference
Capital instruments and the related share premium accounts	2,420,000	26 (1), 27, 28, 29, EBA list 26 (3)
of which: instrument type 1	2,420,000	EBA list 26 (3)
of which: instrument type 2		EBA list 26 (3)
of which: instrument type 3		EBA list 26 (3)
Retained earnings	-592,324	26 (1) (c)
Accumulated other comprehensive income (and other reserves)	-429,130	26 (1)
Funds for general banking risk	0	26 (1) (f)
Amount of qualifying items referred to in Article 484, number 3 and the related share premium accounts subject to phase out from CET1		486 (2)
Capital injections from the public sector subject to acquired rights until 1 January 2018		483 (2)
Minority interests (amount allowed in consolidated CET1)	3,064	84, 479, 480
Independently reviewed interim profits, net of any foreseeable charge or dividend	0	26 (2)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,401,610**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	157,410	34, 105
Intangible assets (net of related tax liability)	-35,829	36 (1) (b), 37, 472 (4)
Empty set in the EU		
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38, number 3 are met.	-199,212	36 (1) (c), 38, 472 (5)
Fair value reserves related to gains or losses on cash flow hedges		33 (a)
Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)
Any increase in equity that results from securitised assets		32 (1)
Gains or losses on liabilities valued at fair value due to changes in own credit standing.	-8	33 (b)
Defined-benefit pension fund assets		36 (1) (e), 41, 472 (7)
Direct and indirect holdings by an institution of own CET1 instruments		36 (1) (f), 42, 472 (8)
Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution	0	36 (1) (g), 44, 472 (9)
Direct and indirect holdings by the institution of CET1 instruments of financial sector entities in which the institution does not have a significant investment (amount above the 10% threshold and net of eligible short positions)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment (amount above the 10% threshold and net of eligible short positions)	0	36 (1) (i), 43, 45, 47, 48(1) (b), 49 (1) a (3), 79, 470, 472 (11)
Empty set in the EU		
Exposure amount of the following items which qualify for a RW of 1250%, where the institution chooses the alternative of deduction	-6,707	36 (1) (k)
of which: qualifying holdings outside the financial sector		36 (1) (k) (i), 89 to 91
of which: securitisation positions	-6,707	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
of which: free deliveries		36 (1) (k) (iii), 379 (3)
Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liabilities where the conditions established in Article 38(3) are met)	-122,389	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
Amount exceeding the 15% threshold	0	48 (1)
of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)
Empty set in the EU		
of which: Deferred tax assets arising from temporary differences		
Losses for the current financial year	-80,686	36 (1) (a), 472 (3)
Foreseeable tax charges relating to CET1 items		36 (1) (l)
Regulatory adjustments to common equity tier 1, relative to amounts subject to treatment before CRR		
Regulatory adjustments to unrealised gains and losses under the terms of Articles 467 and 468		
of which: filter for unrealised losses relative to debt security positions	0	467
of which: filter for unrealised losses relative to equity positions	0	467
of which: filter for unrealised gains relative to debt security positions	-1,516	468
of which: filter for unrealised gains relative to equity positions	0	468
Amount to be deducted or added to common equity tier 1 with regards to required additional filters and deductions before CRR	0	481
of which prudential filter relative to actuarial discrepancies	0	481
Qualifying AT1 deductions that exceed the AT1 of the institution	0	36 (1)
Total regulatory adjustments to common equity tier 1 (CET1)	**-287,422**	
Common equity tier 1 (CET1) capital	**1,114,188**	

Table 6.1 | Main items of own funds (continuation)

	(A) Amount at the reporting date	(B) Regulation (EU) 575/2013 article reference
Additional tier 1 (AT1) capital: instruments		
Capital instruments and the related share premium accounts	0	51, 52
of which: classified as equity under applicable accounting standards	0	
of which: classified as liabilities under applicable accounting standards		
Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	486 (3)
Capital injections from the public sector subject to acquired rights until 1 January 2018		483 (3)
Qualifying Tier 1 capital included in the consolidated AT1 (including minority interests not included in line 5) issued by subsidiaries and held by third parties	225	85, 86, 480
of which: instruments issued by subsidiaries subject to phase out		486 (3)
Additional tier 1 (AT1) capital before regulatory adjustments	**225**	
Additional tier 1 (AT1) capital: regulatory adjustments		
Direct and indirect holdings by an institution of own AT1 instruments		52 (1) (b), 56 (a), 57, 475 (2)
Holdings of the AT1 instruments of financial sector entities where these entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution		56 (b), 58, 475 (3)
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment (amount above the 10% threshold and net of eligible short positions)		56 (c), 59, 60, 79, 475 (4)
Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)		56 (d), 59, 79, 475 (4)
Regulatory adjustments applied to additional tier 1 capital, relative to amounts subject to treatment before CRR and transitional treatments subject to phasing out as prescribed in Regulation (EU) 575/2013		
Residual amounts deducted from additional tier 1 capital relative to the deduction of common equity tier 1 capital during the transitional period as per Article 472 of Regulation (EU) 575/2013	0	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
of which: Intangible assets	0	
of which: direct and indirect holdings by the institution of CET1 instruments of financial sector entities, where the institution has no significant investment		
of which: direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment (amount above the 10% threshold and net of eligible short positions)		
Residual amounts deducted from additional tier 1 capital relative to the deduction of tier 2 capital during the transitional period as per Article 475 of Regulation (EU) 575/2013		477, 477 (3), 477 (4) (a)
of which: direct and indirect holdings by the institution of tier 2 instruments of financial sector entities in which the institution has no significant investment		
of which: direct, indirect and synthetic holdings of T2 instruments of financial sector entities where the institution has a significant investment		
Amounts to be deducted or added to additional tier 1 capital with regards to required additional filters and deductions prior to CRR		467, 468, 481
Deductions to qualifying T2 that exceed the T2 of the institution		56 (e)
Total regulatory adjustments to additional tier 1 (AT1) capital	**0**	
Additional tier 1 (AT1) capital	**225**	
Tier 1 capital (T1 = CET1 + AT1)	**1,114,413**	
Tier 2 (T2) capital : instruments and provisions		
Capital instruments and the related share premium accounts	206,323	62.63
Amount of qualifying items referred to in Article 484(5) and the eligible related share premium accounts subject to phase out from Tier 2 capital.		486 (4)
Capital injections from the public sector subject to acquired rights until 1 January 2018		483 (4)
Qualifying own funds instruments included in the consolidated T2 capital (including minority interests and AT1 not included in lines 5 and 34) issued by subsidiaries and held by third parties	225	87, 88, 480
of which: instruments issued by subsidiaries subject to phase out		486 (4)
Credit risk adjustments		62 (c) , (d)
Tier 2 (T2) capital before regulatory adjustments	**206,548**	
Tier 2 (T2) capital: regulatory adjustments		
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans		63 (b) (i), 66 (a), 67, 477 (2)
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution		66 (b), 68, 477 (3)
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)		66 (c), 69, 70, 79, 477 (4)
Of which new holdings not subject to transition provisions		
Of which holdings existing before 1 January 2013 and subject to transitional arrangements		
Direct and indirect holdings by an institution of T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		66 (d), 69, 79, 477 (4)
Regulatory adjustments applied to tier 2 capital, relative to amounts subject to treatment prior to CRR and transitional treatments subject to phasing out as prescribed in Regulation (EU) 575/2013		
Residual amounts deducted from tier 2 capital relative to the deduction of common equity tier 1 capital during the transitional period as per Article 472 of Regulation (EU) 575/2013		472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
of which: direct and indirect holdings by the institution of CET1 instruments of financial sector entities, where the institution has no significant investment		
of which: direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		
Residual amounts deducted from tier 2 capital relative to the deduction from additional tier 1 capital during the transitional period as per Article 475 of Regulation (EU) 575/2013		547, 475 (2) (a), 475 (3), 475 (4) (a)
Amount to be deducted or added to tier 2 capital with regards to required additional filters and deductions prior to CRR	0	467, 468, 481
Total regulatory adjustments to tier 2 (CET1) capital	**0**	
Tier 2 (T2) capital	**206,548**	
Total Capital (TC = T1 + T2)	**1,320,961**	

Table 6.2 | Main items of own funds (continuation)

	(A) Amount at the reporting date	(B) Regulation (EU) 575/2013 article reference
Risk Weighted Assets		
Risk weighted assets relative to amounts subject to treatment before CRR and transitional treatments subject to phasing out as prescribed in Regulation (EU) 575/2013	139,851	
of which: direct and indirect holdings by an institution of its own CET1 instruments	0	
of which: deferred taxes which depend on future profitability	0	
of which: direct and indirect holdings by the institution of own funds instruments of financial sector entities where the institution has no significant investment in those entities	0	
of which: direct, indirect and synthetic holdings of own funds instruments of financial sector entities where the institution has a significant investment in those entities	0	
of which: regulatory adjustments applied to tier 2 capital, relative to amounts subject to treatment before CRR and transitional treatments subject to phasing out as prescribed in CRR	0	
Total risk weighted assets	**9,576,942**	
Prudential capital ratios and reserves		
Common Equity Tier 1 capital	11.63%	92 (2) (a), 465
Level 1	11.64%	92 (2) (b), 465
Total capital	13.79%	92 (2) (c)
Institution specific buffer requirement	9.02%	DRFP 128, 129, 130
of which: capital conservation buffer requirement	2.50%	
of which: countercyclical buffer requirement	0.00%	
of which: systemic risk buffer requirement	0.00%	
of which: Global systemically important institution (G-SII) or Other systemically important institution (O-SII) buffer	0.19%	DRFP 131
Common Equity Tier 1 (CET1) available to meet buffers	2.61%	DRFP 128
Amounts below the thresholds for deduction (before risk weighting)		
Direct and indirect holdings of own funds instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
Direct and indirect holdings by the institution of own funds instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	0	36 (1) (i), 45, 48, 470, 472 (11)
Empty set in the EU		
Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liabilities where the conditions established in Article 38 (3) are met)	118,919	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on inclusion		
Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach (prior to the application of the cap)		62
Cap on inclusion of credit risk adjustments in T2 under the standardised approach		62
Credit risk adjustments included in T2 in respect of exposures subject to the internal ratings-based approach (prior to the application of the cap)		62
Cap for inclusion of credit risk adjustments in T2 under the internal ratings-based approach		62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)		
Current cap on CET1 instruments subject to phase-out arrangements		484 (4), 486 (3) and (5)
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2)
Current cap on AT1 instruments subject to phase-out arrangement		484 (4), 486 (3) and (5)
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) and (5)
Current cap on T2 instruments subject to phase out arrangement		484 (4), 486 (3) and (5)
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) and (5)

146. Pursuant to Article 437, point f) of CRR, prudential ratios of own funds that are calculated based on legislation that is different from what is set out in CRR are not disclosed on an individual and consolidated basis.

147. Since the Group decided to recognise the impacts of IFRS9 in phases, pursuant to Article 473-A of CCR, introduced by Regulation 2017/2395 of the European Parliament, the model comparing own funds, own funds ratios and institutions' leverage with and without application of the transitional regime of IFRS 9 or similar expected credit losses, as referred to in the EBA/GL/2018/01 guidelines, relative to the uniform disclosure of the transitional regime to reduce the impact of the introduction of IFRS 9 on own funds, is shown below.

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Table 7 | Uniform disclosure of the transitional regime to reduce the impact of IFRS 9

(thousands of euros)

	AVAILABLE OWN FUNDS (AMOUNTS)	31/Dec/2020	30/Sep/2020	30/Jun/2020	31/Mar/2020
1	Common equity tier 1 (CET1) capital	1,114,188	1,181,096	1,163,566	1,198,360
2	Common equity tier 1 (CET1) capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	958,502	1,016,453	1,033,253	1,099,053
2a	Common equity tier 1 (CET1) capital if the transitional regime applied to unrealised gains and losses measured at fair value through other comprehensive income in accordance with Article 468 of the CRR had not been applied	1,115,704	1,182,545	1,162,736	N.A.
3	Tier 1 capital	1,114,413	1,181,339	1,163,795	1,198,602
4	Tier 1 capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	958,727	1,016,695	1,033,481	1,099,294
4a	Tier 1 capital if the transitional regime applied to unrealised gains and losses measured at fair value through other comprehensive income in accordance with Article 468 of the CRR had not been applied	1,115,929	1,182,788	1,162,964	N.A.
5	Total capital	1,320,961	1,387,904	1,370,118	1,354,925
6	Total capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	1,165,275	1,223,261	1,239,804	1,255,617
6a	Total capital if the transitional regime applied to unrealised gains and losses measured at fair value through other comprehensive income in accordance with Article 468 of the CRR had not been applied	1,322,477	1,389,354	1,369,287	N.A.
	RISK-WEIGHTED ASSETS (AMOUNTS)				
7	Total risk-weighted assets	9,576,942	10,089,074	10,118,935	10,280,709
8	Total risk-weighted assets if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	9,436,711	9,942,310	9,999,772	10,209,748
	CAPITAL RATIOS				
9	Common equity tier 1 capital (as a percentage of the amount of the exposures)	11.6%	11.7%	11.5%	11.7%
10	Common equity tier 1 capital (as a percentage of the amount of the exposures) if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	10.2%	10.2%	10.3%	10.8%
10 a	Common Equity Tier 1 capital (as percentage of the exposure amount) if the transitional regime applied to unrealised gains and losses measured at fair value through other comprehensive income according to Article 468 of the CRR had not been applied	11.6%	11.7%	11.5%	N.A.
11	Tier 1 capital (as a percentage of the amount of the exposures)	11.6%	11.7%	11.5%	11.7%
12	Tier 1 capital (as a percentage of the amount of the exposures) if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	10.2%	10.2%	10.3%	10.8%
12 a	Tier 1 capital (as a percentage of the amount of the exposures) if the transitional regime applied to unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of the CRR had not been applied	11.7%	11.7%	11.5%	N.A.
13	Total capital (as a percentage of the amount of the exposures)	13.8%	13.8%	13.5%	13.2%
14	Total capital (as a percentage of the amount of the exposures) if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	12.3%	12.3%	12.4%	12.3%
14 a	Total capital (as a percentage of the amount of the exposures) if the transitional regime applied to unrealised gains and losses measured at fair value through other comprehensive income in accordance with Article 468 of the CRR had not been applied	13.8%	13.8%	13.5%	N.A.
	LEVERAGE RATIO				
15	Total leverage ratio exposure	18,435,409	18,075,184	18,360,018	18,119,657
16	Leverage ratio	6.0%	6.5%	6.3%	6.6%
17	Leverage ratio if the transitional regime of IFRS 9 or similar expected credit losses had not been applied	5.2%	5.6%	5.6%	6.1%

4.2 Capital requirements

148. The calculation of the capital requirements for credit and market risk is determined according to the standardised approach.

149. In 2020, the capital requirements for credit risk were fully calculated based on the standard method, based on the business segments of the various group entities.

150. In 2020, the calculation of the capital requirements for operational risk was determined in accordance with the standardised approach for BM, MG Cabo Verde, Montepio Crédito and Montepio Investimento, and in accordance with the basic indicator approach for Finibanco Angola. This calculation was carried out in conformity with the requirements foreseen for each of the mentioned calculation approaches, as indicated in CRD IV and CRR.

151. The following table exhibits, according to Article 438 (c) to (f) of CRR - with the exception of point (d) which applies to the IRB Approach -, the distribution of the capital requirements among the various types of risk, including, among others, the requirements relative to deferred taxes and CVA. The credit and counterparty risk is the most significant, corresponding to about 76% of capital requirements.

152. In December 2020, the value of risk-weighted assets (RWA) came to 9,577 million euros, which represents a decrease of about 7.01% year-on-year, essentially explained by the observed reduction in the credit risk component - excluding the Credit Conversion Factor (CCF), i.e. conversion of the off-balance sheet items to a credit risk equivalent – arising from balance sheet deleveraging, namely the reduction evidenced in the consolidated credit portfolio (about 78%).

153. The reduction noted in terms of the RWA associated with its credit portfolio had an important contribution from the operation that began on 18 December 2020, which sets up a synthetic securitisation structure. This operation is based on a portfolio of small and medium-sized enterprise (SME) loans. In this operation there was no sale of credits to third parties, issue of bonds or participation of Credit Securitisation Companies, Credit Securitisation Vehicles and Credit Securitisation Funds, or need to maintain Reserve Accounts. Likewise, there was no transfer of collections. The operation follows a risk tranche pattern similar to that of a traditional securitisation, and was divided into 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 tranche the Bank transferred the risk to third parties by contracting two financial guarantees that constitute a credit hedge not subject to MtM. For this purpose, the EIB and the EIF are the guarantors of the senior and mezzanine tranches. Banco Montepio retained the risk of the junior tranche and the excess spread.

154. The entry into force of Regulation (EU) 2020/873 of the European Parliament and of the Council, of 24 June also enabled a positive effect to be noted in terms of RWA, essentially owing to the revision of the criteria permitting preferential treatment in terms of the risk weighting of SME financing.

Table 8 | EU OV1 Overview of the risk-weighted assets

(thousands of euros)

		RWAs			Capital Requirements		
		Dec-20	Sep-20	Dec-19	Dec-20	Sep-20	Dec-19
Credit Risk (excluding CCR)		**7,219,694**	**7,576,239**	**8,898,237**	**577,576**	**606,099**	**711,859**
Art. 438 (c)(d)	of which: standardised approach	7,219,694	7,576,239	8,898,237	577,576	606,099	711,859
	of which: IRB approach	0	0	0	0	0	0
	of which: advanced IRB approach	0	0	0	0	0	0
Art. 438 (d)	of which: equity IRB under the simple risk-weighted approach or IMA	0	0	0	0	0	0
Art. 107 Art. 438 (c) (d)	**CCR**	**80,174**	**93,636**	**88,386**	**6,414**	**7,491**	**7,071**
Art. 438 (c) (d)	Of which: mark to market (MtM)	64,044	73,555	71,108	5,124	5,884	5,689
	Of which: original exposure approach	0	0	0	0	0	0
	of which: standardised approach	0	0	0	0	0	0
	of which: internal model method (IMM)	0	0	0	0	0	0
	of which: exposure amount for contributions to the Default Fund of a CCP	0	0	0	0	0	0
	of which: CVA	16,130	20,081	17,278	1,290	1,607	1,382
Art. 438 (e)	**Settlement Risk**	**0**	**0**	**0**	**0**	**0**	**0**
Art. 449 (o) (i)	**Banking book securitisation exposures (net of cap)**	**1,057,583**	**1,102,571**	**1,541**	**84,607**	**88,206**	**123**
	of which: IRB approach	0	0	0	0	0	0
	of which: supervisory formula method (SFA)	0	0	0	0	0	0
	of which: internal assessment approach	0	0	0	0	0	0
	of which: standardised approach	1,057,583	1,102,571	1,541	84,607	88,206	123
Art. 438 (e)	**Market Risk**	**55,019**	**66,385**	**97,643**	**4,402**	**5,311**	**7,811**
	of which: standardised approach	55,019	66,385	97,643	4,402	5,311	7,811
	of which: IMA	0	0	0	0	0	0
Art. 438 (e)	**Large Exposures**	**0**	**0**	**0**	**0**	**0**	**0**
Art. 438 (f)	**Operational Risk**	**688,081**	**761,205**	**761,205**	**55,046**	**60,896**	**60,896**
	of which: basic indicator approach	0	0	0	0	0	0
	of which: standardised approach	688,081	761,205	761,205	55,046	60,896	60,896
	of which: advanced measurement approach	0	0	0	0	0	0
Art. 437(2), Art. 48 and Art. 60	**Memorandum items: Amounts below the threshold for deduction (subject to a RW of 250%)**	**476,391**	**489,038**	**451,607**	**38,111**	**39,123**	**36,129**
Art. 500	**Threshold adjustment**	**0**	**0**	**0**	**0**	**0**	**0**
	Total	**9,576,942**	**10,089,074**	**10,298,618**	**766,155**	**807,126**	**823,889**

155. The following table exhibits the evolution in 2020 of the Pillar I requirements.

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Table 9 | Capital Requirements

(thousands of euros)

	Dec/2020	Jun/2020	Dec/2019
Capital requirements	**766,155**	**809,515**	**823,889**
For credit, counterparty credit and dilution risks and free deliveries	667,306	703,311	717,671
Standardised Approach	667,306	703,311	717,671
Standardised Approach Exposure classes, excluding s	667,269	703,272	717,548
Claims or contingent claims on central governments or central banks	9,169	7,728	11,791
Claims or contingent claims on regional governments or local authorities	498	814	797
Claims or contingent claims on administrative bodies and non-commercial undertakings	5,606	5,676	5,600
Claims or contingent claims on multilateral development banks	0	0	0
Claims or contingent claims on international organisations	0	0	0
Claims or contingent claims on Institutions	23,759	25,434	29,810
Claims or contingent claims on Corporates	134,255	138,200	152,267
Retail claims or contingent retail claims	85,531	81,331	83,629
Claims or contingent claims secured on real estate property	179,750	186,760	194,518
Past due items	43,630	55,493	69,928
Items belonging to regulatory high-risk categories	80,191	92,503	55,103
Covered bonds	434	0	102
Exposures on collective investment undertakings (CIU):	19,840	20,518	20,743
Other items	84,607	88,815	93,260
Securitisation positions under the Standardised Appro	36	38	123
(-) Provisions for general credit risks	0	0	0
Settlement risk	0	0	0
Capital requirements for position, foreign exchange and c	4,402	6,309	7,811
Standardised Approach	4,402	6,309	7,811
Debt instruments	4.42	1,166.15	466
Equity securities	1,109	1,140	236
Foreign exchange risks	3,288	4,003	7,109
Commodities risk	0	0	0
Capital requirements for operational risk	55,046	60,896	60,896
Basic indicator approach	0	0	0
Standardised Approach	55,046	60,896	60,896
Advanced measurement approaches	0	0	0
Capital requirements - CVA	1,290	1,483	1,382
Transitional or other capital requirements	38,111	37,516	36,129

4.3 Assessment and adequacy of own funds

156. Bearing in mind the Risk Appetite Statement, the BD aims to maintain a capital level more adequate to the evolution of the Group's business in order to ensure that it has satisfactory solvency indicators compatible with the prudential recommendations, as well as from an economic viewpoint.

