

Banco Montepio net income of €21.7Mn in 2019

Improved profitability

- **Consolidated net income totaled €21.7Mn, increasing 59.6%** when compared to the restated¹ results of 2018;
- **Total operating income amounted to €429.5Mn, presenting an increase of 13.8%** supported by the performance of commissions, by gains from securities and by the sale of non-performing portfolios;
- **Operating costs decreased by 2.1%** due to the effect of the measures implemented;
- **Efficiency ratio, measured by the relation between operating costs and total operating income, stood at 59.2%**, benefiting from the reduction of costs and the increase of income;

Improved asset quality

- The quality of the loan portfolio (assessed by the weight of non-performing exposures (NPE) over total loans) improved, with the **NPE ratio standing at 12.2% at the end of 2019**;
- Impairment charges determined a cost of risk of 1.0% and a **NPE coverage improvement to 52.1%** (87.2%, if the associated collateral is also considered);

¹ The review of the models and processes associated with the calculation of impairment for credit risks carried out in 2019 led to the need of restating the 2018 financial statements.



Capital above the minimum requirements

- Total capital ratio reached 13.9% at the end of 2019, benefiting from the reduction in risk-weighted assets, **standing above the minimum requirements specified**;
- The capital ratios as of 31 December 2019 include the effects resulting from the deviations accounted on the Pension Fund, being the **liabilities fully financed, with a ratio of 100%**;

Business performance with reinforcement of deposits from individuals and loans to large companies

- Loans to customers of 12