157. The decrease in capital ratios in December 2020 compared to December 2019 was due to the reduction in equity, particularly the phase in effect, essentially associated with the recognition of the impacts of the initial adoption of IFRS 9, as well as the evolution of the results of 2020. Conversely, reference should be made to the issue of subordinated debt eligible for Tier 2 own funds in the amount of 50 million euros at the end of the first half of 2020. This effect on own funds was mitigated by the reduction of around 440 million euros in risk-weighted assets,

essentially due to changes in the credit and debt securities portfolios, as well as the effects of the synthetic securitisation in December 2020.

158. The following table exhibits a summary of the main capital indicators, be they in phasing in or in full implementation. As mentioned previously, the effects of the new Basel III (CRD IV/CRR) regulation will be gradually introduced.

Table 10 | Capital indicators

Phasing In	Dec-2020	Sep-2020	Jun-2020	Dec-2019
CET1 Ratio	11.6%	11.7%	11.5%	12.4%
T1 Ratio	11.6%	11.7%	11.5%	12.4%
Total Capital Ratio	13.8%	13.8%	13.5%	13.9%
Leverage Ratio	6.0%	6.5%	6.3%	7.0%
Full Implementation	**Dec-2020**	**Sep-2020**	**Jun-2020**	**Dec-2019**
CET1 Ratio	10.1%	10.2%	10.3%	11.2%
T1 Ratio	10.1%	10.2%	10.3%	11.2%
Total Capital Ratio	12.3%	12.3%	12.3%	12.8%
Leverage Ratio	5.2%	5.7%	5.6%	6.4%

159. Following the annual supervisory procedure, known as the Supervisory Review and Evaluation Process (SREP), the applicable Pillar 2 requirement for the Group is 3.25%.

160. The minimum requirements, which include the minimum requirements components (Pillar 1), specific requirements arising from SREP (Pillar 2) and combined reserve requirements, in December 2020, were the following:

Ratios	2020 capital ratio requirements			
	Phasing In	Pillar 1	Pillar 2	Reserves
CET1	**9.02%**	4.50%	1.83%	2.69%
T1	**11.13%**	6.00%	2.44%	2.69%
Total	**13.94%**	8.00%	3.25%	2.69%

161. As a consequence of the Covid-19 pandemic, and in line with the decision taken by the ECB for significant institutions, Banco de Portugal took a series of measures aimed at enhancing the flexibility of the regulatory and supervision requirements, enabling less significant credit institutions subject to its supervision to operate, temporarily, at a level lower than that of the combined reserve of own funds (Overall Capital Requirement – OCR), considering that the capital reserves were designed to enable credit institutions to overcome especially adverse situations.

162. As at 31 December 2020, the capital ratios reported by Banco Montepio were above the required prudential levels considering the temporary relief measures issued by Banco de Portugal in the context of the Covid-19 pandemic. Nonetheless, the Board of Directors started a series of initiatives with a view to strengthening the capital ratios, which are currently underway.

163. The Group has established an internal capital adequacy assessment process (ICAAP), which is an essential component in risk management and seeks to develop an analysis of the Group's internal capital, based on a qualitative and quantitative assessment of the risks to which the Group is exposed in its activity. The measurement of internal controls and of their effectiveness in mitigating exposure to these risks and the simulation of a series of adverse scenarios with an impact on the Group's solvency.

164. The ICAAP exercise is conducted at a consolidated level and at an individual level, when applicable, with the following main objectives:

- Be a tool to support strategic decision-making;
- Stimulate a culture of risk that fosters the participation of the entire organisation in the management of the internal capital (BD, Business Areas and Internal Control Functions);
- Assure the adequacy of the internal capital in relation to its risk profile and its risk and business strategies;
- Assure an appropriate identification, quantification, control and mitigation of the material risks to which the Group is exposed;
- Assure proper documentation of the demonstrated results, by reinforcing the integration of the risk management processes in the risk culture of the Group and in decision-making processes;
- Foresee a contingency plan to assure the adequacy of the internal capital in the event of a recession or crisis.

165. 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 BD.

166. In the first phase, this entails identification of the material risks which the Group's activity is subject to, based on an internal risk classification. 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.

167. 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 by add-on to the regulatory capital. The capital add-on values therefore include the requirements relative to other risks not considered in Pillar I (regulatory vision) and the difference between the regulatory and economic requirements, considering the risk quantification methodologies used internally.

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

169. 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 capacity to absorb unexpected losses, which involves the identification of potential contingency plans to deal with any insufficiency of internal capital, duly aligned with other capital planning exercises, namely the Funding and Capital Plan (FCP) and the Recovery Plan.

170. 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. In addition, measures are planned in the Funding and Capital Plan that will allow the Group's solvency levels to be strengthened from a regulatory and economic perspective.

4.4 Prudential reserves of own funds

171. The buffer rate for each institution is the result of a weighted average of the countercyclical buffer rates applicable in the countries where the (credit) exposures of that institution are located. The countercyclical buffer rate applicable to exposures located in Portugal during 2020 was 0%.

172. The following table exhibits, in compliance with Article 440, number 1, point a) of the CRR, the geographical distribution of the relevant credit exposures for the calculation of the counter-cyclical reserve.

Table 11 | Geographical distribution of the relevant credit exposures for the calculation of the counter-cyclical reserve.

(thousands of euros)

				Capital Requirements					
Relevant countries	Value of exposures for the purposes of the Standardised Approach	Sum of the long and short positions in the trading book	Value of the securitised exposures for the purposes of the Standardised Approach	Of which: general credit exposures	Of which: exposures in the trading book	Of which: securitised exposures	Total	Weighting of capital requirements	Countercyclical capital buffer rate
Portugal	18,558,891	226	688	619,460	36	13	619,510	91%	0.000%
Angola	186,066	0	0	26,008	0	0	26,008	4%	0.000%
Luxembourg	116,310	0	0	10,851	0	0	10,851	2%	0.250%
United Kingdom	215,781	383	0	5,574	61	0	5,636	1%	0.000%
Other Countries	1,561,528	6,896	1,371	15,981	975	23	16,978	3%	0.001%
TOTAL	**20,638,576**	**7,506**	**2,059**	**677,874**	**1,072**	**36**	**678,982**	**100%**	**0.0040%**

173. The counter-cyclical reserve rate of the relevant geographies (geographies whose exposure represents more than 2% of the total risk-weighted positions) is 0%. Taking into account the remaining geographical distribution of exposures, the applicable specific countercyclical buffer tended to be 0.0040%.

Table 11.1 | Clearance of countercyclical buffer for Own Funds Requirements

(thousands of euros)

	Dec-20
Total amount of exposures (RWA)	9,576,942
Countercyclical reserve rate of own funds specific to the institution	0.0040%
Countercyclical reserve requirement of own funds specific to the institution	385

174. Regarding the reserve of other systemically important institutions (O-SIIs) the Banco de Portugal defined for the Group a buffer of 0.1875% in 2020 and 2021 and of 0.25% in 2022.

4.5 Leverage ratio

175. In the calculation of the leverage ratio the regulatory rules in force established in the CRR, updated by the applicable regulations, and the guidelines of the regulatory authorities on the subject, namely Delegated Regulation (EU) 2015/62 and in accordance with the Implementing Regulation (EU) 2016/200, both of the European Commission, are complied with.

176. The leverage ratio is defined as a percentage corresponding to the relation between the capital measure (in the numerator) and the exposure measure (in the denominator).

177. As at 31 December 2020, the leverage ratio was 6.0%, a value that exceeds the minimum reference value of 3% indicated by the supervisory authorities. There was a 99 bps decrease in comparison to the preceding year, essentially due to the decrease in Tier 1 own funds.

178. The Group chose not to disclose the information related to the leverage ratio based on the definition of the own funds measure provided for in Article 499 (1) (b) of CRR.

Table 12 | Leverage ratio

(thousands of euros)

Capital and total exposure measure	Dec-20	Sep-20	Dec-19
Tier 1 capital	1,114,413	1,181,339	1,274,120
Leverage ratio total exposure measure	18,435,409	18,075,184	18,119,657
Leverage ratio			
Leverage ratio	6.04%	6.54%	7.03%
Choice on transitional arrangements and amount of derecognised fiduciary items			
Choice on transitional arrangements for the definition of the capital measure	Transitional definition		
Amount of derecognised fiduciary items in accordance with Article 429 (11) of Regulation (EU) 575/2013	0	0	0

179. The following table exhibits the breakdown of the denominator of the ratio (total exposure) and the reconciliation of the total exposure measure with the relevant information disclosed in published financial statements.

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Table 13 | Breakdown of the total exposure

(thousands of euros)

CRR leverage ratio exposures	Dec-20	Jun-20
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFT and fiduciary assets, but including guarantees)	17,920,643	17,856,453
(Asset amounts deducted to determine Tier 1 capital)	-206,736	-188,141
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**17,713,907**	**17,668,312**
Derivative exposures		
Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	20,092	25,640
Add-on amounts for PFE associated with all derivative transactions (mark-to-market approach)	29,523	44,269
Exposure determined under the Original Exposure Method	0	0
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	0
(Exempted CCP leg of client-cleared trade exposures)	0	0
Adjusted effective notional amount of written credit derivatives	0	0
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
Total derivative exposures	**49,615**	**69,909**
SFT exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	109,693	109,693
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-109,693	-109,693
Counterparty credit risk exposure for SFT assets	55,660	1,517
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429-B (4) and 222 of Regulation (EU) 575/2013	0	0
Agent transaction exposures	0	0
(Exempted CCP leg of client-cleared SFT exposure)	0	0
Total securities financing transaction exposures	**55,660**	**1,517**
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	1,936,976	1,912,382
(Adjustments for conversion to credit equivalent amounts)	-1,320,748	-1,292,102
Other off-balance sheet exposures	**616,228**	**620,280**
Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) 575/2013 (on and off balance sheet)	0	
(Intragroup exposures (solo basis) exempted in accordance with Article 429 (7) of Regulation (EU) 575/2013 (on and off balance sheet))	0	0
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) 575/2013 (on and off balance sheet))	0	0
Tier 1 capital	1,114,413	1,163,795
Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	18,435,409	18,360,018
Breakdown of on-balance sheet exposures (excluding derivatives, SFTs)		
Total on-balance sheet exposures (excluding derivatives, SFTs), of which:	**17,976,303**	**17,860,139**
Exposures in the trading book	0	0
Exposures in the banking book, of which:	**17,976,303**	**17,860,139**
Covered Bonds	54,216	0
Exposures treated as sovereign	3,842,613	3,650,410
Exposures to regional governments, multilateral development banks, international organisations and SPCs not treated as sovereign	101,479	122,765
Institutions	447,329	479,288
Secured by mortgages on real estate property	6,202,809	6,388,810
Retail portfolio exposures	2,090,129	1,789,858
Companies	2,090,890	2,020,461
Exposures in default	493,642	603,259
Other exposures (e.g. equities, securitisations and other non-credit obligation assets)	2,653,196	2,805,288

Table 14 | Reconciliation of the total exposure with the accounting financial assets

(thousands of euros)

Summary reconciliation of accounting assets and leverage ratio exposures	Dec-20	Sep-20
Total assets as per published financial statements	17,940,735	17,882,093
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0	0
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429, number 13 of Regulation (EU) 575/2013)	0	0
Adjustments for derivative financial instruments	29,523	44,269
Adjustments for securities financing transactions (SFTs)	55,660	1,517
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	616,228	620,280
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429, number 7 of Regulation (EU) 575/2013)	0	0
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429, number 14 of Regulation (EU) 575/2013)	0	0
Other adjustments	-206,736	-188,141
Total leverage ratio exposure	**18,435,409**	**18,360,018**

180. The provisions in Article 429, number 11 of the CRR do not apply to the Group.

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181. Based on the gap between the current level of the leverage ratio which reached 6.0%, corresponding to more than double the indicative minimum of 3%, no excessive leverage is observed, and which derives from the defined risk appetite, namely with defined limits for exposure to sovereign, as well as to market risk of the proprietary portfolios, including trading and banking books. Additionally, the Group has a rather low risk appetite in terms of trading (trading book), with the main aim of the exposure to derivatives being to hedge the interest rate risk of the banking book and to manage the exchange rate risk.

182. In this way, monitoring, on at least a quarterly basis, within the scope of the risk appetite framework and, on a monthly basis, by ALCO, enables regular monitoring by the management bodies and taking any corrective measures that may be necessary.

183. As mentioned above, the leverage ratio of BM does not show evidence of excessive leverage.

184. The leverage ratio is a key performance indicator monitored on a monthly basis under the Recovery Plan, so an alert and activation level has been defined for it. Consequently, in a scenario of deterioration of the leverage ratio, the procedures defined in the Recovery Plan will be implemented to strengthen this indicator. In this sense, in a scenario in which the deterioration of this indicator is identified (reaching trigger *of* the Recovery Plan), the same will be identified both in the ALCO and via internal reporting, with immediate communication to the EC. The Executive Committee, in turn, after identifying the need to implement measures to restore the indicator, and selection of measures, communicates them to the BD and the Risk Committee for their approval, and start of implementation. The measures deemed necessary to implement shall also be reported to the supervisor.

5. Indicators of global systemic importance

185. On 31 December 2020, BM was not considered a Global Systemically Important Institution (G-SII) in accordance with Article 131 of Directive 2103/36/EU, which is why the obligations of information disclosure provided for in article 441 of CRR do not apply.

6. Counterparty credit risk

186. One of the most significant risks associated with the activity of derivatives trading and repurchase operations is related to the risk of default by the counterparty before the final settlement of all the financial flows.

187. The exposure to derivative and repo instruments (sales operations with repurchase agreement, purchase operations with resale agreement and the underwriting or assigning of securities borrowing or lending transactions are considered as repos) is followed up with regards to the trading and monitoring of the proprietary positions, in terms of management and within the scope of the risk control activity and definition of the internal limits for the exposure to derivative instruments, as well as with regards to the possibility of combined settlement of operations regulated by the same contract, with the possibility of offsetting receivables and payables.

188. The contracts signed with the various counterparties to classify their repo and derivatives activity are, mostly, standard contracts: ISDA Master Agreement with Credit Support Annex (CSA) and Global Master Repurchase Agreement (GMRA).

189. The exposure to derivatives and repos is monitored on a daily basis, with emphasis on the fact that these instruments fall under the following dedicated contracts: ISDA with CSA and GMRA and, as such, are subject to the establishment or release of collateral according to the market value of the exposure of one of the counterparties in relation to the other.

190. The CSAs govern the conditions of posting of collateral between the counterparties that have contracted derivatives under an ISDA Master Agreement and constitute the most effective credit risk mitigation mechanism in over-the-counter transactions. The CSAs thus permit the implementation for OTC instruments (interest rate swaps, exchange rate swaps, exchange rate forwards, among others) of a mechanism similar to the periodic settlement of gains and losses that the clearing houses ensure for instruments traded in an organised market (such as futures, for example). The CSAs establish the frequency of the evaluations, the thresholds amounts above which collateral calls may be requested (request for constitution or reinforcement of collateral), the minimum transfer amounts to be respected in the reinforcements or constitutions of collateral, the eligible assets for the posting of collateral (mostly in cash, although sovereign debt securities and debt securities from other issuers with an appropriate credit risk and corresponding applicable haircuts are also accepted).

191. The security repos are considered for the purposes of monitoring of risk, such as loans and advances to another institution, where the security involved is treated as collateral received (or posted).

192. The GMRAs govern the collateral posting conditions between the counterparties that have contracted operations involving the underwriting or assignment of funds, against the posting or receipt of collateral.

193. The value of the current exposure with each counterparty is the substitution value of the operation, estimated daily for the derivative operations and/or repurchase agreements.

194. For all counterparties, the current exposure to derivatives is calculated daily based on the market value of the operations in portfolio, in order to control the exposure value allocated to derivatives.

195. Currently, any further downgrading of BM's credit rating would have no impact on the amount of guarantees provided.

196. For prudential purposes, the exposures to derivatives are calculated in accordance with the Mark-to-Market approach described in Article 274 (Part III, Title II, Chapter 6, Section 3) of the CRR.

197. The following table exhibits the risk exposures and risk-weighted assets, as well as the approaches used to calculate the credit and counterparty risk exposure (excluding the CVA requirements):

Table 15 | EU CCR1 Analysis of the exposure to CCR by approach

(thousands of euros)

Dec-2020	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to Market		42,666	29,140			42,666	22,113
Original exposure	-				-	-	-
Standardised approach					-	-	-
Internal Model Method - IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						4,089	1,677
VaR for SFTs						-	-
Total	**-**	**42,666**	**29,140**			**46,755**	**23,789**

Jun-20	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to Market		63,238	43,886			63,238	28,358
Original exposure	-				-	-	-
Standardised approach					-	-	-
Internal Model Method - IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						0	0
VaR for SFTs						-	-
Total	**-**	**63,238**	**43,886**			**63,238**	**28,358**

198. The capital requirements for CVA risk of the portfolio are determined according to the standardised approach, as set out in Article 384 of the CRR, Part III, Title VI of CRR.

199. The following table shows the amount of exposure and the amount of the corresponding risk-weighted positions, at risk of transactions subject to capital requirements for CVA:

Table 16 | EU CCR2 CVA capital requirements

(thousands of euros)

	Dec-20		Jun-20	
	Exposure value	RWAs	Exposure value	RWAs
Total portfolios subject to the advanced method	0	0	0	0
VaR component (including the multiplier 3×)				
SVaR component (including the multiplier 3×)				
Total portfolios subject to the standardised approach	36,943	16,130	41,649	18,538
Based on the original exposure approach	0	0	0	0
Total subject to the CVA capital charge	**36,943**	**16,130**	**41,649**	**18,538**

200. The standardised approach to calculate the CVA requirement considers the exposure determined for the calculation of the risk-weighted positions. The RWA corresponds to the capital requirement value for CVA multiplied by 12.5, according to Article 92 (4b) of CRR.

201. As at 31 December 2020, there were no derivative operations carried out through central counterparties (CCP).

202. The following table exhibits, by risk category and weight, within the context of the exposures subject to CCR, the value of the net exposure of impairment following the application of conversion factors and risk mitigation techniques (EAD) and the RWA.

Table 17 | EU CCR3 Analysis of the RWA exposure to CCR by regulatory portfolio and risk

(thousands of euros)

	Dec-2020	0%	2%	4%	10%	20%	35%	50%	75%	100%	150%	Other	Total EAD	Without Rating
Counterparty risk EAD by asset classes and risk weights	Central Governments or Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
	Regional Governments or Local Authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
	Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-
	Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
	International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
	Institutions	-	-	-	-	20,386	-	114,787	-	172	-	-	135,345	-
	Corporates	-	-	-	-	-	-	-	-	2,391	-	-	2,391	-
	Retail	-	-	-	-	-	-	-	13	-	-	-	13	-
	Positions guaranteed by real estate	-	-	-	-	-	-	-	-	-	-	-	-	-
	Past due items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Exposures associated with Particularly High Risks	-	-	-	-	-	-	-	-	-	-	-	-	-
	Covered Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
	Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
	Positions on Collective Investment Undertakings (CIU):	-	-	-	-	-	-	-	-	-	-	-	-	-
	Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL original exposures:		**-**	**-**	**-**	**-**	**20,386**	**-**	**114,787**	**13**	**2,563**	**-**	**-**	**137,750**	**-**
Counterparty risk RWA by asset classes and risk weights	Central Governments or Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
	Regional Governments or Local Authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
	Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-
	Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
	International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
	Institutions	-	-	-	-	4,077	-	57,394	-	172	-	-	61,643	-
	Corporates	-	-	-	-	-	-	-	-	2,391	-	-	2,391	-
	Retail	-	-	-	-	-	-	-	10	-	-	-	10	-
	Positions guaranteed by real estate	-	-	-	-	-	-	-	-	-	-	-	-	-
	Past due items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Exposures associated with Particularly High Risks	-	-	-	-	-	-	-	-	-	-	-	-	-
	Covered Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
	Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
	Positions on Collective Investment Undertakings (CIU):	-	-	-	-	-	-	-	-	-	-	-	-	-
	Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other Items	-	-	-	-	-	-	-	-	-	-	-	-	-
	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL exposures:		**-**	**-**	**-**	**-**	**4,077**	**-**	**57,394**	**10**	**2,563**	**-**	**-**	**64,044**	**-**

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Jun-20	0%	2%	4%	10%	20%	35%	50%	75%	100%	150%	Other	Total EAD	Without Rating
Counterparty risk EAD by asset classes and risk weights													
Central Governments or Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional Governments or Local Authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	15,955	-	120,607	-	-	-	-	136,561	-
Corporates	-	-	-	-	-	-	-	-	3,043	-	-	3,043	-
Retail	-	-	-	-	-	-	-	17	-	-	-	17	-
Positions Guaranteed by Real Estate	-	-	-	-	-	-	-	-	-	-	-	-	-
Past Due Items	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures associated with Particularly High Risks	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Positions on Collective Investment Undertakings (CIU):	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Items	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL original exposures:	**-**	**-**	**-**	**-**	**15,955**	**-**	**120,607**	**17**	**3,043**	**-**	**-**	**139,621**	**-**
Counterparty risk RWA by asset classes and risk weights													
Central Governments or Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional Governments or Local Authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	3,191	-	60,303	-	-	-	-	63,494	-
Corporates	-	-	-	-	-	-	-	-	3,043	-	-	3,043	-
Retail	-	-	-	-	-	-	-	13	-	-	-	13	-
Positions Guaranteed by Real Estate	-	-	-	-	-	-	-	-	-	-	-	-	-
Past due Items	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures associated with Particularly High Risks	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Positions on Collective Investment Undertakings (CIU):	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Items	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL exposures:	**-**	**-**	**-**	**-**	**3,191**	**-**	**60,303**	**13**	**3,043**	**-**	**-**	**66,550**	**-**

203. As at 31 December 2020, there were no credit risk coverage operations through the use of credit derivatives, and thus the procedure described in Article 439, points g) and i) of the CRR was not applied.

204. The following tables present the impact of the netting agreements and collateral received on the calculation of the final exposure value subject to weighting, as well as the details on the composition of the collateral given and received.

Table 18 | EU CCR5-A Impact of netting and collateral held on the exposure values

(thousands of euros)

Dec-2020	Fair value of exposure	Netting effect	Exposure after netting	Value of collateral	Net exposure
Derivatives	42,666	0	42,666	0	42,666
SFTs	55,660	0	55,660	-51,571	4,089
Cross-product netting	0	0	0	0	0
Total	**98,326**	**0**	**98,326**	**-51,571**	**46,755**

Jun-2020	Fair value of exposure	Netting effect	Exposure after netting	Value of collateral	Net exposure
Derivatives	63,238	-	63,238	-	63,238
SFTs	1,517	-	1,517	-1,517	-
Cross-product netting	-	-	-	-	-
Total	**64,755**	**-**	**64,755**	**-1,517**	**63,238**

Table 19 | EU CCR5-B Composition of collateral for exposures to CCR

(thousands of euros)

Dec-2020	Collateral used in derivative transactions		Collateral used in SFTs	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash	0	27,949	109,693	0
National sovereign debt	-	-	0	153,726
Other sovereign debt	-	-	-	-
Other Bonds	-	-	51,571	0
Other Collateral	-	-	-	-
Total	**0**	**27,949**	**161,264**	**153,726**

Under Article 5 of Instruction 5/2018 of the Banco de Portugal, we inform that the table identical to the previous table which includes information relative to the previous period is not disclosed.

7. Credit risk

7.1 Accounting policies

205. The main accounting policies used in the financial statements can be consulted in the notes to the consolidated financial statements, namely Note 1 which is included in the Annual Report1 on pages 189 and 191 (Impairment section) and 191-92 (Definition of default section).

206. It is important to note that the past due items presented in this document are based on the requirements relative to the definition of default used to calculate capital requirements, which takes into consideration Article 178 of CRR and which are described in note 1 of the consolidated financial statements, point c) Loans to Customers, in the 'Definition of Default' (page 191-192 of the Annual Report) section.

207. Regarding the definition of impaired credit, it is included in Note 1 to the consolidated financial statements, point c) Loans to Customers, in the 'Impairment' section (page 189 and 190 of the Annual Report)

[1] www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/relatorio-contas-anual-banco-montepio-2020.pdf

7.2 Portfolio structure

208. As at 31 December 2020, the net exposure value was 19,475 million euros and was broken down by the risk categories defined in Article 112 of the CRR as exhibited in the table below.

209. In the distribution of exposures, relative to credit risk, by risk category, a greater concentration in the exposure classes of Positions with Collateral of Real Estate Property, Governments and Central Banks, Companies and Retail is observed, which correspond to about 80% of the net positions.

Table 20 | EU CRB-B Total amount and average amount of net exposures

(thousands of euros)

Exposure classes	Net exposure		Net exposure (average throughout the period)	
	Dec-2020	Dec-2019	Dec-2020	Dec-2019
Central Governments or Central Banks	3,844,598	3,322,582	3,549,070	3,582,671
Regional Governments or Local Authorities	31,664	50,807	33,014	29,163
Public Sector Entities	70,348	70,000	70,846	70,529
Multilateral Development Banks	0	0	0	0
International Organisations	0	0	0	0
Institutions	703,289	759,436	705,189	689,928
Corporates	2,592,614	2,458,836	2,468,728	2,355,920
Retail	2,869,072	2,484,916	2,565,576	2,509,627
Positions guaranteed by real estate	6,336,703	6,679,649	6,809,386	7,129,540
Past due items	577,135	848,082	840,978	988,378
Exposures associated with Particularly High Risks	783,856	548,578	501,382	230,010
Covered bonds	54,216	12,733	17,798	9,054
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0
Positions on Collective Investment Undertakings	247,999	259,289	269,283	285,395
Shares	122,949	140,264	131,498	139,409
Other items	1,238,648	1,395,520	1,435,461	1,592,635
Securitisations	2,059	2,417	2,434	2,702
TOTAL	**19,475,150**	**19,033,110**	**19,400,643**	**19,614,960**

210. Relative to the previous period, it is important to mention that the net exposure registered an increase of about 442 million euros (+2.32%), mainly in the exposure classes of Governments and Central Banks, Retail and Exposures associated with Particularly High Risks.

211. The following table shows the geographic distribution of the credit portfolio, according to the Territorial Units for Statistic Purposes of Level II (NUTS II) of the exposures by risk category.

Table 21 | EU CRB-C Geographical distribution of exposures

(thousands of euros)

Dec-2020	Geographic distribution of exposures (as a % of the original exposure)								
Exposure classes	Portugal							Angola	TOTAL
	Alentejo	Algarve	Centre	Lisbon	North	A.R. of Madeira	A.R. of the Azores		
Central Governments or Central Banks	0	0	10	3,742,111	954	25,178	0	76,345	3,844,598
Regional Governments or Local Authorities	74	83	1,577	28,474	325	0	1,130	0	31,664
Public Sector Entities	0	0	0	70,348	0	0	0	0	70,348
Multilateral Development Banks	0	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0	0
Institutions	161	2,330	13,884	653,171	24,939	300	0	8,503	703,289
Corporates	50,574	144,094	243,853	1,484,327	568,695	47,914	41,069	12,088	2,592,614
Retail	123,698	139,710	651,713	690,032	1,152,658	44,665	58,879	7,718	2,869,072
Positions guaranteed by real estate	299,711	381,366	994,385	2,570,528	1,653,591	175,293	261,829	0	6,336,703
Past due items	25,433	10,448	81,664	300,958	136,528	10,937	9,983	1,185	577,135
Exposures associated with Particularly High Risks	10,990	46,907	39,664	553,034	120,165	3,187	945	8,964	783,856
Covered Bonds	0	0	0	54,216	0	0	0	0	54,216
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	0	0	0	247,999	0	0	0	0	247,999
Shares	0	0	0	122,949	0	0	0	0	122,949
Other items	251	520	818	1,190,416	38,671	120	39	7,813	1,238,648
Securitisations	0	0	0	2,059	0	0	0	0	2,059
Total	**510,892**	**725,458**	**2,027,569**	**11,710,621**	**3,696,527**	**307,593**	**373,874**	**122,617**	**19,475,150**

Dec-2019	Geographic distribution of exposures (as a % of the original exposure)								
Exposure classes	Portugal							Angola	TOTAL
	Alentejo	Algarve	Centre	Lisbon	North	A.R. of Madeira	A.R. of the Azores		
Central Governments or Central Banks	0	0	2	3,170,372	960	25,830	0	125,418	3,322,582
Regional Governments or Local Authorities	16	134	1,070	47,220	224	2	2,142	0	50,807
Public Sector Entities	0	0	0	70,000	0	0	0	0	70,000
Multilateral Development Banks	0	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0	0
Institutions	161	2,330	17,572	702,803	30,407	323	96	5,744	759,436
Corporates	35,978	104,955	200,660	1,580,372	439,698	22,174	37,476	37,524	2,458,836
Retail	110,920	114,045	596,024	577,884	1,002,307	33,611	45,621	4,504	2,484,916
Positions guaranteed by real estate	319,754	423,943	1,033,195	2,632,061	1,814,667	187,372	268,657	0	6,679,649
Past due items	27,895	21,999	121,089	461,660	183,189	11,984	15,586	4,680	848,082
Exposures associated with Particularly High Risks	10,035	27,993	26,620	382,804	81,600	4,867	284	14,375	548,578
Covered Bonds	0	0	0	12,733	0	0	0	0	12,733
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	0	0	0	259,289	0	0	0	0	259,289
Shares	0	0	0	140,264	0	0	0	0	140,264
Other items	246	668	1,686	1,330,346	58,140	227	35	4,170	1,395,520
Securitisations	0	0	0	2,417	0	0	0	0	2,417
Total	**505,006**	**696,067**	**1,997,918**	**11,370,226**	**3,611,193**	**286,390**	**369,897**	**196,414**	**19,033,110**

212. It is important to mention, in relation to the previous year, that in Portugal there were no significant changes in the concentration of exposures, which means that the areas with the highest population density (Lisbon and Northern Portugal) continue to concentrate the majority of exposures (about 79%). The Group has, nonetheless, a commercial presence in most of the regions of the country.

213. Regarding the exposures of the BM subsidiaries in African countries, there was a significant decrease in Angola, largely due to the fluctuation of the Kwanza against the Euro, so the conversion of the subsidiary's balance sheet to the reporting currency of the parent company reflected the decrease of the respective contribution.

214. The following table presents, in accordance with Article 442, point e) of the CRR, the distribution of the net value of exposures by sector or counterparty type, in December 2020.

Table 22 | EU CRB-D Concentration of exposures by sector or counterparty type

(thousands of euros)

Dec-2020		Secondary Sector		Tertiary Sector								
Exposure classes	Primary Sector	Construction	Other	Professional, Activities	Wholesale and retail trading	Professional, Insurance businesses	Lodging, restaurant and similar activities	Transport and Storage	Public Sector (1)	Professional, scientific and technical activities	Other	Total
Central Governments or Central Banks	0	0	0	0	0	0	0	0	35,842	0	0	35,842
Regional Governments or Local Authorities	0	0	0	0	0	0	0	0	10,386	0	0	10,386
Public Sector Entities	0	0	0	0	0	70,000	0	0	348	0	0	70,348
Institutions	0	0	0	0	0	266,524	0	0	0	0	0	266,524
Corporates	51,462	199,950	674,952	222,897	226,278	272,828	257,122	157,345	76,604	178,653	216,413	2,534,503
Retail	44,810	144,769	397,435	47,821	568,809	9,786	110,123	100,118	115,003	77,312	174,334	1,790,321
Positions guaranteed by real estate	9,730	30,616	89,253	148,453	134,546	24,901	151,901	95,549	86,575	22,867	71,130	865,522
Past due items	3,580	103,758	83,458	18,392	67,041	121,844	27,911	15,607	10,510	5,084	12,270	469,453
Exposures associated with Particularly High Risks	0	252,248	1	343,683	249	43,539	30,247	0	0	16,655	9,832	696,454
Total	**109,583**	**731,341**	**1,245,099**	**781,245**	**996,923**	**809,421**	**577,303**	**368,619**	**335,267**	**300,572**	**483,979**	**6,739,352**
Of which SMEs	*97,457*	*516,497*	*636,199*	*746,269*	*824,754*	*215,551*	*531,731*	*182,586*	*271,406*	*176,417*	*387,027*	*4,585,893*

(1) Public Administration and Defence; Compulsory Social Security; Human health and social support activities

Dec-2019		Secondary Sector		Tertiary Sector								
Exposure classes	Primary Sector	Construction	Other	Professional, Activities	Wholesale and retail trading	Professional, Insurance businesses	Lodging, restaurant and similar activities	Transport and Storage	Public Sector (1)	Professional, scientific and technical activities	Other	Total
Central Governments or Central Banks	0	0	0	0	0	0	0	0	35,476	0	0	35,476
Regional Governments or Local Authorities	0	0	0	0	0	0	0	0	13,062	0	0	13,062
Public Sector Entities	0	0	0	0	0	70,000	0	0	0	0	0	70,000
Institutions	0	0	0	0	0	231,983	0	0	0	0	0	231,983
Corporates	28,383	163,222	579,574	182,281	192,309	278,377	181,832	183,955	59,599	204,001	207,918	2,261,451
Retail	43,908	131,866	375,120	49,579	524,657	8,334	72,641	89,880	67,482	69,254	143,865	1,576,586
Positions guaranteed by real estate	18,784	37,571	98,690	243,408	137,233	25,500	170,415	9,021	89,331	32,445	53,771	916,169
Past due items	6,200	215,538	100,332	59,984	84,124	146,967	28,516	24,610	11,101	14,914	23,418	715,704
Exposures associated with Particularly High Risks	0	176,737	0	220,192	245	0	15,442	0	0	10,894	14,392	437,902
Total	**97,274**	**724,933**	**1,153,717**	**755,443**	**938,568**	**761,161**	**468,845**	**307,467**	**276,051**	**331,509**	**443,364**	**6,258,333**
Of which SMEs	*85,048*	*520,225*	*740,002*	*512,710*	*799,646*	*366,323*	*434,186*	*148,370*	*208,207*	*164,511*	*406,107*	*4,385,334*

Note: only risk classes to which the BM has exposure are shown.

215. Within the scope of the defined risk appetite, the Group has been reducing the exposure to the construction and real estate sector. In terms of different sectors, the exposure to the commerce (wholesale and retail) sector remains the most relevant, as in the previous period, reaching about one billion euros. This table does not include non-classified exposures by sector, such as for example mortgage loans for individuals.

216. In conformity with article 442 (f) of CRR, the table below breaks down the net positions by residual maturity and risk category. It is currently observed that approximately 35% of assets are long-term (remaining maturity of more than 10 years).

217. These assets, as in the previous year, in their majority, are classified under "Positions with Collateral of Real Estate Property" (about 35%) and consist of mortgage loans for individuals and credit for corporate investment. The part of the portfolio without a defined payment plan, corresponding approximately to 9% of the total original exposure, essentially consists of current accounts to support companies' cash flow (revolving credit).

218. The second most significant risk category with respect to exposure is the Central Governments and Central Banks category (about 20%), where the positions are fully distributed by the residual maturities up to 10 years.

Banco Montepio

Table 23 | EU CRB-E Residual maturity of the exposure

(thousands of euros)

Dec-2020	Residual maturity					
Exposure classes	RM < 1	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Revolving	TOTAL
Central Governments or Central Banks	1,771,820	805,837	978,796	288,145	0	3,844,598
Regional Governments or Local Authorities	4,688	2,421	21,037	3,512	6	31,664
Public Sector Entities	0	0	0	70,348	0	70,348
Multilateral Development Banks	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0
Institutions	385,586	96,447	2,567	190,966	27,723	703,289
Corporates	477,655	432,609	818,697	475,794	387,859	2,592,614
Retail	171,004	488,977	925,473	397,840	885,779	2,869,072
Positions guaranteed by real estate	31,432	153,609	950,373	5,129,481	71,810	6,336,703
Past due items	157,255	84,104	137,026	163,073	35,677	577,135
Exposures associated with Particularly High Risks	154,785	130,443	64,111	45,905	388,612	783,856
Covered Bonds	54,216	0	0	0	0	54,216
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0
Positions on Collective Investment Undertakings	247,999	0	0	0	0	247,999
Shares	122,949	0	0	0	0	122,949
Other items	1,209,842	22,712	5,285	810	0	1,238,648
Securitisations	0	0	0	2,059	0	2,059
Total	**4,789,231**	**2,217,159**	**3,903,363**	**6,767,931**	**1,797,466**	**19,475,150**

Dec-2019	Residual maturity					
Exposure classes	RM < 1	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Revolving	TOTAL
Central Governments or Central Banks	1,626,667	1,006,009	680,261	9,646	0	3,322,582
Regional Governments or Local Authorities	284	9,722	38,446	2,350	6	50,807
Public Sector Entities	0	0	0	70,000	0	70,000
Multilateral Development Banks	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0
Institutions	372,793	84,395	107,160	175,797	19,290	759,436
Corporates	442,533	392,989	770,108	482,464	370,742	2,458,836
Retail	217,921	469,130	679,739	262,206	855,919	2,484,916
Positions guaranteed by real estate	50,248	194,443	937,105	5,427,092	70,762	6,679,649
Past due items	204,796	149,073	192,298	183,020	118,895	848,082
Exposures associated with Particularly High Risks	165,388	57,981	14,126	22,170	288,913	548,578
Covered Bonds	0	0	12,733	0	0	12,733
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0
Positions on Collective Investment Undertakings	259,289	0	0	0	0	259,289
Shares	140,264	0	0	0	0	140,264
Other items	1,361,524	28,258	4,965	774	0	1,395,520
Securitisations	0	0	0	2,417	0	2,417
Total	**4,841,707**	**2,392,001**	**3,436,941**	**6,637,935**	**1,724,527**	**19,033,110**

219. In December 2020, the distribution of the portfolio among the various categories and risk weights is shown in detail in the table below in terms of credit and counterparty risk.

Table 24 | Credit and counterparty risk capital requirements

(thousands of euros)

Dec-2020		Risk weights									Total
		0%	10%	20%	35%	50%	75%	100%	150%	Other	
1. Original exposure by exposure class	Central Governments or Central Banks	3,774,614	0	0	0	0	0	95	76,345	0	3,851,053
	Regional Governments or Local Authorities	0	0	31,738	0	0	0	0	0	0	31,738
	Public Sector Entities	0	0	349	0	0	0	70,000	0	0	70,349
	Institutions	223,977	0	222,967	0	208,265	0	39,570	8,544	0	703,324
	Corporates	0	0	0	0	0	0	2,616,099	12,653	0	2,628,752
	Retail	0	0	0	0	0	2,913,291	0	0	0	2,913,291
	Positions guaranteed by real estate	0	0	0	5,386,833	681,600	180,134	127,653	0	0	6,376,221
	Past due items	0	0	0	0	0	0	974,214	115,803	0	1,090,017
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	937,923	0	937,923
	Covered Bonds	0	54,216	0	0	0	0	0	0	0	54,216
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	247,999	0	0	247,999
	Shares	0	0	0	0	0	0	122,949	0	0	122,949
	Other items	166,855	0	32,673	0	0	0	1,411,217	0	0	1,610,744
	Securitisation positions under the Standardised Approach	0	0	776	0	1,098	0	0	0	185	2,059
	TOTAL original exposures:	**4,165,446**	**54,216**	**288,503**	**5,386,833**	**890,964**	**3,093,425**	**5,609,795**	**1,151,268**	**185**	**20,640,635**
2. Exposure by exposure class (reserve base of risk weights):	Central Governments or Central Banks	3,766,173	0	0	0	0	0	95	76,345	0	3,842,613
	Regional Governments or Local Authorities	0	0	31,148	0	0	0	0	0	0	31,148
	Public Sector Entities	0	0	348	0	0	0	70,000	0	0	70,348
	Institutions	214,181	0	218,036	0	156,694	0	39,272	8,544	0	636,728
	Corporates	0	0	0	0	0	0	2,148,343	9,828	0	2,158,170
	Retail	0	0	0	0	0	2,082,793	0	0	0	2,082,793
	Positions guaranteed by real estate	0	0	0	5,365,511	639,912	100,006	104,819	0	0	6,210,248
	Past due items	0	0	0	0	0	0	420,223	83,960	0	504,183
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	668,257	0	668,257
	Covered Bonds	0	54,216	0	0	0	0	0	0	0	54,216
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	247,999	0	0	247,999
	Shares	0	0	0	0	0	0	122,949	0	0	122,949
	Other items	166,855	0	17,763	0	0	0	1,054,031	0	0	1,238,648
	Securitisation positions under the Standardised Approach	0	0	776	0	1,098	0	0	0	185	2,059
	TOTAL exposures:	**4,147,209**	**54,216**	**268,071**	**5,365,511**	**797,705**	**2,182,799**	**4,207,730**	**846,935**	**185**	**17,870,361**
3. TOTAL risk weighted exposures (=S (2."x" risk weights))		**0**	**5,422**	**53,614**	**1,877,929**	**398,852**	**1,637,099**	**4,207,730**	**1,270,402**	**0**	**9,451,049**
Capital requirements by exposure class (2. "x" risk weights "x" 8%)	Central Governments or Central Banks	0	0	0	0	0	0	8	9,161	0	9,169
	Regional Governments or Local Authorities	0	0	498	0	0	0	0	0	0	498
	Public Sector Entities	0	0	6	0	0	0	5,600	0	0	5,606
	Institutions	0	0	3,489	0	6,268	0	3,142	1,025	0	13,923
	Corporates	0	0	0	0	0	0	133,076	1,179	0	134,255
	Retail	0	0	0	0	0	85,531	0	0	0	85,531
	Positions guaranteed by real estate	0	0	0	147,609	20,272	5,342	6,527	0	0	179,750
	Past due items	0	0	0	0	0	0	33,594	10,036	0	43,630
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	80,191	0	80,191
	Covered Bonds	0	434	0	0	0	0	0	0	0	434
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	19,840	0	0	19,840
	Shares	0	0	0	0	0	0	9,836	0	0	9,836
	Other items	0	0	284	0	0	0	84,322	0	0	84,607
	Securitisation positions under the Standardised Approach	0	0	13	0	20	0	0	0	3	36
	TOTAL capital requirements:	**0**	**434**	**4,290**	**147,609**	**26,560**	**90,873**	**295,945**	**101,593**	**3**	**667,306**

(thousands of euros)

Jun-2020		Risk weights 0%	10%	20%	35%	50%	75%	100%	150%	Other	Total
1. Original exposure by exposure class	Central Governments or Central Banks	3,562,018	0	0	0	0	0	96,597	0	0	3,658,615
	Regional Governments or Local Authorities	0	0	52,363	0	0	0	0	0	0	52,363
	Public Sector Entities	0	0	1,243	0	0	0	70,709	0	0	71,952
	Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
	International Organisations	0	0	0	0	0	0	0	0	0	0
	Institutions	224,019	0	266,751	0	223,951	0	32,897	42	0	747,659
	Corporates	0	0	0	0	0	0	2,562,102	0	0	2,562,102
	Retail	0	0	0	0	0	2,581,542	0	0	0	2,581,542
	Positions guaranteed by real estate	0	0	0	5,536,772	703,811	185,953	136,942	0	0	6,563,477
	Past due items	0	0	0	0	0	0	1,045,813	201,991	0	1,247,804
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	1,099,034	0	1,099,034
	Covered Bonds	0	0	0	0	0	0	0	0	0	0
	Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	256,470	0	0	256,470
	Shares	0	0	0	0	0	0	121,127	0	0	121,127
	Other items	163,493	0	34,771	0	0	0	1,454,959	0	0	1,653,223
	Securitisation positions under the Standardised Approach	0	0	841	0	1,145	0	0	0	183	2,170
	TOTAL original exposures:	**3,949,529**	**0**	**355,969**	**5,536,772**	**928,907**	**2,767,494**	**5,777,617**	**1,301,066**	**183**	**20,617,538**
2. Exposure by exposure class (reserve base of risk weights):	Central Governments or Central Banks	3,553,813	0	0	0	0	0	96,597	0	0	3,650,410
	Regional Governments or Local Authorities	0	0	50,867	0	0	0	0	0	0	50,867
	Public Sector Entities	0	0	1,206	0	0	0	70,709	0	0	71,915
	Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
	International Organisations	0	0	0	0	0	0	0	0	0	0
	Institutions	214,597	0	264,526	0	222,435	0	32,615	42	0	734,214
	Corporates	0	0	0	0	0	0	2,105,505	0	0	2,105,505
	Retail	0	0	0	0	0	1,768,858	0	0	0	1,768,858
	Positions guaranteed by real estate	0	0	0	5,512,351	668,279	102,728	113,956	0	0	6,397,314
	Past due items	0	0	0	0	0	0	461,659	154,672	0	616,331
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	770,856	0	770,856
	Covered Bonds	0	0	0	0	0	0	0	0	0	0
	Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	256,470	0	0	256,470
	Shares	0	0	0	0	0	0	121,127	0	0	121,127
	Other items	163,493	0	19,861	0	0	0	1,106,217	0	0	1,289,571
	Securitisation positions under the Standardised Approach	0	0	841	0	1,145	0	0	0	183	2,170
	TOTAL exposures:	**3,931,903**	**0**	**337,301**	**5,512,351**	**891,859**	**1,871,586**	**4,364,856**	**925,569**	**183**	**17,835,607**
3. TOTAL risk weighted exposures (=S (2."x" risk weights))		**0**	**0**	**67,460**	**1,929,323**	**445,929**	**1,403,689**	**4,364,856**	**1,388,354**	**0**	**9,599,611**
Capital requirements by exposure class (2. "x" risk weights "x" 8%)	Central Governments or Central Banks	0	0	0	0	0	0	7,728	0	0	7,728
	Regional Governments or Local Authorities	0	0	814	0	0	0	0	0	0	814
	Public Sector Entities	0	0	19	0	0	0	5,657	0	0	5,676
	Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
	International Organisations	0	0	0	0	0	0	0	0	0	0
	Institutions	0	0	4,232	0	8,897	0	2,609	5	0	15,744
	Corporates	0	0	0	0	0	0	138,200	0	0	138,200
	Retail	0	0	0	0	0	81,331	0	0	0	81,331
	Positions guaranteed by real estate	0	0	0	151,815	21,871	5,674	7,399	0	0	186,760
	Past due items	0	0	0	0	0	0	36,933	18,561	0	55,493
	Exposures associated with Particularly High Risks	0	0	0	0	0	0	0	92,503	0	92,503
	Covered Bonds	0	0	0	0	0	0	0	0	0	0
	Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	0	0	0	0	0
	Positions on Collective Investment Undertakings (CIU):	0	0	0	0	0	0	20,518	0	0	20,518
	Shares	0	0	0	0	0	0	9,690	0	0	9,690
	Other items	0	0	318	0	0	0	88,497	0	0	88,815
	Securitisation positions under the Standardised Approach	0	0	13	0	46	0	0	0	51	111
	TOTAL capital requirements:	**0**	**0**	**5,397**	**151,815**	**30,815**	**87,006**	**317,231**	**111,068**	**51**	**703,383**

220. In conformity with Article 442, points g) and h), institutions must publish information relative to exposures by risk category (broken down into default and non-default exposures), sector of activity, geographic area and credit risk adjustments in 2020.

Table 25 | EU CR1-A Credit quality of exposures by risk category

(thousands of euros)

Dec-2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Exposure classes	Defaulted exposures	Non-defaulted exposures					
Central Governments or Central Banks	-	3,851,053	6,456	-	-	-1,023	3,844,598
Regional Governments or Local Authorities	-	31,738	74	-	-	-80	31,664
Public Sector Entities	-	70,349	1	-	-	1	70,348
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	703,324	35	-	-	-78	703,289
Corporates	-	2,628,752	36,137	-	-	-6,836	2,592,614
of which SMEs	-	*1,490,475*	*28,216*	-	-	*-5,635*	*1,462,259*
Retail	-	2,913,291	44,218	-	-	9,336	2,869,072
of which SMEs	-	*1,982,101*	*35,830*	-	-	*6,931*	*1,946,271*
Positions guaranteed by real estate	-	6,376,221	39,518	-	-	14,541	6,336,703
of which SMEs	-	*1,194,734*	*17,372*	-	-	*6,011*	*1,177,362*
Past due items	1,090,017	-	512,882	-	-	-99,600	577,135
Exposures associated with Particularly High Risks	291,072	646,851	154,067	-	-	77,122	783,856
Covered Bonds	-	54,216	-	-	-	-	54,216
Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-
Positions on Collective Investment Undertakings (CIU):	-	247,999	-	-	-	-	247,999
Shares	-	122,949	-	-	-	-	122,949
Other items	-	1,610,744	372,096	-	-	15,038	1,238,648
Securitisations	-	2,059	-	-	-	-	2,059
TOTAL	**1,381,089**	**19,259,546**	**1,165,485**	**-**	**-**	**8,420**	**19,475,150**
Of which: Loans	*1,306,804*	*12,442,738*	*781,874*	-	-	*-1,107*	*12,967,668*
Of which: Debt securities	-	*2,248,631*	-	-	-	-	*2,248,631*
Of which: Off-balance sheet exposu	*68,045*	*396,132*	*5,539*	-	-	*-4,949*	*458,638*

Jun-2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Exposure classes	Defaulted exposures	Non-defaulted exposures					
Central Governments or Central Banks	-	3,658,615	6,760	-	-	-718	3,651,854
Regional Governments or Local Authorities	-	52,363	84	-	-	-70	52,279
Public Sector Entities	-	71,952	37	-	-	37	71,915
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	747,659	75	-	-	-38	747,585
Corporates	-	2,562,102	30,914	-	-	-12,060	2,531,188
of which SMEs	-	*1,238,434*	*22,719*	-	-	*-11,132*	*1,215,715*
Retail	-	2,581,542	46,682	-	-	11,799	2,534,860
of which SMEs	-	*1,814,971*	*40,254*	-	-	*11,355*	*1,774,717*
Positions Guaranteed by Real Estate	-	6,563,477	35,158	-	-	10,181	6,528,319
of which SMEs	-	*1,298,194*	*16,482*	-	-	*5,121*	*1,281,712*
Past Due Items	1,241,374	6,430	542,137	-	-	-70,345	705,667
Exposures associated with Particularly High Risks	344,940	754,093	218,156	-	-	141,211	880,878
Covered Bonds	-	-	-	-	-	-	-
Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-
Positions on Collective Investment Undertakings (CIU):	-	256,470	-	-	-	-	256,470
Shares	-	121,127	-	-	-	-	121,127
Other Items	-	1,653,223	363,652	-	-	6,593	1,289,571
Securitisations	-	2,170	-	-	-	-	2,170
TOTAL	**1,586,315**	**19,031,224**	**1,243,655**	**-**	**-**	**86,590**	**19,373,883**
Of which: Loans	*1,505,186*	*12,166,364*	*867,610*	-	-	*84,628*	*12,803,939*
Of which: Debt securities	-	*2,824,258*	-	-	-	-	*2,824,258*
Of which: Off-balance sheet exposu	*79,206*	*382,734*	*4,684*	-	-	*-5,804*	*457,256*

221. The following table presents the breakdown of exposures by relevant geographic area:

Table 26 | EU CR1-C Credit quality of exposures by geographic area:

(thousands of euros)

Dec-2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Exposure classes	Defaulted exposures	Non-defaulted exposures					
Portugal	1,294,897	17,264,682	1,104,252	0	0	-9,959	17,455,327
Spain	1,145	353,865	600	0	0	417	354,410
Italy	4	742,948	4	0	0	2	742,948
Angola	43,097	142,969	18,707	0	0	2,620	167,359
Other	41,947	755,081	41,922	0	0	15,339	755,106
TOTAL	**1,381,089**	**19,259,546**	**1,165,485**	**0**	**0**	**8,420**	**19,475,150**

Jun-2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Exposure classes	Defaulted exposures	Non-defaulted exposures					
Portugal	1,497,763	16,830,482	1,185,691	0	0	71,480	17,142,553
Spain	37	445,340	146	0	0	-36	445,231
Italy	4	610,160	2	0	0	0	610,162
Angola	46,116	163,334	15,376	0	0	-710	194,074
Other	42,395	981,907	42,440	0	0	15,857	981,862
TOTAL	**1,586,315**	**19,031,224**	**1,243,655**	**0**	**0**	**86,590**	**19,373,883**

222. The following table presents the breakdown of exposures by sector (only applies to the corporate segment):

Table 27 | EU CR1-B Credit quality of exposures by sector

(thousands of euros)

Dec-2020	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Sectors	Defaulted exposures	Non-defaulted exposures					
Agriculture, forestry and fishing	5,231	90,558	3,362	-	-	-626	92,427
Mining	753	17,192	629	-	-	-44	17,316
Manufacturing	158,244	1,030,527	94,362	-	-	9,665	1,094,410
Electricity, gas, steam and air conditioning supply	7,496	74,008	4,567	-	-	-2,159	76,938
(Collection, purification and distribution of water)	1,348	76,514	2,607	-	-	997	75,254
Construction	351,168	552,772	171,522	-	-	-61,846	732,418
Wholesale and retail trading; repair of motor vehicles and motorcycles	149,068	946,753	96,413	-	-	5,169	999,409
Transport and storage	50,356	392,593	46,335	-	-	12,571	*396,614*
Hotels, restaurants and similar activities	37,136	563,002	22,553	-	-	10,616	577,585
Information and communication activities	3,402	95,214	3,443	-	-	259	*95,173*
Financial and insurance activities	221,146	691,981	102,624	-	-	39,996	810,503
Real estate activities	152,034	718,543	86,118	-	-	-16,138	*784,458*
Professional, scientific and technical activities	13,692	297,730	10,164	-	-	-5,842	301,258
Administrative and support service activities	7,171	139,665	6,746	-	-	-1,587	140,090
Public Administration and Defence; Compulsory Social Security	-	49,775	274	-	-	-234	49,501
Education	2,967	67,721	2,916	-	-	-361	67,771
Human health and social work activities	15,313	280,243	9,468	-	-	3,581	286,088
Arts, entertainment, sports and recreation activities	13,705	71,299	10,496	-	-	1,989	74,508
Other service activities	2,474	79,716	2,498	-	-	228	79,693
Activities of international organisations and other extra-territorial institutions	-	0	0	-	-	0	0
Other activities	4,244	31,367	5,367	-	-	4,244	30,244
TOTAL	**1,196,948**	**6,267,174**	**682,465**	**-**	**-**	**480**	**6,781,657**

Jun-2020 Sectors	Gross carrying values of Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Agriculture, forestry and fishing	9,236	83,670	4,630	-	-	641	88,276
Mining	764	15,946	703	-	-	30	16,008
Manufacturing	164,703	1,053,893	96,074	-	-	11,378	1,122,522
Electricity, gas, steam and air conditioning supply	12,143	64,901	7,556	-	-	830	69,488
(Collection, purification and distribution of water)	3,356	78,710	2,072	-	-	463	79,994
Construction	456,218	533,115	227,581	-	-	-5,787	761,752
Wholesale and retail trading; repair of motor vehicles and motorcycles	164,698	932,753	98,499	-	-	7,255	998,952
Transport and storage	59,811	333,262	39,577	-	-	5,814	*353,496*
Hotels, restaurants and similar activities	47,247	513,436	19,311	-	-	7,374	541,372
Information and communication activities	4,655	74,732	3,183	-	-	-1	*76,204*
Financial and insurance activities	224,297	761,938	86,870	-	-	24,242	899,364
Real estate activities	149,704	739,467	113,324	-	-	11,068	*775,846*
Professional, scientific and technical activities	30,202	307,303	22,364	-	-	6,359	315,141
Administrative and support service activities	10,902	124,050	9,030	-	-	697	125,921
Public Administration and Defence; Compulsory Social Security	-	48,730	307	-	-	-201	48,423
Education	6,670	60,688	3,620	-	-	343	63,738
Human health and social work activities	15,255	228,403	8,900	-	-	3,013	234,758
Arts, entertainment, sports and recreation activities	12,071	65,511	9,307	-	-	800	68,274
Other service activities	5,833	67,323	3,924	-	-	1,655	69,232
Activities of international organisations and other extra-territorial institutions	-	0	0	-	-	0	0
Other activities	4,905	34,337	6,307	-	-	34,337	32,935
TOTAL	**1,382,670**	**6,122,166**	**763,140**	**-**	**-**	**110,309**	**6,741,696**

7.3 Past due and impaired loans

223. The distribution of the past due exposures and respective impairment provisions by sector of activity of the credit to companies segment reflects the concentration of the activity in the Construction, Real Estate, Financial and Insurance Activities and Business segments.

224. In terms of geographic distribution of the exposures with past due loans, as in the previous year, a bigger concentration in the areas of Greater Lisbon and Northern Portugal is observed, reflecting the geographic structure of the total portfolio.

225. In conformity with Article 442, points g) and i) of the CRR and with respect to the exposures subject to impairment and the credit quality of exposures (tables above), the following table shows the breakdown of the past due exposures, notwithstanding their non-performing classification

226. In December 2020, approximately 48% of past due exposures were equal to or older than 1 year.

Table 28 | EU CR1-D Ageing of past due exposures

(thousands of euros)

Dec-20	Gross carrying values						
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year	Total
Loans	453,569	8,619	6,851	15,415	138,165	632,987	1,255,605
Debt securities	0	0	0	0	0	33,950	33,950
Total	**453,569**	**8,619**	**6,851**	**15,415**	**138,165**	**666,936**	**1,289,555**

Jun-20	Gross carrying values						
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year	Total
Loans	364,771	13,682	48,324	109,443	102,857	803,257	1,442,334
Debt securities	0	0	0	0	1,800	33,000	34,800
Total	**364,771**	**13,682**	**48,324**	**109,443**	**104,657**	**836,257**	**1,477,134**

227. The following table exhibits the non-performing exposures and deferred exposures by type of instrument (debt securities, loans/advances and off-balance sheet exposures).

Table 29 | EU CR1-E Non-performing exposures and deferred exposures

(thousands of euros)

	Gross carrying values of *performing* and *non-performing*							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
				of which non-performing exposures				Performing exposures		Non-performing exposures			
	Total	Of which performing but past due > 30 days and <= 90 days	of which *performing forborne*	Total	of which defaulted	of which impaired	of which: *forborne*	Total	of which: *forborne*	Total	of which: *forborne*	Non-performing exposures	of which forborne exposures
Debt securities	3,178,778	0	0	33,950	33,950	33,950	0	13,633	0	15,147	0	45	0
Loans and advances	13,356,649	35,436	86,159	1,255,605	1,248,476	1,253,943	729,736	123,782	3,882	637,386	364,235	419,956	319,659
Off-balance sheet amount	2,062,968	1,757	199	127,061	94,223	127,061	571	10,374	5	10,844	41	0	0
Total	**18,598,396**	**37,192**	**86,358**	**1,416,616**	**1,376,649**	**1,414,953**	**730,307**	**147,790**	**3,887**	**663,377**	**364,276**	**420,001**	**319,659**

Under Article 5 of Instruction 5/2018 of the Banco de Portugal, we inform that the table identical to the previous table which includes information relative to the previous period is not disclosed.

228. It is important to mention that the gross value of these exposures came to approximately 18,598 million euros, of which about 1,416 million euros (7.62%) corresponded to non-performing exposures.

229. In addition, the previous table was prepared taking into account the financial statements of the Group, to which IFRS 5 is applied, thus excluding the exposure relative to Finibanco Angola.

230. The following tables present the default or impaired (stage 3) exposures and the respective movements in 2020:

Table 30 | EU CR2-A Variations in adjustments for specific and general credit risk

(thousands of euros)

Dec-2020	Accumulated credit risk adjustments (impairment)
Opening balance -Jun/20	**746,874**
Increases due to amounts set aside for estimated loan losses during the period	2,814
Decreases due to amounts reversed for estimated loan losses during the period	-121
Decreases due to amounts taken against accumulated credit risk adjustments	
Transfers between credit risk adjustments	-4,381
Impact of exchange rate differences	
Business combinations, including acquisitions and disposals of subsidiaries	
Other adjustments	-81,810
Closing balance -Dec/20	**663,377**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	
Specific credit risk adjustments directly recorded to the statement of profit or loss	

Jun-2020	Accumulated credit risk adjustments (impairment)
Opening balance -Dec/19	**687,700**
Increases due to amounts set aside for estimated loan losses during the period	10,898
Decreases due to amounts reversed for estimated loan losses during the period	-11,461
Decreases due to amounts taken against accumulated credit risk adjustments	
Transfers between credit risk adjustments	33,488
Impact of exchange rate differences	
Business combinations, including acquisitions and disposals of subsidiaries	
Other adjustments	26,248
Closing balance - Jun/20	**746,874**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	
Specific credit risk adjustments directly recorded to the statement of profit or loss	

Note: Initial balance of Dec/19 subject to rectification already contemplated in the disclosure of semi-annual information for 2020.

Table 31 | EU CR2-B Variations in non-performing loans and debt securities.

(thousands of euros)

Gross carrying value of defaulted exposures	Amounts
Opening balance/19	**1,615,854**
Loans and debt securities that have defaulted or impaired since the last reporting period	122,173
Returned to non-defaulted status	0
Amounts written off	-173,450
Other changes	-189,728
Closing balance Dec/20	**1,374,849**

7.4 Concentration risk

231. As mentioned, the Group is currently pursuing a strategy of diversification of its activity, in order to reduce the weight of the exposure to the construction and real estate sector. The impact of the concentration risk on the capital requirements is ascertained through an approach based on the calculation of the sectoral and individual concentration rates (CR), according to Banco de Portugal Instruction 5/2011.

232. The calculation of the individual CR[2] is based on the 100 greatest exposures in portfolio, aggregated by client/economic group. The weight of these exposures in December 2020 corresponded to approximately 20.8% of the credit portfolio, in comparison with 19.8% in 2019.

233. With regards to the sectoral CR[3], it is calculated from the classification of economic activities (CEA) associated with the counterparties in the portfolio.

Table 32 | Concentration rates

	Credit Portfolio	
	Dec-20	**Dec-19**
Individual CR	0.35	0.35
Sectoral CR	8.50	8.78

234. It should be noted that the value of the gross exposure of the 100 largest exposures by counterparty increased by 132 million euros, with the total portfolio having decreased by 32 million euros compared to 2019, resulting in an increase in weight, but having no influence on the Individual CR which remained at 0.35.

235. The reduction of the sectoral CR in 2020 reflects the ongoing business diversification strategy that has been implemented in the credit portfolio.

7.5 Use of ECAIs

236. The calculation of the credit and counterparty capital requirements is determined according to the Standardised Approach whose requirements are defined in CRR and in CRD IV. Depending on the nature of the counterparty, the portfolio positions are distributed among the various risk categories and ratings provided by the Moody's, S&P and Fitch agencies are used for attributing the respective risk weights.

237. This practice runs through all risk categories and the allocation is carried out in accordance with what was provided in the previously mentioned diplomas, as follows:

- When there are simultaneously different ratings provided simultaneously by recognised agencies, the second highest rating of the two lowest ratings is applied:
- In the case of similar bonds and securities, priority is given to the rating of the issue or, where there is no such rating, the issuer's rating is used;
- Ratings, where they exist, are used consistently for all exposures at default in all classes.

[2] Individual Concentration Rate = $\Sigma x^2 / (\Sigma x^* \Sigma y) * 100$, in which x represents the value of the total exposure to each counterparty/economic group belonging to the 100 biggest counterparties of the Institution, and Σy corresponds to the total portfolio exposure.

[3] Sectoral Concentration Rate = $\Sigma x^2 / (\Sigma x)^2 * 100$, in which x represents all the exposures to each sector of economic activity.

238. Based on the calculated external rating, a credit quality grade is assigned in accordance with Implementing Regulation (EU) 634/2018. For exposures to Sovereigns, Public Sector Entities, Corporates, Institutions and Collective Investment Bodies (Funds), the risk weight is determined based on credit quality assessments provided by the External Credit Assessment Institutions (ECAIs) which are considered eligible.

239. Taking into account the guarantees and collateral associated to the exposures, CRR provides for the application of risk mitigation techniques for reclassification (personal protection) and/or mitigation (property protection) of exposures. Exposures are subject to a weight according to their final risk category (after a possible reclassification) defined in Chapter 4, Title II, Part III of CRR.

240. The value of the risk-weighted positions is ascertained on the basis of the adjusted exposure of value corrections and provisions, and following the application of the adjustments related to the credit risk mitigation techniques, namely the application of conversion factors to off-balance sheet items and exercising the property and personal credit protection.

8. Credit risk mitigation techniques

241. For the purpose of the reduction of the credit risk of the positions held, both the personal protection collaterals with a substitution effect on the exposure and the financial collaterals enabling a direct reduction of the position value are considered. Likewise, the mortgage collaterals are also relevant as mitigation of the risk with an impact on the capital requirement weight.

242. In the table below, the collaterals referred to therein correspond to the collaterals complying with the eligibility criteria as effective guarantees as provided for in the prudential regulatory rules, namely regarding the requirements defined in CRR, and do not correspond to all collaterals received.

Table 33 | Concentration analysis – Personal and property credit protection

(thousands of euros)

	Net exposure		Personal credit protection – Guarantees		Funded credit protection – comprehensive financial collateral approach. – Eligible (financial) collaterals	
	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19
Total exposures	**19,475,150**	**19,033,110**	**446,535**	**240,700**	**204,886**	**198,960**
Central Governments or Central Banks	3,844,598	3,322,582	0	0	0	0
Regional Governments or Local Authorities	31,664	50,807	0	0	0	0
Public Sector Entities	70,348	70,000	0	0	0	0
Institutions	703,289	759,436	0	0	51,571	0
Corporates	2,592,614	2,458,836	114,266	114,135	31,802	45,517
Retail	2,869,072	2,484,916	287,513	118,856	103,189	134,856
Positions guaranteed by real estate	6,336,703	6,679,649	43,294	6,186	8,674	11,057
Past due items	577,135	848,082	1,462	1,524	1,331	2,392
Exposures associated with Particularly High Risks	783,856	548,578	0	0	8,318	5,138
Covered Bonds	54,216	12,733	0	0	0	0
Positions on Collective Investment Undertakings (CIU):	247,999	259,289	0	0	0	0
Shares	122,949	140,264	0	0	0	0
Other items	1,238,648	1,395,520	0	0	0	0
Securitisation positions under the Standardised Approach	2,059	2,417	0	0	0	0

243. The direct reduction encompasses the credit operations collateralised by financial collaterals, namely, term deposits, gold, bonds and shares included in a main index listed on a recognised exchange, as stipulated in Section 4, Chapter 4, Title II of Part III of CRR.

244. With regards to mortgage collateral, the assessment of the assets is carried out by independent appraisers, and the management of the assessments and inspections is centralised in a unit of the institution's structure, independent from the commercial department. The reassessment of the assets is carried out according to the requirements defined in Article 208 of CRR, by applying the property variation rates or by carrying out assessments on-site, by an appraiser. With regards to financial collateral, its value is updated according to the relevant market information.

245. The following table, following the risk mitigation techniques, exhibits the breakdown of the gross book value of the exposures, according to the type of risk coverage and type of instrument (collateral, financial guarantees and credit derivatives), even though these techniques are recognised as eligible in Part III, Title II, Chapter 4 of the CRR. It is important to mention that the guarantees/bails provided by private customers and SPs are also not considered within this framework.

Banco Montepio

Table 34 | EU CR3 CRM Techniques – Overview

(thousands of euros)

Dec-20	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	4,933,498	8,034,170	7,700,037	334,134	0
Total debt securities	2,248,631	0	0	0	0
Total exposures	**7,182,129**	**8,034,170**	**7,700,037**	**334,134**	**0**
Of which defaulted	*377,762*	*190,445*	*189,158*	*1,287*	*0*

246. In December 2020, no positions covered by credit derivatives were held.

247. The table below presents, according to the standardised approach, the impact of the mitigation techniques considered eligible by risk category of the exposures before and after application of the conversion factors (CCF) and risk mitigation techniques (RMT), as well as RWA density (in %).

Table 35 | EU CR4 Standardised approach – Credit exposures and CRM effects

(thousands of euros)

Dec-20	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Central Governments or Central Banks	3,842,613	1,985	4,535,195	2,099	114,612	2.53%
Regional Governments or Local Authorities	31,131	533	31,131	18	6,230	20.00%
Public Sector Entities	70,348	0	87,580	0	70,070	80.01%
Multilateral Development Banks	0	0	0	0	0	
International Organisations	0	0	0	0	0	
Institutions	432,639	230,388	381,067	215,399	154,332	25.87%
Corporates	2,088,499	501,724	1,828,898	97,256	1,675,796	87.00%
Retail	2,090,116	778,943	1,561,747	88,775	1,069,129	64.78%
Secured by mortgages on immovable property	6,202,809	133,894	6,144,918	15,914	2,246,872	36.47%
Exposures in default	493,642	83,493	491,914	11,655	545,377	108.30%
Exposures associated with particularly high risk	586,246	197,610	578,191	90,066	1,002,386	150.00%
Covered Bonds	54,216	0	54,216	0	5,422	10.00%
Institutions and Corporates with a Short-Term Credit Assessment	0	0	0	0	0	
Collective investment undertakings (CIUs)	247,999	0	247,999	0	247,999	100.00%
Equity exposures	122,949	0	122,949	0	122,949	100.00%
Other items	1,238,648	0	1,238,648	0	1,057,583	85.38%
Total	**17,501,855**	**1,928,570**	**17,304,454**	**521,181**	**8,318,756**	

Notes: *The breakdown of the exposure classes and all the quantitative information is in accordance with COREP C07.001*
This table contains credit risk exposures (does not include Derivatives; Securitisations)

Under Article 5 of Instruction 5/2018 of the Banco de Portugal, we inform that the table identical to the previous table which includes information relative to the previous period is not disclosed.

248. The net effect of inflows and outflows is especially relevant in the risk category of Central Governments or Central Banks, which comes to approximately 700 million euros. Regarding financial collateral, about 70% of the credit risk mitigation effect is allocated to the Companies and Retail risk categories.

249. The following table breaks down, according to the standardised approach, by weight and risk category the amount of exposures net of impairment, following application of the credit conversion factors (CCF) (applicable to the off-balance sheet items) and after risk mitigation techniques.

Table 36 | EU CR5 Standardised approach – Breakdown of the exposure

(thousands of euros)

Dec-20	Risk weights									Total
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	Other	
Central Governments or Central Banks	3,766,173	-	-	-	-	-	95	76,345	-	3,842,613
Regional Governments or Local Authorities	-	-	31,148	-	-	-	-	-	-	31,148
Public Sector Entities	-	-	348	-	-	-	70,000	-	-	70,348
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-
Institutions	214,181	-	216,350	-	118,290	-	39,100	8,544	-	596,466
Corporates	-	-	-	-	-	-	2,145,952	9,828	-	2,155,779
Retail	-	-	-	-	-	2,082,779	-	-	-	2,082,779
Positions guaranteed by real estate	-	-	-	5,365,511	639,912	100,006	104,819	-	-	6,210,248
Past due items	-	-	-	-	-	-	420,223	83,960	-	504,183
Exposures associated with Particularly High Risks	-	-	-	-	-	-	-	668,257	-	668,257
Covered Bonds	-	54,216	-	-	-	-	-	-	-	54,216
Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-	-	-	-
Positions on Collective Investment Undertakings	-	-	-	-	-	-	247,999	-	-	247,999
Shares	-	-	-	-	-	-	122,949	-	-	122,949
Other Items	166,855	-	17,763	-	-	-	1,054,031	-	-	1,238,648
Securitisations	-	-	-	-	-	-	-	-	-	-
Total	**4,147,209**	**54,216**	**265,609**	**5,365,511**	**758,203**	**2,182,785**	**4,205,167**	**846,935**	**-**	**17,825,635**
Jun-20	**Risk weights**									**Total**
Exposure classes	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Other**	
Central Governments or Central Banks	3,553,813	-	-	-	-	-	96,597	-	-	3,913,635
Regional Governments or Local Authorities	-	-	50,867	-	-	-	-	-	-	14,605
Public Sector Entities	-	-	1,206	-	-	-	70,709	-	-	70,704
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-
Institutions	214,597	-	248,571	-	178,211	-	32,615	42	-	612,162
Corporates	-	-	-	-	-	-	2,102,462	-	-	1,831,477
Retail	-	-	-	-	-	1,768,841	-	-	-	1,798,351
Positions Guaranteed by Real Estate	-	-	-	5,512,351	668,279	102,728	113,956	-	-	7,059,028
Past Due Items	-	-	-	-	-	-	461,659	154,672	-	990,383
Exposures associated with Particularly High Risks	-	-	-	-	-	-	-	770,827	-	111,257
Covered Bonds	-	-	-	-	-	-	-	-	-	12,650
Institutions and Corporates with a Short-Term Credit Assessment	-	-	-	-	-	-	-	-	-	-
Positions on Collective Investment Undertakings	-	-	-	-	-	-	256,470	-	-	297,589
Shares	-	-	-	-	-	-	121,127	-	-	139,698
Other Items	163,493	-	19,861	-	-	-	1,106,217	-	-	1,627,433
Securitisations	-	-	-	-	-	-	-	-	-	-
Total	**3,931,903**	**-**	**320,505**	**5,512,351**	**846,490**	**1,871,569**	**4,361,813**	**925,540**	**-**	**18,478,973**

Notes: *This table contains credit risk exposures (does not include Derivative positions; Securitisations)*

250. In December 2020, about 30% of the exposure was classified in the credit risk weight of 35%. This weight is applicable to the exposures guaranteed by residential real estate, which indicates the significant weight of mortgage loans.

251. The second most significant credit risk weight is that of 100%, which corresponds to 24% of the exposure. This weight is essentially applicable to exposures to Companies and Other Items (mostly properties and tangible fixed assets).

252. It is also worth mentioning that about 23% of the exposure is reflected in the credit risk weight of 0%. This weight is essentially associated to positions on Central Governments or Central Banks, as well as assets with reference to cash and equivalents (Other Items risk category)

9. Wrong way risk

253. In its specific component, the 'wrong way risk' or risk of unfavourable correlation corresponds to the type of risk that occurs when the net exposure of collateral is adversely correlated with the credit quality of that same counterparty. This risk occurs, for example, when credit is granted to a specific company, in which the collateral received for risk mitigation corresponds to securities issued by that same company (shares or bonds).

254. Taking into account the policies in terms of granting and exposure to credit risk and the type of collateral accepted, the risk of unfavourable correlation is negligible. With regards to the credit portfolio, the accepted property collateral corresponds mainly to property and financial collaterals, which are mostly composed of term deposits, and the securities given as collateral to cover credit risk represent a reduced weight.

255. In terms of counterparty credit risk management, CSA contracts signed with the counterparties, as well as the GMRA, in the case of repos, only foresee the delivery of collateral in the form of funds deposited in BM.

256. Additionally, in the case of repos and reverse repos operations, there are no operations whose underlying asset corresponds to issues or assets issued by the counterparty.

10. Securitisation operations

257. The Group's securitisation operations have been used mainly as a funding tool. The first three securitisations (Pelican Mortgages 1, 2 and 3) were public and placed through a syndicate, with the remaining performing credit securitisations having been retained by the institution with the aim of being used as collateral in secured funding operations. As at 31 December 2020, the Group took on the role of originator institution in traditional credit securitisation operations, namely in the following operations: Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua Mortgage 1 and Pelican Finance No. 1.

258. As originator, the Group runs the risk of not receiving the funds due for the sale of the credits to the Financial Vehicle Corporation, whether at the beginning or in successive revolvings. Another risk results from the possible request, by the investor, to buyback positions due to breach of contract by the originator. Given the current securitisations in which the Group acts as originator, the previously identified risks are residual, with no operations being contracted to cover those risks.

259. Within the scope of the interest rate risk management policy for securitisation operations in which the Group acts as originator, the coverage of the risk is ensured from a balance sheet perspective, since the credits underlying the securitised positions remained recognised on the balance sheet. In relation to credit risk, coverage and personal credit protection operations aimed at reducing the risk of the securitisation positions retained are not used.

260. As an investor in securitisation operations, the Group incurs the following risks:

- Credit risk arising from possible issuer default or from the adverse variation in assets driven by the deterioration of the credit quality of the issuer or of the collateral of the operation;
- Market risk arising from adverse variations in asset prices or in the interest rate;
- Liquidity risk arising from the impossibility of disposing of assets if necessary;
- "Pre-payment" risk associated with any early repayments which differ from projected repayments, resulting in a repayment structure that differs from that which was outlined.
- Legal risks arising from changes to and incorrect analyses of the legal framework applicable to these positions.

261. The credit and market risks of the securitisation positions held as an investor are monitored according to the procedures established for the management of credit and market risk, respectively. For further information on the management procedures of these risks, consult the Credit Risk and Market Risk sections of chapter 3.4 of this document.

262. None of the other securitisation operations complies with the requirements set out in Article 243 of CRR relative to the derecognition, the exposures are treated, from both an accounting and prudential basis, as if the credits were held by the institution (and those credits had not been sold), taking into account that the institution retained the equity piece, being subject to the main risks and benefits. As a result, capital requirements for the securitisation positions held in the form of notes are not calculated, but rather relative to the underlying credit portfolios.

263. Regarding the securitisations in which the Group acted as an investor, the method of calculation of the risk weighted positions is the one defined in Section 3, chapter 5, Title II of Part III of CRR, stipulated for the Standardised Approach. For determining the credit quality degree associated with each securitisation position, the respective external ratings of the rating agencies Fitch and Moody's were taken into consideration.

264. In December 2020, BM carried out an operation that configures a synthetic securitisation structure. This operation is based on a portfolio of small and medium-sized enterprise (SME) loans. In this operation there was no sale of credits to third parties, issue of bonds or participation of Credit Securitisation Companies, Credit Securitisation Vehicles and Credit Securitisation Funds, or need to maintain Reserve Accounts. Likewise, there was no transfer of collections. The operation follows a risk tranche pattern similar to that of a traditional securitisation, and was divided into 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 tranche the Bank transferred the risk to third parties by contracting two financial guarantees that constitute a credit hedge not subject to MtM. For this purpose, the EIB and the EIF are the guarantors of the senior and mezzanine tranches. Banco Montepio retained the risk of the junior tranche and the excess spread.

265. With regard to accounting policies:

- the Group does not derecognise from assets the receivables sold in securitisation transactions when:
  - ➢ it maintains control over operations;
  - ➢ it continues to receive a substantial part of theirs remuneration; and
  - ➢ it retains a substantial portion of the risk on the transferred receivables.
- The securitisation operations were undertaken with the objective of complementing the Bank's normal funding through operations placed in the market with investors and maximising its liquidity position through the creation of assets eligible as collateral in refinancing operations with the Eurosystem (more senior tranches).
- Loans sold and not derecognised are recorded under the heading Loans to customers and are subject to the same accounting criteria as other credit operations. The retention of risk and/or benefit is represented by the highest risk rated bonds issued by the securitisation vehicle. The amount recorded in Banco Montepio's assets and liabilities in its individual financial statements represents the proportion of the risk/benefit held by Banco Montepio (continued involvement). The bonds issued by the securitisation vehicles and held by Banco Montepio are eliminated in the consolidation process.
- When the assets are sold to securitisation operations, the group records gains or losses in the financial statements if the securitisation vehicle is not consolidated at inception, which corresponds to the difference between the sale value and the book value. If the securitisation vehicle is consolidated, there are no initial results. If during the current period, in the situation where the securitisation vehicle remains in the consolidation perimeter, if the group proceeds to partial or total disposal of the securities held, it will record a gain or loss (i) in the partial sale and maintaining the need to consolidate the securitisation vehicle, being incorporated in the effective rate until maturity of the operation and (ii) in the case of total disposal of the issues and deconsolidation of the securitisation vehicle, which will result in the sale of the assets.
- For positions held as an investor the ratings-based method shall be used for securitisation positions which have an external rating assigned by an ECAI.
- The Group has no positions in assets awaiting securitisation in the reference period.
- The Group records in the caption "Financial liabilities associated to transferred assets" the net value of the credits transferred to the securitisation vehicles in order to reflect the Group's responsibility to deliver the financial flows originated by them.

- The Group has an ongoing operation that configures a synthetic securitisation structure. The operation began on 18 December 2020 and is based on a portfolio of small and medium-sized enterprise (SME) loans. The purpose of the operation in question is to strengthen the CET1 ratio, without generating any additional liquidity. In this operation there was no sale of credits to third parties, issue of bonds or participation of Credit Securitisation Companies, Credit Securitisation Vehicles and Credit Securitisation Funds, or need to maintain Reserve Accounts. Likewise, there was no transfer of collections. The operation follows a risk tranche pattern similar to that of a traditional securitisation, and was divided into 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 tranche the Bank transferred the risk to third parties by contracting two financial guarantees that constitute a credit hedge not subject to MtM. For this purpose, the EIB and the EIF are the guarantors of the senior and mezzanine tranches, with the Bank bearing a fee of 0.3% and 4.5% to guarantee each of the tranches, respectively. Banco Montepio retained the risk of the junior tranche and the excess spread. With this operation the Bank reduced the risk-weighted assets (RWAs) associated with the portfolio of loans to customers, however, to the extent that most of the risks and benefits associated with the loans in question have not been transferred, the criteria for derecognition of financial assets are not met.

266. The main accounting policies used in the financial statements relative to securitisation operations can be consulted in the notes to the consolidated financial statements, namely Note 1 (pages 174 and 297) and 53 (pages 310-314) which are included in the Report and Accounts of 2020.

267. The following tables indicate the traditional securitisation positions, both in relation to own operations and as an investor. The tables do not present significant variations in relation to the previous reporting period with regard to traditional securitisations. As mentioned above, the Group has an ongoing operation that configures a synthetic securitisation structure.

Banco Montepio

Table 37 | Securitisation operations

(thousands of euros)

Originator Institution: BM (100%)		Sponsor Institutions: Sagres STC, SA				Rating							2020		2019	
Pelican Mortgage 3	Class	Securitised assets (nominal)	Amount in debt (nominal)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairment	Past due principal	Impairment
XS0293657416	Class A	717,375	138,350	99,598	Sep-54	BBB- (sf)	A3 (sf)	BBB- (sf)	n.a.	3/15/2016	0.20%	no	184	1,141	434	1,330
XS0293657689	Class B	14,250	3,572	3,572	Sep-54	Ba1 (sf)	BBB- (sf)	B- (sf)	n.a.	3/15/2016	0.30%					
XS0293657846	Class C	12,000	3,008	3,008	Sep-54	BB+	B2	B	n.a.	3/15/2016	0.36%					
XS0293657929	Class D	6,375	1,598	1,598	Sep-54	BB (sf)	B2 (sf)	B-	n.a.	3/15/2016	0.68%					
XS0293658067	Class E	8,250	0	0	Sep-54	n.a.	n.a.	n.a.	n.a.	-	-					
XS0293658141	Class F	4,125	4,125	4,125	Sep-54	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.					

Originator Institution: BM (100%)		Sponsor Institutions: Sagres STC, SA				Rating							2020		2019	
Pelican Mortgage 4	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments	Past due principal	Impairments
XS0365137990	Class A	832,000	357,937	357,937	Sep-56	AA (sf)	n.a.	n.a.	A+ sf	6/15/2017	0.30%	no	261	2,456	278	2,386
XS0365138295	Class B	55,500	31,686	31,686	Sep-56	A+ sf	n.a.	n.a.	n.a.	6/15/2017	0.45%					
XS0365138964	Class C	60,000	34,255	34,255	Sep-56	BBB sf:	n.a.	n.a.	n.a.	6/15/2017	0.60%					
XS0365139004	Class D	25,000	14,273	14,273	Sep-56	BB sf:	n.a.	n.a.	n.a.	6/15/2017	0.90%					
XS0365139699	Class E	27,500	15,700	15,700	Sep-56	B sf	n.a.	n.a.	n.a.	6/15/2017	1.25%					
XS0365139939	Class F	28,600	28,600	28,600	Sep-56	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.					

Originator Institution: BM (100%)		Sponsor Institutions: Sagres STC, SA				Rating							2020		2019	
Pelican Mortgage 5	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments	Past due principal	Impairments
XS0419743033	Class A	750,000	314,320	314,320	Dec-61	A+ (sf)	n.a.	n.a.	AAH	6/15/2018	0.30%	no	181	1,976	257	2,117
XS0419743389	Class B	195,000	110,086	110,086	Dec-61	A- (sf)	n.a.	n.a.	n.a.	6/15/2018	0.50%					
XS0419743462	Class C	27,500	15,525	15,525	Dec-61	BBB (sf)	n.a.	n.a.	n.a.	6/15/2018	0.90%					
XS0419743546	Class D	27,500	15,525	15,525	Dec-61	n.a.	n.a.	n.a.	n.a.	6/15/2018	1.25%					
XS0419743629	Class E	4,500	0	0	Dec-61	n.a.	n.a.	n.a.	n.a.	6/15/2018	1.50%					
XS0419743975	Class F	23,000	23,000	23,000	Dec-61	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.					

Originator Institution: BM (100%)		Sponsor Institutions: Sagres STC, SA				Rating							2020		2019	
Pelican Mortgage 6	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments	Past due principal	Impairments
PTSSCQOM0006	Class A	750,000	292,880	292,880	Dec-63	A+ sf	n.a.	A (sf)	A (high) (s	-	0.30%	no	1,165	11,191	1,352	12,307
PTSSCROM0005	Class B	250,000	250,000	250,000	Dec-63	n.a.	n.a.	n.a.	n.a.	-	0.50%					
PTSSCSOM0004	Class C	1,800	0	0	Dec-63	n.a.	n.a.	n.a.	n.a.	-	1.50%					
PTSSCTOM0003	Class D	65,000	65,000	65,000	Dec-63	n.a.	n.a.	n.a.	n.a.	-	n.a.					
PTSSCUOM0000	Class S	40,200	40,200	40,200	Dec-63	n.a.	n.a.	n.a.	n.a.	-	n.a.					

Originator Institution: BM (100%)		Sponsor Institutions: Tagus STC, SA				Rating							2020		2019	
Aqua Mortgage 1	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments	Past due principal	Impairments
XS0400981279	Class A	203,176	570,933	570,933	Dec-63	n.a.	n.a.	A+	AAA	-	0.15%	no	165	1,218	384	1,803
XS0400982087	Class B	29,824	18,609	18,609	Dec-63	n.a.	n.a.	n.a.	n.a.	-	0.40%					
XS0400983051	Class C	3,500	3,500	3,500	Dec-63	n.a.	n.a.	n.a.	n.a.	-	n.a.					

Originator Institution: BM (60%)/MC (40%)		Sponsor Institutions: Tagus STC, SA				Rating							2020		2019	
Pelican Finance 1	Class	Securitised assets (in millions of euros)	Amount in debt (in millions of euros)	Interest retained (nominal)	Legal maturity	Fitch	Moody's	S&P	DBRS	Step-up clause (date)	Spread	Implicit support situations	Past due principal	Impairments	Past due principal	Impairments
PTTGUYOM0015	Class A	202,900	43,716	43,716	Dec-28	A+	n.a.	n.a.	AH	-	3% (fixed rate)	no	4,584	3,304	4,395	5,190
PTTGUZOM0014	Class B	91,100	26,733	26,733	Dec-28	n.a.	n.a.	n.a.	n.a.	-	4% (fixed rate)					
PTTGU1OM0011	Class C	14,700	14,700	14,700	Dec-28	n.a.	n.a.	n.a.	n.a.	-	n.a.					

Table 38 | Credit risk - Securitisation operations: Standardised approach

(thousands of euros)

Traditional Securitisation	Fully adjusted exposure value		Risk-weighted exposure amount	
	Dec-20	Amounts deducted from own funds (-)	Dec-20	Dec-19
	2	3	9	10
B=Investor : total exposures	2,059	0	453	1,541
B1 – Balance sheet items	2,059	0	453	1,541
Securitisations	2,059	0	453	1,541
Re-securitisations	0	0	0	0
B2 – Off-balance sheet items and derivatives	0	0	0	0
C=Sponsor : total exposures	0	0	0	0
C1 – Balance sheet items	0	0	0	0
C2 – Off-balance sheet items and derivatives	0	0	0	0

Table 39 | Credit risk - Securitisation operations: Summary of activities

(thousands of euros)

Traditional Securitisation	Amount of securitised exposures securitised/to be securitised		Risk-weighted exposure amount		Gains/Losses recognised in sales	
	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19
Traditional securitisation (total)	1,741,782	1,963,304	627,764	715,910	0	0
On-balance sheet items	1,741,782	1,963,304	627,764	715,910	0	0
Securitisations	1,741,782	1,963,304	627,764	715,910	0	0
Re-securitisations	0	0	0	0	0	0
Off-balance sheet items and derivatives	0	0	0	0	0	0
Synthetic securitisation (total)	0	0	0	0	0	0
On-balance sheet items	0	0	0	0	0	0
Securitisations	394,053	0	0	0	0	0
Re-securitisations	0	0	0	0	0	0
Off-balance sheet items and derivatives	0	0	0	0	0	0

268. For further information relative to securitisation operations, note 53 (pages 310-314) of the notes attached to the financial statements of the Annual Report for 2020 can be consulted.

11. Position, credit, counterparty and settlement risks on the trading book

269. The trading book is composed of the positions held with the purpose of obtaining short-term gains, be it from sales or reassessment. The capital requirements relative to this portfolio are calculated based on the standardised approach, according to Title IV, Part III of CRR. The positions that are considered as part of the trading book in prudential terms and, as such, subject to the calculation of capital requirements for market risk, are formalised in a regulation of the Institution.

270. Internal models to calculate capital requirements are not used, such that in accordance with the standardised approach applicable to market risk, the financial products in portfolio are broken down into two asset categories: debt instruments (including derivatives on debt instruments and comparable instruments) and capital securities (including derivatives on equity requirements and comparable instruments). In turn, the capital requirements for market risk are broken down into specific risk or exposure and general risk.

271. The capital requirement for each category of assets is calculated according to the needs of coverage of specific risk and general risk for each one of the categories of assets. This way, according to the standardised approach, the following methodologies are applied to each exposure category:

Debt instruments

- General risk: corresponds to the risk of loss caused by unfavourable variations in the interest rate. For the calculation of the capital requirements for the general risk, the method used is the one based on maturity, according to Subsection 2, Section 2, Chapter 2, Title IV of Part III of CRR.
- Specific risk: corresponds to the risk of loss due to factors associated with the issuer. The capital requirements for these risks are based on the application of the methodology described in Subsection 1, Section 2, Chapter 2, Title IV of Part III of

CRR, which results in the weighting of assets according to the sector and credit quality of the issuer.

Equity

- General risk: corresponds to the risk of loss caused by unfavourable variations in the share market. For the calculation of the capital requirements for the general risk, the method used is the one provided for in Section 3, Chapter 2, Title IV of Part III of the CRR.
- Specific risk: corresponds to the risk of loss due to factors associated with the issuer. For the calculation of the capital requirements for the specific risk, the method used is the one provided for in Section 3, Chapter 2, Title IV of Part III of CRR.
- For the calculation of the capital requirements for positions on CIUs, the method used is the one provided for in Section 6, Chapter 2, Title IV of Part III of the CRR.

Table 40 | Capital requirements - Trading book

(thousands of euros)

Trading book risks	Requirements Own funds Dec-20	Requirements Own funds Dec-19
Total trading book risk (1 + 2)	**2,334**	**2,042**
Position risk	1,114	702
Standardised approach for the trading book	1,114	702
Debt instruments		
Specific risk	0	83
General risk	4	383
Equity securities		
Specific risk	528	105
General risk	581	130
Collective investment undertakings (CIU)	0	0
Counterparty credit risk	1,220	1,341
Bonds	0	0
Derivative instruments	1,220	1,341
Other	0	0

272. In quantitative terms, using the methods described above, a capital requirement of 1.22 million euros was calculated for the trading book risks in December 2020.

12. Foreign exchange and commodity risks in the banking and trading books

273. The method used by the institution to calculate the minimum capital requirements for the exchange and commodity risks is the method provided for in chapters 3 and 4, Title IV of Part III of the CRR.

274. For the calculation of the capital requirements for the exchange risk, the method used is the one prescribed in Chapter 3, Title IV of Part III of CRR. This method provides for the application of

a weight of 8% (or 4% in the case of strictly correlated foreign currencies) to the sum of the liquid position in foreign currencies, in case this sum exceeds 2% of the total own funds.

275. With regards to the commodity risk, the calculation of the capital requirements is ascertained according to the Maturity Ladder Approach prescribed in chapter 4, Title IV of Part III of the CRR.

276. The Group's exchange risk requirements result essentially from the positions arising from the consolidation of the international subsidiaries, namely Finibanco Angola, and also of assets denominated in Brazilian Reais.

Table 41 | Capital requirements – Exchange and commodity risks

(thousands of euros)

CAPITAL REQUIREMENTS - FOREIGN EXCHANGE AND COMMODITIES RISKS			
	Foreign Exchange and Commodities Risk	Dec-20	Dec-19
1. Foreign Exchange Risk (=1.1.+1.2.)		**3,288**	**7,109**
1.1.	Standardised Approach	3,288	7,109
1.2.	Internal Models Approach		
2. Commodities Risk (=∑(2.1. to 2.2.))		**0**	0
2.1.	Standardised Approach (=∑(2.1.1. to 2.1.4.))	**0**	0
	2.1.1. Maturity Ladder Approach or Simplified Approach		
	2.1.2. Exchange-traded commodity futures and options		
	2.1.3. OTC-traded commodity futures and options		
	2.1.4. Other		
2.2.	Internal Models Approach		
3. Settlement Risk		**0**	**0**

277. The following table presents the RWAs and the capital requirements for market risk by the standardised approach.

Table 42 | EU MR1 Market risk on the standardised approach

(thousands of euros)

	RWAs			Capital Requirements		
	Dec-20	Jun-20	Dec-19	Dec-20	Jun-20	Dec-19
Outright products						
Interest rate risk (general and specific)	55	14,577	5,825	4	619	466
Equity risk (general and specific)	13,867	14,250	2,949	1,109	556	236
Foreign exchange risk	41,097	50,039	88,869	3,288	8,544	7,109
Commodities risk	0	0	0	0	0	0
Options						
Simplified approach						
Delta-plus method						
Scenario approach						
Securitisations (specific risk)						
Total	**55,019**	**78,866**	**97,643**	**4,402**	**9,720**	**7,811**

278. With regard to market risk requirements, the decrease in comparison to the previous year essentially results from foreign exchange risk, particularly the devaluation of the Kwanza resulting from Finibanco Angola's activity, as well as the foreign exchange hedging of the position in shares denominated in Brazilian Reais.

279. With regards to the valuation of the financial instruments of the trading book, as well as of the banking book, the notes attached to the financial statements of the Annual Report for 2020, notes 23 and 24 on pages 239 to 243 in particular, must be consulted.

13. Exposures to banking book shares

280. Equity exposures can be classified in terms of objectives as belonging to the (i) trading book (those whose aim is to obtain a short-term profit from changes in their value and which can be short or long); (ii) banking book (those whose aim is to also obtain profit from changes in the value of the shares, but where the institution holds a more stable position over time); (iii) portfolio of holdings in associates (those in which the company does not have control of the company).

281. The recording of losses in equity exposures is carried out according to the portfolios in which those exposures are classified. The gains or losses in shares belonging to the trading book are promptly recognised in profit or loss.

282. The changes in value observed in shares classified at fair value through other comprehensive income are recorded under revaluation reserves, affecting equity. The instruments classified at fair value through other comprehensive income, according to IFRS 9, are not subject to impairment with the respective accumulated potential gains or losses (in revaluation reserves) being transferred to Retained Earnings on derecognition. Dividends received are recognised in profit or loss.

283. With regards to unlisted shares the fair value is estimated based on the use of the valuation methods: DCF (discounted cash flow) method or multiples method or adjusted book value method according to the characteristic of those shares. Where it is not possible to obtain a market value for the share or a reliable fair value using the methods identified previously, the equity instruments will be recognised at historical cost and subject to impairment tests.

Table 43 | Equity exposures in the banking book

(thousands of euros)

	Listed shares		Unlisted shares		Other Equity Instruments		Total	
	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19
Acquisition cost	68,243	68,243	77,783	77,546	51,340	57,330	197,365	203,118
Fair value	32,072	46,667	86,605	89,512	41,884	57,596	160,561	193,775
Market price	32,072	46,667					32,072	46,667
Gains or losses arising from sales and settlements in the period:							4,067	1,474
Total unrealised gains or losses:							-36,804	-9,343
Total latent revaluation gains or losses							**-36,804**	**-9,343**

Notes:
Other Equity Instruments consider venture capital funds (excludes real estate funds)
The portfolios "Non-marketable financial assets at fair value through profit or loss" and "Financial assets at fair value through other comprehensive income" were considered

284. The value of shares in the trading portfolio was 3,397 thousand euros as at 31 December 2020, corresponding in full to listed shares.

285. Further details on the portfolio of shares can be consulted in the notes attached to the financial statements of the Annual Report for 2020, in particular note 24 (page 243 and 244) and note 25 (page 245 to 250).

14. Operational risk

286. With regard to capital requirements for operational risk, Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June considers operational risk to be a significant risk for credit institutions and therefore this type of risk requires specific coverage in terms of Own Funds.

287. The Banco Montepio Group calculates the own funds requirements for operational risk in accordance with the Standardised Approach, since 2010.

288. As referred to in Article 317, Chapter 3, Title III, Part III of Regulation (EU) 575/2013 of the European Parliament and the Council of 26 June, in the standard method the relevant indicator must be calculated by activity segments, which implies the existence of a prior mapping between the activities developed by the Institution and the proposed activity segments.

289. The following table shows the eight business segments and the list of associated activities, as well as the risk weights associated with each segment.

Table 44 | Activity segments and activities list

Activity Segments	List of Activities	Risk Weight
Corporate finance	- Underwriting of financial instruments and/or placing of financial instruments on a firm underwriting basis; - Services related to underwriting; - Investment advisory services; - Corporate advisory services on capital structure, industrial strategy and related matters; - Advisory services relating to mergers and acquisitions; - Investment analysis and Financial analysis and other forms of Generic advisory services relating to transactions in financial instruments.	18%
Negotiation and sales	- Dealing on Own account; - Monetary markets intermediation; - Receiving and giving orders related to one or more financial instruments; - Orders carried out according to client's demands; - Placing of financial instruments without underwriting; - Exploration of multilateral trading facilities.	18%
Payment and settlement	- Payment transactions; - Issuing and management of payment options.	18%
Commercial banking	- Booking deposits and other reimbursable funds; - Loans; - Leasing; - Guarantee concession and undertaking commitments.	15%
Agency services	- Custody and management of financial instruments according to client's demands, namely custody and related services such as treasury management and security deposits.	15%
Retail banking	- Booking deposits and other reimbursable funds; - Loans; - Leasing; - Guarantee concession and undertaking commitments.	12%
Retail brokerage	- Receiving and giving orders related to one or more financial instruments. - Orders carried out according to client's demands; - Placing of financial instruments without underwriting.	12%
Asset management	- Portfolio management - Management of OICVM. - Other forms of asset management.	12%

290. The principles for the allocation of activities across activity segments that institutions should observe are as follows:

291. All activities should be distributed over the activity segments listed in the previous table so that each activity corresponds to only one segment and no activity remains unallocated;

292. Any activity that cannot be easily allocated to the defined activity segments, but which represents an auxiliary function of an included activity, should be allocated to the activity segment to which it provides support. If this auxiliary activity supports more than one activity segment, objective allocation criteria should be used;

293. If an activity cannot be allocated to a specific activity segment, it should be allocated to the activity segment to which the highest percentage corresponds. Any related auxiliary activity should be allocated to the same activity segment;

294. Institutions may use in-house price-fixing methods to distribute the relevant indicator over different activity segments. Costs generated in one activity segment that are imputable to a different activity segment can be reallocated to the activity segment to which they belong;

295. The distribution of activities over the activity segments, for purposes of determining own fund requirements to cover operational risk should be consistent with the categories used for credit and market risk;

296. The management is responsible for the distribution policy, under control of the institution's management body;

297. Under the standardised approach, own funds requirement to cover operational risk consists of the average of the last three years of the sum of the relevant indicators, calculated in each year, weighted by the risk related to the activity segments referred to above.

298. The relevant indicator consists of the sum of net interest income and other net income, on an annual basis, reported at the end of the financial year.

299. Relevant Indicator

+ Interest and equivalent income

- Interest and equivalent costs

+ Income from shares and other variable/fixed yield securities

+ Commissions and fees received

- Commissions and fees paid

+ Net trading income

+ Other operating income

300. These items should be adjusted, if necessary, so as to meet the following conditions:

a) The relevant indicator should be calculated before deducting any provisions and operating costs, with the latter including commissions and fees paid for services provided by third parties (outsourcing) that are not the parent company or subsidiary of the institution, nor subsidiary of a parent company that is also parent company of the institution;
b) Commissions and fees paid for outsourcing services provided by third parties that are the parent company or subsidiary of the institution, subsidiary of a parent company that is also parent company of the institution, can contribute to reduce the relevant indicator if charged by a company that is subject to supervision by virtue of the regulations herein or equivalent rules;
c) Commissions and fees received for the provision of outsourcing services should contribute to increase the relevant indicator;
d) When not arising from the current activity of the institutions, the profit/loss from the sale of items not included in the trading book, extraordinary results, income from insurance activity specifically (excluding the mere activity of insurance intermediation, understood as an activity auxiliary to the current activity of the institutions) and the indemnities received arising from insurance taken out (for example, to meet operational losses)

should not be considered to calculate the relevant indicator.

301. The following table presents, according to the standardised method, the calculation of the capital requirements allocated to operational risk in the last three years.

Table 45 | Capital requirements for operational risk

(thousands of euros)

Approach	Relevant indicator 2018	Relevant indicator 2019	Relevant indicator 2020	Capital requirements (Consolidated)
Total	467,907	420,670	365,295	55,046
1. Sum of activities subject to the Basic Indicator Approach	0	0	0	0
2. Sum of activities subject to the standardised approach	467,907	420,670	365,295	55,046
2.1. Corporate finance	1,578	1,676	650	
2.2. Negotiation and sales	-7,921	4,989	-7,122	
2.3. Retail brokerage	-358	-150	-87	
2.4. Commercial banking	190,491	131,537	127,934	
2.5. Retail banking	278,675	270,980	233,173	
2.6. Payment and settlement	3,943	9,946	9,784	
2.7. Agency services	1,499	1,692	961	
2.8. Asset Management	0	0	0	

15. Banking book interest rate risk

302. The potential loss in the positions of a bank arising from the adverse variation of prices in the market is known as market risk. The interest rates are one of the main risk factors in the activity of a bank. The interest rate risk occurs not only in the trading book but also in the banking book.

303. The interest rate risk assessment arising from banking book operations is carried out by analysing risk sensibility.

304. Following the Basel recommendations and Banco de Portugal Instruction 34/2018 of 26 December, the Group calculates its exposure to the exchange rate risk based on the methodology of the Bank of International Settlements (BIS), classifying all the assets, liabilities and off-balance sheet items, which do not belong to the trading book, by repricing levels. Principal and interest cash flows are distributed over time bands of maturities based on prepayment rates and early withdrawals gauged by the historical analysis of this behaviour.

305. Interest rate risk management is conducted with the aim of optimising both net interest income and the economic value of the balance sheet. This risk is monitored on at least a quarterly basis. However, this management is conducted by always taking account of the defined limits in terms of risk appetite.

306. These limits are used in the sensitivity analysis of net interest income and the economic value of different stress scenarios:

Parallel shock up: Parallel 200 bps increase in the interest rate curve.

Parallel shock down: Parallel 200 bps decrease in the interest rate curve.

Short rates up: 250 bps increase of the minimum point on the interest rate spot curve, with the increase dropping to zero at the maximum point (25 years).

Short rates down:	250 bps decrease of the minimum point on the interest rate spot curve, with the decrease dropping to zero at the maximum point (25 years).
Steepener shock:	160 bps decreases in the short term gradually evolving to 90 bps increases in the long term
Flattener shock:	197 bps increases in the short term that gradually evolve to decreases of 60 bps in the long term.

307. The following table summarises the results of the impact of simulated shocks on net interest income and on economic value. Disaggregated values by currency are not presented since the EUR currency represents approximately 99% of the position.

Table 46 | Interest Rate Risk

(thousands of euros)

Scenario (Ref. 2020)	1-year impact on net interest income	Impact on net worth
Parallel shock up	63,937	-110,951
Parallel shock dowı	-63,937	136,995
Short rates up	75,933	4,178
Short rates down	-75,933	-5,234
Steepener shock	-47,921	-59,251
Flattener shock	59,789	42,124

308. For further information on interest rate risk, see Note 55 on Risk Management, in the chapter on Interest Rate Risk of the Banking Book, in the notes attached to the financial statements on pages 289 to 342.

16. Liquidity risk

309. Liquidity risk is assessed using defined regulatory indicators, as well as other internal metrics for which there are established internal limits. This control is strengthened with the monthly conduct of stress tests, aimed at characterising the risk profile and ensuring that the Group complies with its obligations in a liquidity crisis scenario. Liquidity risk management includes processes to identify relevant risk factors, as well the establishment of action plans and procedures that permit risks to be controlled and monitored.

310. The aim of the liquidity risk management strategy is to provide the bank, at all times, with sufficient levels of liquidity to meet its liabilities without placing at risk the funding structure and the equilibrium of the bank's balance sheet structure. This strategy is also regulated by the internal limits of appetite risk.

311. The aim of liquidity risk management is to maintain a sufficient buffer of liquidity and guarantee compliance with the various regulatory requirements relative to liquidity risk, ensuring that treasury needs are met and the maintenance of a portfolio of liquid assets. Within this scope of liquidity management and control, prudential information, namely information on LCR, is prepared for the supervisory authority on a regular basis, The table below presents information

on the average quarterly value of the LCR and its main components, according to the EBA guidelines (EBA/GL/2017/01)

Table 47 | Average liquidity coverage ratio (LCR)

(thousands of euros)

	Total non-weighted value (average)				Total weighted value (average)			
Quarter ending on:	31/Mar/2020	30/Jun/2020	30/Sep/2020	31/Dec/2020	31/Mar/2020	30/Jun/2020	30/Sep/2020	31/Dec/2020
Number of points used to calculate averages:	3	3	3	3	3	3	3	3
High Quality Liquid Assets								
Total high quality liquid assets (HQLA)					**2,761,156**	**2,940,386**	**2,880,259**	**2,599,452**
Cash outflows								
Retail deposits and deposits from small business customers, of which:	**4,895,300**	**5,038,508**	**5,219,285**	**5,224,382**	**310,865**	**316,434**	**326,277**	**326,039**
Stable deposits	3,712,479	3,865,483	4,016,864	4,032,718	185,624	193,274	200,843	201,636
Less stable deposits	1,182,821	1,173,025	1,202,421	1,191,664	125,242	123,160	125,433	124,403
Unsecured wholesale funding	**2,287,334**	**2,111,040**	**2,074,726**	**2,011,481**	**1,133,491**	**961,147**	**911,833**	**875,454**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	424,333	470,448	509,189	484,621	106,083	117,612	127,297	121,155
Non-operational deposits (all counterparties)	1,863,001	1,640,392	1,565,503	1,526,860	1,027,408	843,335	784,502	754,299
Unsecured debt	0	200	33	0	0	200	33	0
Secured wholesale funding					**0**	**0**	**0**	**0**
Additional requirements	**1,855,386**	**1,931,846**	**2,029,955**	**2,016,030**	**181,160**	**184,025**	**191,384**	**186,664**
Outflows related to derivative exposures and other collateral requirements	28,034	26,292	24,975	19,439	28,034	26,292	24,975	19,439
Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
Credit and liquidity facilities	1,827,352	1,905,554	2,004,980	1,996,591	153,125	157,733	166,409	167,225
Other contractual funding obligations	**62,419**	**53,938**	**63,807**	**67,954**	**44,221**	**35,740**	**45,609**	**49,128**
Other contingent funding obligations	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total cash outflows					**1,669,737**	**1,497,347**	**1,475,103**	**1,437,284**
Cash inflows					**0**	**0**	**0**	**0**
Secured lending (e.g. reverse repos)	0	0	0	0	0	0	0	0
Inflows from fully performing exposures	189,743	162,740	175,974	175,543	117,799	105,573	120,216	123,404
Other cash inflows	39,406	16,825	15,927	16,939	39,406	16,825	15,927	16,939
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
(Inflows from a related specialised credit institution)					0	0	0	0
Total cash inflows	**229,149**	**179,565**	**191,901**	**192,482**	**157,205**	**122,398**	**136,143**	**140,343**
Fully exempt inflows	0	0	0	0	0	0	0	0
Inflows subject to 90% cap	0	0	0	0	0	0	0	0
Inflows subject to 75% cap	229,149	179,565	191,901	192,482	157,205	122,398	136,143	140,343
					Total adjusted value			
Liquidity Buffer					**2,761,156**	**2,940,386**	**2,880,259**	**2,599,452**
Total Net Cash Outflows					**1,512,532**	**1,374,949**	**1,338,960**	**1,296,942**
Liquidity Coverage Ratio (LCR) as %					**183%**	**214%**	**215%**	**200%**

312. The LCR ratio relates the stock of unencumbered high-quality liquid assets with the short-term net fund requirements, and seeks to ensure that the bank holds sufficient (free and unencumbered) assets to deal with situations of stress, in terms of liquidity, for a minimum period of at least 30 days.

313. The minimum ratio of 100% required on a prudential basis implies that the high-quality liquid assets (after being subject to the regulatory haircuts) must exceed the value of the net cash outflows in the 30 subsequent days (estimated net outflows based on regulatory weights).

314. In 2020, the funding structure was based mostly on customer deposits. Liquidity inflows were essentially due to revenue derived from the repayment and settlement of credit operations, as well as the issuance of subordinated notes and covered bonds publicly offered in the market.

315. In 2020 the Group registered comfortable levels of liquidity, with a liquidity buffer that allows it to meet its responsibilities towards customers and commercial partners, even in a scenario of general stress such as the one considered by the Liquidity Coverage Ratio (LCR).

17. Encumbered and unencumbered assets

316. Within the scope of Instruction No. 28/2014 of the Banco de Portugal, focusing on the guidelines of the EBA concerning the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3), and taking into consideration the recommendation issued by the European Systemic Risk Board, the information, referring to 31 December 2020, concerning the assets and collaterals is presented below:

Table 48 | Encumbered assets

(thousands of Euro)

Encumbered assets	Balance sheet value	Fair value
Portuguese public debt securities;		
Financing from the European Investment Bank (EIB)	806,850	0
Sale operations with repurchase agreement	124,318	0
Commitments to the Deposit Guarantee Fund	26,947	0
Total Portuguese public debt	**958,116**	**0**
Credit operations		
Collateralised financing from the European Central Bank (ECB)	2,291,671	2,291,671
Collateralised bonds by mortgage loan	0	0
Collateralised bonds by credit to the Public Administrative Sector	0	0
Securitisation operations	0	0
Total credit operations	**2,291,671**	**2,291,671**
Other assets		
Derivatives		
Credit Support Annex (CSA)	27,949	27,949
Stock exchange margins	0	0
Other collateral	212,232	0
Collateral in cash (DCSA)	0	0
Collateral in favour of EIB	0	0
Other	212,232	932,099
Total other assets	**240,182**	**960,048**
Total value of encumbered assets	**3,489,968**	**3,251,719**

Encumbered assets	Balance sheet value	Fair value
Capital instruments	462,435	462,374
Debt Instruments	1,980,703	1,543,925
Credit	8,958,555	0
Other assets	3,049,344	12,007,900
Total value of unencumbered assets	**14,451,038**	**14,014,199**

Table 49 | Fair value of assets received

(thousands of Euro)

Collateral received Dec/20	Fair value of collateral received	
	encumbered	free
Debt instruments	-	-
Reports (purchase with resale agreement)		
Public debt	-	-
Financial undertakings	-	-
Non-financial undertakings	-	-
Total debt securities	**-**	**-**
Other assets (derivatives)		
Total value of encumbered collateral received	**-**	**-**

Table 50 | Liabilities associated to encumbered assets and received collaterals

(thousands of euros)

Sources of encumbrance Dec20	Associated and contingent liabilities	Assets and collateral received
Financial Liabilities		
Derivatives	13,598	27,949
Deposits	2,433,058	3,435,071
Financing from the European Central Bank	1,372,546	2,291,671
Financing from the European Investment Bank (EIB)	950,819	1,019,082
Sale operations with repurchase agreement	109,693	124,318
Other deposits		
Securities issued		
Collateralised bonds by mortgage loan		
Collateralised bonds by credit to the Public Sector		
Securitisation operations		
Total Financial Liabilities	**2,446,655**	**3,463,021**
Other sources of encumbrance		
Commitment to the Deposit Guarantee Fund	25,166	26,947
Commitment to the Investor Compensation Scheme	0	0
European Central Bank Liquidity Facility	0	0
Total other sources of encumbrance	**25,166**	**26,947**
Total value of sources of encumbrance	**2,471,821**	**3,489,968**

317. The encumbered assets are mainly pledging financing operations under the ECB's monetary policy and repo operations, through the issuing of mortgage bonds and securitisation programmes. The types of assets used as collateral of the financing operations previously referred to are divided into client credit portfolios, which support securitisation programmes and mortgage bonds issuances programmes, be it those placed outside the Group and those destined to strengthen the collateral pool with the ECB, and Portuguese, Italian and Spanish sovereign debt portfolios, which collateralise repo operations in the monetary market.

318. Further information can be consulted on pages 315 to 317 of Note 55 on Risk Management, in the notes attached to the financial statements.

18. Remuneration policy

319. With regards to information concerning the remuneration policy and practices applicable to the staff categories, the professional activities of whom have a significant impact on the respective risk profile, you are hereby informed of the following:

i) Details of the powers for establishing the remuneration of the corporate bodies, members of the executive committee or chief executive officer and directors of the company.

Pursuant to Article 16 of BM's Articles of Association, the remunerations of the members of the governing bodies and of the statutory auditor are established by the Remuneration Committee provided for in Article 11, point c) of the Articles of Association, which corresponds to the provisions set out in Article 399 of the Commercial Companies Code.

Pursuant to article 11, point c) of the Articles of Association of Montepio, the General Meeting is responsible for electing a Remuneration Committee composed of three independent members empowered to establish the remunerations of the members of the governing bodies. See Article 399, number 1 of the Commercial Companies Code.

Considering that this Remuneration Committee is not appointed by the shareholders, the power and duty to establish the remunerations of the members of the governing bodies of BM are , under the terms of the law, exclusively entrusted to the General Meeting.

In turn, the Remuneration, Appointments and Evaluations Committee will prepare, for submission to the annual General Meeting, an assessment report on compliance with the remuneration policies and procedures adopted by Banco Montepio in 2020, in the context of the formulation of informed and independent judgements on the remuneration policy and practices, and incentives created for purposes of risk, capital and liquidity management, pursuant to Article 115 C, number 6 of the RGICSF and to Article 44 of Notice 3/2020.

ii) Composition of the remuneration committee:

The Remuneration, Appointments and Assessments Committee is composed of three members, which includes a Chairman, appointed by the BD from among its non-executive members, the majority of which, including the Chairman, must have an independent status, During 2020, the Remunerations, Nominations and Assessment Committee held 36 meetings, with minutes having been drawn up recording the attendance of all its members. Information on the members of the CRNA can be found on page 648 of the Annual Report .

iii) Knowledge and experience of the members of the remuneration committee on matters of remuneration:

The members of the Remuneration, Appointments and Assessments Committee, as a whole, have professional qualifications acquired through academic qualifications, professional experience or specialised training suited to the exercise of their functions.

iv) Description of the remuneration policy of the management and supervisory bodies referred to in Article 2 of Law 28/2009 of 19 June:

The General Meeting, by unanimous determination, establishes the remunerations of the members of the Management and Supervisory Body of Banco Montepio, including the annual amount paid to the members of the Board of the Meeting, under the terms of the law.

Pursuant to Article 16 of the Articles of Association of Banco Montepio, the remunerations of the members of the Management and Supervisory Body and of the Statutory Auditor are established by the Remuneration Committee stipulated in Article 11, point c) of the Articles of Association, which corresponds to the provisions established in Article 399 of the Commercial Companies Code. However, as this Committee was not appointed by the shareholders, the power and duty to establish the remunerations of the members of the governing bodies of BM are, under the terms of the law, exclusively entrusted to the General Meeting

The current Remuneration Policy of the Members of the Management and Supervisory Body was approved at the General Meeting of 30/ 06/ 2020. This policy was subject to the annual review by the CRNA in 2021, as established in point 11.2 of this policy, with the review to be approved by the Board of Directors and to be submitted to the next General Meeting, at a date to be scheduled under the terms of the law.

https://www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/politica-remuneracoes-membros-orgaos-administracao-fiscalizacao.pdf

The Remuneration Policy for Relevant Employees is approved by the Board of Directors in compliance with the European Banking Authority (hereinafter referred to as EBA) Guidelines EBA GL/2015/22, of 27 June 2016, on "sound remuneration policies" and EBA GL/2017/11, of 21 March, on the "internal governance of institutions", as well as the specific rules of the General Framework of Credit Institutions and Financial Companies (RGICSF) on the matter, namely Articles 115-A to 115-I thereof.

https://www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/politica-remuneracao-colaboradores-relevantes.pdf

v) Information on how remuneration is structured so as to permit the alignment of the interests of the members of the management body with the long-term interests of the institution, and how it is based on the assessment of performance and discourages excessive risk taking:

The remuneration policy is structured taking into consideration the activity, risk appetite, structure and dimension of the Institution, as well as the nature of duties and market practices.

Remuneration consists of the following components:

- A fixed component paid on a monthly basis;
- A variable component, whose attribution is not guaranteed and whose payment is subject to a partial deferral.

The definition of these two remuneration components is based on objective and transparent criteria, consistent and compatible with the chain of responsibilities and competence of the remunerated employees, taking into account the sectoral and national remuneration standards.

In addition to the two identified components, remuneration in the form of daily allowances, in the event of travel, can be attributed to the Members of the Executive Committee, paid under the same conditions as those applied to the rest of the employees (item 6.1.1, point b) of the Remuneration Policy of the Members of the Management and Supervisory Body)

For the payment of a variable remuneration to executive directors and relevant employees, the Institution has adopted a more restrictive policy, setting a maximum ceiling of variable remuneration dependent on the result of the individual performance appraisal and on the Institution's performance, thus preventing excessive risk taking behaviour.

Members of the BD did not receive any variable remuneration.

Further information may be found in the Remuneration Policy of the Members of the Management and Supervisory Body of Caixa Económica Montepio Geral, caixa económica bancária, S.A., numbers 2.2, 6.2.15 and 6.2.16 and in the Remuneration Policy of the Relevant Employees, Sections s IV, V, VI, VII, VIII, IX - see address of the institutional website in point iv..

vi) Reference, where applicable, to there being a variable remuneration component and information on any impact of the performance appraisal on this component:

The remuneration structure of the executive directors and relevant employees has, in addition to a fixed component, a possible variable component based on specific measurable criteria and predetermined assumptions.

This variable component may only be attributed in financial years in which no losses are posted and shall be dependent on a multi-annual assessment of the performance of each member, which must be approved by the General Meeting if applied to executive directors or by the Board of Directors for relevant employees.

For the year 2020, the attribution of a variable remuneration to the executive directors was not deliberated. This remuneration was only awarded to two employees identified as relevant.

vii) Deferral of the payment of the variable component of remuneration, mentioning the period of deferral:

When the General Meeting decides to attribute a variable remuneration amount to members of the Executive Board of Directors, 40% of that remuneration shall be deferred for a period of three years as of the date of the decision to attribute said remuneration. The deferral period starts after the attribution of the immediate portion of the variable remuneration, with the right over the first deferred portion only being acquired 12 months after the start of the deferral period (number 6.2.4 of the Remuneration Policy of the Members of the Management and Supervisory Body).

Should the Board of Directors approve the payment of variable remuneration to Relevant Employees, 40% of such remuneration may be deferred for a period of four years. (sections VII and VIII of the Remuneration Policy for Relevant Employees).

viii) Criteria underlying the attribution of variable remuneration in shares as well as on the holding, by the executive directors, of these shares, on any conclusion of contracts relative to these shares, namely, hedge or risk transfer contracts, the respective limit, and their relation to the value of the annual total remuneration:

Not applicable.

ix) Criteria underlying the attribution of variable remuneration in options and indication of the deferral period and price for exercise of the option:

At least 50% of the variable remuneration, deferred and not deferred, is paid in accordance with the General Framework of Credit Institutions and Financial Companies, via instruments issued by BM, with a residual minimum repayment period of five years, and that are additional tier 1 or tier 2 instruments, in observance of Articles 52 and 63, respectively, both of the Capital Requirements Regulation (CRR - number 6.2.7 of the Remuneration Policy of the Members of the Management and Supervisory Body).

The mentioned instruments become unavailable during the three year period after their attribution and their holders are not able to enter into risk management contracts that safeguards them against any alterations to the economic value of these instruments. The conclusion of these contracts determines the loss of the right to receive all of the variable remunerations that have been deferred (number 6.2.8 of the Remuneration Policy of the Members of the Management and Supervisory Body)

If any other instruments are issued, the identification and management shall be ensured of potential conflicts of interest that could be generated by the payment of these instruments as part of the variable remuneration. In this regard, procedures shall be adopted to ensure compliance with the requirements applicable to the management of privileged information and the non-adoption of measures that could have a short-term impact on the price of these instruments (number 6.2.9 of the Remuneration Policy of the Members of the Management and Supervisory Body).

The instruments referred to will only be issued if they contribute towards the alignment of the variable remuneration with the performance and risks of BM. In that case, the remaining remuneration shall be paid in cash (number 6.2.12. of the Remuneration Policy of the Members of the Management and Supervisory Body).

Further information on points vi) and ix) may be found in the Remuneration Policy of the Members of the Management and Supervisory Body of Caixa Económica Montepio Geral, caixa económica bancária, S.A., numbers 2.2, 6.2 and 7 and in the Remuneration Policy of the Relevant Employees, Sections VI, VII, VIII, IX (see address of the institutional website in point iv and v).

x) Main parameters and grounds of any system of annual bonuses and any other non-cash benefits:

Under the terms of number 7 of the Remuneration Policy of the Members of the Management and Supervisory Body, the Members of the Audit Committee, the Non-executive Members of the BD who are not part of the Audit Committee and the Members of the Executive Committee are entitled to the following benefits:

a) A retirement pension, assigned in accordance with the Retirement Plans of the Executive Board members, as approved by the General Meeting;
b) Compensation for any damage derived from work accidents and professional diseases similar to the compensation available for employees;
c) A health insurance policy with a coverage similar to the one provided for employees, if they do not have direct access to this protection.

The benefits attributable, or other benefits that may be granted, to the other employees of Banco Montepio are attributable to the Relevant Employees.

No benefits or pension plans (discretionary or not) other than those attributed to all employees of Banco Montepio are attributable to Relevant Employees.

xi) Main characteristics of the supplementary pension or early retirement schemes for directors and date when said schemes were approved at the general meeting, on an individual basis:

Under the terms of Clause 4 of the Management Contract, the members of the BD benefit from a supplementary retirement pension, if they exercised their duties for more than one year and until the end of their mandate, with the exception of a situation of disability, a pension supplement that will be attributed in the event of disability or when the retirement age in force for employees of the institution is reached.

This pension supplement will be calculated based on a percentage of 4% or 5%, for each full year's exercise of the position, depending on whether the position was held for up to 5 or more years, of their base salary earned as a member of the BD, on the date of recognition of the situation of disability or on the date on which the pension supplement was requested, being updated according to the variations of that salary.

xii) Amounts paid, for any reason, by other companies in a controlling or group relationship or which are subject to common control:

Members of the Audit Committee and non-executive members of the BD who are not members of the Audit Committee, who accumulate non-executive positions in governing bodies of entities included in the consolidation perimeter, or in which a qualifying stake is held, can earn, in those entities, an amount of not more than 20% of their monthly fixed basic remuneration earned at BM (number 5.4 of the Remuneration Policy of the Members of the Management and Supervisory Body).

In the case of non-executive members of the BD, who are not members of the Audit Committee, and were appointed to perform executive duties in entities of the Group, their total remuneration cannot exceed the lowest remuneration of the members of the Executive Committee of BM (number 5.5 of the Remuneration Policy of the Members of the Management and Supervisory Body).

xiii) Remuneration paid in the form of participation in profit and/or payment of bonuses and the reasons for the concession of such bonuses and/or participation in profit:

During 2020, the attribution of a variable remuneration to the executive directors was not deliberated.

xiv) Information on compensation paid or owed to former executive directors relative to their termination of office during the financial year can be consulted in the notes to the consolidated financial statements, namely in note 11, pages 225 and 226, presented in the Annual Report.

xv) Quantitative information relative to the group of employees that includes the senior managers that perform duties that can have an impact on the risk profile of the Institution, officers in control functions and other employees which, in remuneration terms, are assimilated to senior managers:

Table 51 | Remuneration of identified people

(thousands of Euro)

Collective remuneration	Non-executive directors	Executive directors	Investment Banking	Commercial Banking	Asset Management	Corporate functions	Independent control functions	Remainder of Identified People	Total Identified People	Members of the management and supervisory body	Senior management	Persons in charge of risk-taking	Persons in charge of the control functions	Employees whose remuneration places them in the same remuneration bracket of the previous categories a), b) or c), provided that their professional activities have material impact on the Institution's risk profile.
No. of beneficiaries	**7**	**8**	**-**	**14**	**-**	**-**	**12**	**27**	**68**	**15**	**41**	**5**	**7**	**-**
Senior staff	7	8	-	14	-	-	12	27	68	15	41	5	7	-
Control functions														
Fixed remuneration 2020														
In cash	842	2,283	-	1,365	-	-	717	2,841	-	3,125	4,206	312	406	-
In shares or related instruments														
In other instruments														
Variable Remuneration 2020														
In cash								**1**			**1**			
In shares or related instruments														
In other instruments														
Deferred variable remuneration outstanding														
Attributed														
Not attributed														
Deferred payments made in 2020														
In cash														
In shares or related instruments														
In other instruments														
Explicit adjustment of exposure for performance applied in the year for the payments accumulated in previous years														
Number of beneficiaries of compensation due to dismissal														
Compensation due to dismissal														
Average period of stay														
Maximum amount of this type of payments made to a single person														
Number of beneficiaries of contributions to discretionary pension benefits														
Total amount of contributions to discretionary pension benefits in the year														

Table 52 | Number of people with a remuneration in excess of 1 million euros or equivalent.

Number of people with remuneration ≥1 M€	Number of beneficiaries
from 1 million euros to 1.5 million euros	-
from 1.5 million euros to 2 million euros	-
from 2 million euros to 2.5 million euros	-
from 2.5 million euros to 3 million euros	-
from 3 million euros to 3.5 million euros	-

xvi) The Remuneration Policy of the Members of the Management and Supervisory Body of Caixa Económica Montepio Geral, caixa económica bancária, S.A. and the Remuneration Policy of the Relevant Employees, quoted in this Chapter, can be consulted on the following page of the Institutional website: https://www.bancomontepio.pt/politicas-regulamentos, and on pages 658 to 661 of the Annual Report.

The members of the BD elected for the term of office 2018-2021, earned the following fixed remunerations during 2020, with no variable remuneration having been attributed:

Board of Directors	Position	Total fixed remunerations paid in 2020 (EUR)
Carlos Tavares	BD - Chairman	401,266.50
Manuel FerreiraTeixeira	BD - Non-executive member	159,600.00
Amadeu Ferreira de Paiva	BD - Non-executive member	126,000.00
Carlos Ferreira Alves	BD - Non-executive member	126,000.00
José Nunes Pereira (1)	BD - Non-executive member	94,512.30
Pedro Gouveia Alves	BD - Non-executive member	84,000.00
Rui Heitor	BD - Non-executive member	126,000.00
Vitor do Carmo Martins	BD - Non-executive member	126,000.00
Executive Committee		
Pedro Leitão	BD - Chairman of the Executive Cc	354,712.90
Dulce Mota	BD - Vice- Chairman of the Execut	254,651.64
Helena Soares de Moura (3)	BD - Executive member	254,295.45
José Carlos Mateus (3)	BD - Executive member	254,330.45
Leandro Graça Silva	BD - Executive member	254,459.50
Nuno Mota Pinto	BD - Executive member	254,459.50
Pedro Ventaneira	BD - Executive member	254,459.50
Carlos Leiria Pinto (4)	BD - Executive member	77,120.71

(1) José Nunes Pereira took office on 01/04/2020.

(2) Pedro Leitão took office on 09/01/2020.

(3) Differences related to adjustments to lunch allowance due to taking holidays and proportional holiday allowance.

(2) Carlos Leiria Pinto ended his term of office on 01/04/2020.

The total remunerations paid in 2020 to a set of relevant employees who hold senior positions and can affect the institution's risk profile are as follows:

Categories	No. members
Director	25
Assistant Manager	2
Deputy Director	3
Total Fixed Remuneration	3 204 904.99 euros
Total Variable Remuneration	
Total Remuneration	3 204 904.99 euros

xvii) Information on annual process of assessment of individual and collective adequacy

Between July and November 2020, the Remunerations, Nominations and Assessment Committee conducted the annual process of assessment of the adequacy, suitability, independence and availability of the members of the Board of Directors, as well as the collective assessment of the Board of Directors, Executive Committee, Audit Committee, Risk Committee, Corporate Governance, Ethics and Sustainability Committee, and its own self-assessment, in light of the general rules of Corporate Governance and Article 115-B, number 2, point c) and d) of the General Framework of Credit Institutions and Financial Companies (RGICSF), in addition to the applicable policies of Banco Montepio.

Table 53 | Mapping tables

Tables corresponding to Models of the EBA/GL/2016/11 Guidelines

Table	Model	Description	Section
Table 8	Model 4 - EU OV1	General view of the risk-weighted assets (RWAs)	Chapter 4.2. Capital requirements
Table 15	Model 25 - EU CCR1	Analysis of exposure to CCR by method	Chapter 6. Counterparty credit risk
Table 16	Model 26 - EU CCR2	Capital requirement for CVA risk	
Table 17	Model 28 - EU CCR3	Analysis of exposure to CCR by portfolio and regulatory risk	
Table 18	Model 31 - EU CCR5-A	Impact of netting and collateral held on the exposure values	
Table 19	Model 32 - EU CCR5-B	Composition of collateral for exposures to CCR	
Table 20	Model 7 - EU CRB-B	Total and average net amount of exposures	Chapter 7.2 Portfolio structure
Table 21	Model 8 - EU CRB-B	Geographic breakdown of exposures	
Table 22	Model 9 - EU CRB-D	Concentration of exposures by industry or counterparty type	
Table 23	Model 10 - EU CRB-E	Residual maturity.of exposures	
Table 25	Model 11 - EU CR1-A	Credit quality of exposures by risk class:	
Table 26	Model 13 - EU CR1-C	Credit quality of exposures by geography:	
Table 27	Model 12 - EU CR1-B	Credit quality of exposures by industry or counterparty type	
Table 28	Model 14 - EU CR1-D	Ageing of past due exposures	Chapter 7.3. Past due and impaired loans
Table 29	Model 15 - EU CR1-E	Non-performing and forborne exposures	
Table 30	Model 16 - EU CR2-A	Changes in the stock of general and specific credit risk adjustments	
Table 31	Model 17 - EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	
Table 34	Model 18 - EU CR3	CRM Techniques – Overview	Chapter 8. Credit risk mitigation techniques
Table 35	Model 19 - EU CR4	Standardised Approach – Credit risk exposure and CRM effects	
Table 36	Model 20 - EU CR5	Standardised Approach – Breakdown of the exposure	
Table 42	Model 34 - EU MR1	Market risk under the standardised approach	Chapter 12. Foreign exchange and commodity risks in the banking and trading books

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List of the remaining quantitative tables including the LCR reporting model according to the EBA/GL/2017/01 guidelines, Implementing Regulation (EU) 2016/200 relative to Leverage Ratios, Implementing Regulation (EU) 1423/2013 of the Commission and EBA/GL/2018/01 with reference to the disclosure of IFRS9 impacts.

Table	Description	Section
Table 1	Entities of the consolidation perimeter of the CEMG Group	Chapter 2. Scope
Table 2	Capital ratios and summary of their main components	Chapter 3.2. Declaration on the overall risk profile and its relation with the business strategy
Table 3	Reconciliation of own funds and balance sheet	Chapter 4.1. Own funds and capital ratios
Table 4	Full terms and conditions of own funds instruments	
Table 5	Main characteristics of own funds instruments	
Table 6	Main items of own funds	
Table 7	Uniform disclosure of the transitional regime to reduce the impact of IFRS 9	
Table 9	Capital requirements	Chapter 4.2. Capital requirements
Table 10	Capital indicators	Chapter 4.3. Assessment and adequacy of own funds
Table 11	Geographical distribution of the relevant credit exposures to calculate the counter-cyclical reserve	Chapter 4.4. Prudential reserves of own funds
Table 12	Leverage ratio	Chapter 4.5. Leverage ratio
Table 13	Breakdown of the total exposure	
Table 14	Reconciliation of the total exposure with the the accounting financial assets	
Table 24	Credit and counterparty risk capital requirements	Chapter 7.2. Portfolio structure
Table 32	Concentration rate	Chapter 7.4. Concentration risk
Table 33	Concentration analysis – Personal and property credit protection	Chapter 8. Credit risk mitigation techniques
Table 37	Securitisation operations	Chapter 10. Securitisation operations
Table 38	Credit risk - Securitisation operations: standardised approach	
Table 39	Credit risk – Securitisation operations: summary of activities	
Table 40	Capital requirements - Trading book	Chapter 11. Position, credit, counterparty and settlement risks of the trading book
Table 41	Capital requirements – Foreign exchange and commodities risks	Chapter 12. Foreign exchange and commodity risks in the banking and trading books
Table 43	Exposures to banking book shares	Chapter 13. Exposures to banking book shares
Table 44	Activity segments and activities list	Chapter 14. Operational risk
Table 45	Capital requirements for operational risk	
Table 46	Interest rate risk	Chapter 15. Banking book interest rate risk
Table 47	Average liquidity ratio (LCR)	Chapter 16. Liquidity risk
Table 48	Encumbered assets	Chapter 17. Encumbered and unencumbered assets
Table 49	Fair value of collateral received	
Table 50	Liabilities associated with encumbered assets and collateral received	
Table 51	Remuneration of Identified People	Chapter 18. Remuneration policy
Table 52	Number of people with a remuneration in excess of 1 million euros or equivalent.	Chapter 18. Remuneration policy

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Table 54 | Mapping CRR articles

Article/ Description	Reference in Report
Article 435 Risk management objectives and policies	
1. Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to in this Title. These disclosures shall include:	
(a) The strategies and processes to manage those risks;	Chapter 3.1 and 3.3
(b) The structure and organisation of the relevant risk management unit, including information on its authority and status, or other adequate provisions;	
(c) The scope and nature of risk reporting and measurement systems;	Chapter 3.3.
(d) The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;	Chapter 3.4.
(e) A declaration approved by the management body on the adequacy of the risk management arrangements of the relevant institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;	Declaration on the appropriateness of the risk management measures
(f) A concise risk statement approved by the management body succinctly describing the relevant institution's overall risk profile associated with the business strategy. That statement shall include key ratios and figures providing external stakeholders a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	Declaration on the overall risk profile and its relation with the business strategy
2. Institutions shall disclose the following information regarding governance arrangements, including regular updates on at least an annual basis:	
(a) The number of directorships held by members of the management body;	Chapter 3.2.
(b) The recruitment policy for the selection of members of the management body and their actual knowledge, skills and technical expertise;	
(c) The policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved;	
(d) Whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;	Chapter 3.1.
(e) The description of the information flow on risk to the management body.	Chapter 3.3.
Article 436 Scope of application	
The institutions shall disclose the following information regarding the scope of application of the provisions of this regulation, in accordance with Directive 2013/36/EU:	
(a) The name of the institution to which the requirements of this regulation apply:	Chapter 1.
(b) The specification of the differences in the consolidation scope for accounting and prudential purposes, including a brief description of the entities that fall within each scope, indicating whether: i) those entities are fully consolidated, ii) those entities are proportionally consolidated, iii) the holdings in those legal entities are deducted from own funds, iv) those entities are neither consolidated nor deducted;	Chapter 2.
(c) Any current or expected, or practical or legal, material impediment to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries;	
(d) The aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation, and the name or names of those subsidiaries;	
(e) Where applicable, the circumstances under which use is made of the derogation referred to in article 7 or the individual consolidation method laid down in article 9.	

Article/ Description	Reference in Report
Article 437 Own Funds	
1. The institutions shall disclose the following information regarding their own funds:	
(a) A full reconciliation between Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and the filters and deductions applied to own funds of the institution pursuant to articles 32 to 35, 36, 56, 66 and 79, and the balance sheet in the audited financial statements of the institution;	Chapter 4.1
(b) A description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	
(c) The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	
(d) A separate disclosure of the nature and amounts of the following: i) each prudential filter applied pursuant to articles 32 to 352, ii) each deduction made pursuant to articles 35, 56 and 66, iii) items not deducted in accordance with articles 47, 48, 56, 66 and 79;	
(e) A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	
(f) A comprehensive explanation of the basis on which capital ratios are calculated where those capital ratios are calculated by using elements of own funds determined on a basis other than the basis laid down in this regulation.	
Article 438 Own funds requirements	
Institutions shall disclose the following information regarding their compliance with the requirements set out in article 92 of this regulation and in article 73 of Directive 2013/36/EU:	
(a) A summary of the method used by the institution to assess the adequacy of their internal capital to support current and future activities;	Chapter 4.3.
(b) Upon request from the relevant competent authority, the result of the institution's internal capital adequacy assessment process, including the composition of the additional common equity Tier 1 own funds requirements based on the supervisory review process as referred to in Article 104(1)(a) of Directive 2013/36/EU.	
(c) Regarding those institutions that calculate the risk-weighted exposure amounts under Title II, Part III, Chapter 2, 8% of the risk-weighted exposure amounts for each of the specified risk categories referred to in article 112;	Chapter 4.2
(d) Regarding those institutions that calculate the risk-weighted exposure amounts under Title II, Part III, Chapter 3, 8% of the risk-weighted exposure amounts for each of the specified risk categories referred to in article 147; In the case of the retail exposure class, this requirement applies to each of the risk categories which correspond to the different correlations established in article 154(1) to (4). In the case of the equity exposure class, this requirement applies to: i) Each of the methods set out in article 155, ii) Exchange-traded exposures, private equity exposures, included in included in sufficiently diversified portfolios, as well as other exposures, iii) Exposures subject to supervisory transition regarding capital requirements, iv) Exposures subject to grandfathering provisions regarding capital requirements;	N.A. (IRB approach)
(e) Capital requirements calculated in accordance with Article 92(3) b) and c);	Chapter 4.2
(f) Capital requirements calculated in accordance with Part III, Title III, Chapters 2,3 and 4 and disclosed separately.	
The institutions that calculate risk weighted exposure amounts under Article 153(5) or Article 55(2) disclose the exposures allocated to each category of Table 1 of Article 153 or to each risk weight as referred to in Article 155(2).	N.A. (IRB approach)
Article 439 Exposures to counterparty credit risk	
Institutions shall disclose the following information regarding their exposure to counterparty credit risk as referred to Part III, Title III, Chapter 6:	

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Article/ Description	Reference in Report
(a) A description of the methodology used to assign internal capital and set limits to exposures to counterparty credit risk;	Chapter 6
(b) A description of policies aimed at securing collateral and establishing credit reserves;	
(c) A description of policies related to Wrong-Way risks;	Chapter 9
(d) A description of the impact of the amount of collateral the institution would have to provide if its credit rating was downgraded.	Chapter 6
(e) The gross positive amount of contracts calculated in terms of fair value, netting benefits, netted current credit exposure, collateral held and net derivatives' credit exposure. This net credit exposure consists in credit exposure relative to derivative transactions, considering both the benefits from legally enforceable netting agreements and collateral arrangements;	
(f) Measures for the amount of exposure under the methods defined in Part III, Title III, Chapter 6, sections 3 to 6, depending on the applicable method;	
(g) The notional value of credit derivative hedges, and the distribution of current credit exposure by types of exposure;	
The notional amounts of credit derivative transactions. Credit derivative transactions shall be broken down into credit derivatives used for the institution's own credit portfolio and credit derivatives used for intermediation purposes, including the distribution of credit derivative products, and the breakdown of the credit protections bought and sold by groups of credit derivative products.	
The estimate of α, where the institution has received the permission of the competent authorities to estimate this value.	
Article 438 Prudential reserves of own funds	
1. Institutions shall disclose the following information in relation to their compliance with the requirement for a countercyclical capital buffer as referred to in Title VII, Chapter 4 of Directive 2013/36/EU;	
(a) The geographical distribution of its relevant credit exposures for the calculation of their countercyclical capital buffer	Chapter 4.4
(b) The amount of their countercyclical capital buffer.	
Article 441 Indicators of global systemic importance	
1. Institutions identified as Global Systemically Important Institutions (G-SIIs) in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used to determine their score in accordance with the identification methodology referred to in that article.	Chapter 5.
Article 442 Adjustments for credit risk	
Institutions shall disclose the following information regarding their exposures to credit risk and dilution risk:	
(a) The definitions that they use for accounting purposes of “past due” and “impaired”;	Chapter 7.1
(b) A description of the approaches and methods adopted for determining specific and general credit risk adjustments;	Chapter 3.5
(c) The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;	Chapter 7.2
(d) the geographical distribution of exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;	
(e) The distribution of exposures by industry or counterparty type, broken down by exposure classes, including the specification of the SME exposure, and further detailed if appropriate;	
(f) The residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	
(g) By significant industry or counterparty type, the amount of : i) impaired exposures and past due exposures, shown separately, ii) adjustments for specific and general credit risk,	

Article/ Description	Reference in Report
iii) requirements of the adjustments for specific and general credit risk during the reporting period;	
(h) The amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas, including, if practical, the adjustment amounts for specific and general credit risk related to each geographical area;	
(i) The reconciliation of changes in the adjustments for specific and general credit risk relative to impaired exposures, shown separately. The information includes the following: i) a description of the type of adjustments for specific and general credit risk, ii) the opening balances, iii) the amounts set aside to meet the adjustments for credit risk during the reporting period, iv) The amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between adjustments for credit risk, v) The closing balances;	
The adjustments for specific credit risk and the recoveries recorded directly to the income statement shall be disclosed separately.	
Article 444 Use of ECAIs	
The institutions that calculate the risk-weighted exposure amounts in accordance with Part III, Title II, Chapter 2, shall disclose the following information for each of the exposure classes set out in Article 112;	
(a) The names of the nominated ECAIs and export credit agencies (ECAs) and the reasons for any changes in those nominations;	Chapter 7.5.
(b) The exposure classes for which each ECAI or ECA is used;	
(c) A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	
(d) The association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part III, Title II, Chapter 2, taking into account that this information does not require disclosure if the institution respects the standard association published by the EBA;	
(e) The exposure values and the exposure values after credit risk mitigation associated with each credit quality step as set out in Part III, Title II, Chapter 2, as well as the exposure values deducted from own funds.	Chapter 7.2
Article 445 Exposure to market risk	
The institutions that calculate their own funds requirements in accordance with Article 92(2) b) and c), shall disclose those requirements relative to each risk as referred to in those provisions separately. In addition, the capital requirement for specific interest rate risk of securitisation positions shall be disclosed separately.	Chapter 12
Article 446 Operational risk	
Institutions shall disclose the methods of analysis of the capital requirements relative to the operational risk that are applicable to them; a description of the methodology established in Article 301(2), when used by the institution, including an analysis of the relevant internal and external factors considered in the method of assessment of the institution and, in the case of partial use, the scope and coverage of the different methodologies used.	Chapter 14.
Article 477 Exposures to shares not included in the trading book	
Institutions shall disclose the following information relative to exposures to shares not included in the trading book:	
(A) The differentiation of the exposures by objective, including the obtainment of gains and strategic reasons, and an overall description of the accounting techniques and assessment	Chapter 13

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methodologies used, including the key assumptions and practices that affect the assessments, such as any significant changes to these practices;	
(b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;	
(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;	
(d) The cumulative realised gains or losses arising from sales and liquidations in the period;	
(e) The total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds. .	
Article 448 Exposures to interest rate risk on positions not held in the trading book	
Institutions shall disclose the following information on their exposures to interest rate risk for the positions not held in the trading book.	
(a) The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk;	Chapter 15
(b) The variation in earnings, economic value or other relevant measure used by the management to assess the effect of upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	
Article 449 Risk associated to securitisation positions	
Institutions calculating risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 5 or own funds requirements in accordance with Articles 337 or 338 shall disclose the following information, where applicable, separately for the elements of their trading and non-trading books:	
(a) A description of the institution's objectives in relation to securitisation activity;	Chapter 10
(b) The nature of other risks including liquidity risk inherent in securitised assets;	
(c) The type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying these latter securitisation positions assumed and retained with re-securitisation activity;	
(d) The different roles played by the institution in the securitisation process;	
(e) An indication of the extent of the institution's involvement in each of the roles as referred to in sub-paragraph d);	
(f) A description of the processes instituted to monitor changes in the credit and market risk of the securitisation positions, including the way in which the behaviour of the underlying impacts affects the securitisation positions and a description of how these processes differ with respect to the re-securitisation positions;	
(g) A description of the institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation positions, including identification of material hedge counterparties by relevant type of exposure;	
(h) The approaches to calculating risk weighted exposure amounts that the institution follows for its securitisation activities, including the types of securitisation exposures to which each approach applies;	
i) The types of SSPEs that the institution, as sponsor, uses to securitise third-party exposures including whether and in what form and to what extent the institution has exposures to these SSPEs, separately for on and off-balance sheet exposure, as well as a list of the entities that the institution manages or advises and that invest in the securitisation positions securitised by the institution and in SSPEs sponsored by the institution.	N.A.
(j) A summary of the institution's accounting policies on securitisation activities	Chapter 10
(k) The names of the ECAIs used for securitisations and the types of exposure for which each agency is used;	
(l) where applicable, a description of the Internal Assessment Approach as set out in Part III, Title II, Chapter V, Section 3, including the Annex IX, Part 4 including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for IAA capital purposes, the control mechanisms for the internal assessment process including discussion of independence,	N.A.

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accountability, and internal assessment process review; the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels, by exposure type;	
(m) An explanation of significant changes to any of the quantitative disclosures in sub-paragraphs (n) to (q) since the last reporting period;	Chapter 10
(N) Separately for the trading and the non-trading book, the following information broken down by exposure type: (i) the total amount of outstanding exposures securitised by the institution, separately for traditional and synthetic securitisations and securitisations for which the credit institution acts only as sponsor, (ii) the aggregate amount of on-balance sheet securitisation exposures retained or purchases and off-balance sheet securitisation exposures, (iii) the aggregate amount of assets awaiting securitisation, (iv) for securitised instruments subject to the early amortisation treatment, the aggregate drawn exposures attributed to the seller's and investors' interests respectively, the aggregate capital requirements incurred by the institution against the seller's shares and the aggregate capital requirements incurred by the institution against the investors- shares of drawn balances and undrawn lines, (v) the amount of securitisation exposures that are deducted from own funds or risk-weighted at 1,250%, (vi) a summary of the current year's securitisation activity, namely the amount of exposures securitised and recognised gain or loss on sales;	
(o) Separately for the trading and non-trading book, the following information: (i) the aggregate amount of securitisation exposures retained or purchased and the associated capital requirements, broken down between securitisation and re-securitisation exposures and further broken down into a meaningful number of risk-weight or capital requirement bands, for each capital requirements approach used, (ii) the aggregate amount of re-securitisation exposures retained or purchased, broken down according to the exposure before and after hedging/insurance and the exposure to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name;	
(p) For the non-trading book and regarding exposures securitised by the institution, the amount of impaired/past due exposures and the losses recognised by the institution during the current period, both broken down by exposure type;	
(q) For the trading book, the total outstanding residual exposures securitised by the institution and subject to a capital requirement for market risk, broken down into traditional/synthetic and by exposure type;	N.A.
(r) if the institution provided support in accordance with Article 248(1) and the impact on capital, as applicable.	N.A.
Article 450 Remuneration policy	
1. institutions shall disclose at least the following information regarding their remuneration policy and practices for those categories of staff whose professional activities have a material impact on institutions' risk profile:	
(a) Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, where applicable, information about the mandate and composition of a remuneration committee, the names of the external consultants whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	Chapter 18
(b) Information about link between pay of the staff and their performance;	
(c) The most important design characteristics of the remuneration system, namely information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;	
(d) The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	

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(e) Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	N.A.
(f) The main parameters and rationale for any system of annual bonuses and any other non-cash benefits;	Chapter 18
(g) Aggregate quantitative information on remuneration, broken down by business area;	
(h) Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration awarded for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other forms of remuneration, (iii) the amounts of deferred remuneration to be paid, split between vested and non-vested rights, (iv) the amount of deferred remuneration due to vest in the financial year, paid out and that is reduced through performance adjustments, (v) new recruitment allowances and severance pay paid during the financial year, and the number of beneficiaries of those payments, (vi) amount of severance pay awarded during the financial year, the number of beneficiaries and highest payment that has been awarded to a single person;	
(i) The number of individuals that have been remunerated EUR 1 million or more per financial year, with the remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500000 and with the remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	
(j) Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management.	
2. For institutions that are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities, the quantitative information as referred to in this Article shall also be made available to the public, with regards to the hierarchical level of the members of the management body of the institution.	
Institutions shall comply with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to Directive 95/46/EC.	
Article 451 Leverage	
Institutions shall disclose the following information regarding their leverage ratio as calculated ion accordance with Article 429 and their management of excessive leverage risk:	
(a) The leverage ratio and how the institutions apply Article 499(2) and (3):	Chapter 4.5.
(b) The breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	
(c) Where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);	
(d) A description of the processes used to manage the risk of excessive leverage;	
(e) A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	
Article 452 Use of the IRB Approach to credit risk	
Institutions calculating the risk-weighted exposure amounts under the Internal Ratings Based (IRB) Approach to credit risk shall disclose the following information:	
(a) The competent authority's permission of the approach or approved transition;	
(b) An explanation and review of the following: (i) the structure of the internal rating systems and the relation between internal and	N.A. (IRB approach)

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external ratings, (ii) the use of internal estimates for other purposes than calculating risk-weighted exposure amounts in accordance with Part III, Title II, Chapter 3; (iii) the process for managing and recognising credit risk mitigation; (iv) the mechanisms of control of the rating systems, namely a description of the independence, responsibility and review of those systems;	
(c) A description of the internal rating process.	
(d) The exposure values for each of the risk categories specified in Article 147; Exposures to central governments, central banks, institutions and companies regarding which institutions use own estimates of LGDs or conversion factors for the calculation of risk-weighted exposure amounts shall be disclosed separately from exposures for which the institutions do not use such estimates.	
(e) For each of the exposure classes - central governments, central banks, institutions, corporate and equity - and across a sufficient number of obligor grades (including default), to allow for a meaningful differentiation of credit risk.	
(f) For the retail exposure class and for each of the categories as defined under point (c)(iv), either the disclosures outlined under (e) above (if applicable, on a pooled basis), or an analysis of exposures (outstanding loans and undrawn authorised amounts) against a number of EL grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);	
(g) The adjustments for specific credit risks recorded in the previous period for each exposure class (for retail, for each of the categories as defined under point (c)(iv) and how they differ from past experience;	
(h) A description of the factors that had an influence on the losses registered in the preceding period (for example, the institution may have experienced higher than average default rates, or higher than average LGDs and conversion factors);	
(i) The institution's estimates against actual outcomes over a longer period.	
(j) For all the exposure classes as referred to in Article 147 and for each exposure category to which each of the various correlations refers to as set out in Article 154(1) to (4).	
For the purposes of point (c), the description shall include the types of exposure included in the exposure class, the definitions, methods and data for estimation and validation of PD and, if applicable, LGD and conversion factors, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definition of default as set out in Article 178, including the main segments affected by such deviations.	
Article 453 Use of risk mitigation techniques	
The credit institutions applying credit risk mitigation techniques shall disclose the following information:	
(a) The policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting;	Chapter 8
(b) The policies and processes for collateral valuation and management;	
(c) A description of the main types of collaterals taken by the credit institution;	
(d) The main types of guarantor and credit derivative counterparty and their creditworthiness;	
(e) Information about market or credit risk concentrations within the credit mitigation taken;	
(f) For credit institutions calculating risk- weighted exposure amounts in accordance with the Standard Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on-or off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral and other eligible collateral;	
(g) For credit institutions calculating risk- weighted exposure amounts in accordance with the Standard Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches as referred to in Article 155.	N.A.
Article 454 Use of the Advanced Measurement Approaches regarding operational risk	

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The credit institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for the calculation of their own funds requirements for operational risk shall disclose a description of the use insurance and other risk transfer mechanisms for the purposes of mitigating this risk.	N.A.
Article 455 Use of Internal Market Risk Models	
Institutions that calculate their own funds requirements in accordance with article 363 shall disclose the following information:	
(a) For each sub-portfolio covered:	N.A.
(b) The scope of authorisation granted by the competent authority;	
(c) A description of the extent and methodologies for compliance with the requirements of Articles 104 and 105.	
(d) The highest, the lowest and the average of the following values.	
(e) The capital requirement elements, as specified in Article 364.	
(f) The weighted average liquidity horizon for each sub-portfolio covered by the internal models for additional risk default and migration models and for correlation trading portfolio risk;	
(g) a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period..	

List of most often mentioned abbreviations and technical terms in the document

ALMM – Additional Liquidity Monitoring Metrics

ECB - European Central Bank

BM - Banco Montepio

BD - Board of Directors

EBD - Executive Board of Directors

ALCO – Asset and Liability Committee

CCF - Credit Conversion Factors

CCP - Central Counterparty

CCR - Counterparty Credit Risk

CET1 - Common Equity Tier 1

CVA - Credit Valuation Adjustment

CRD IV - Directive 36/2013 of the European Parliament and the European Council

CRM – Credit Risk Mitigation

CRR - Regulation 575/2013 of the European Parliament and the European Council

CSA - Credit Support Annex

RID - Risk Department

EAD – Exposure at Default

EBA - European Banking Authority

ECAI – External Credit Assessment Institution

EU – European Union

RMF – Risk Management Function

GMRA - Global Master Repurchase Agreement

CI - Concentration Index

ICAAP – Internal Capital Adequacy Assessment Process

ILAAP – Internal Liquidity Adequacy Assessment Process

IFRS - International Financial Reporting Standard

IRB – Internal Rating Based

ISDA – International Swaps Derivatives Association

LCR – Liquidity Coverage Ratio

NSFR – Net Stable Funding Ratio

CIU – Collective Investment Undertaking

T1 - Capital Tier 1

T2 - Capital Tier 2

REPO – Repurchase Agreement

RAF – Risk Appetite Framework

RAS - Risk Appetite Statement

RWA – Risk-Weighted Assets

SREP – Supervisory Review and Evaluation Process

VaR – Value at Risk

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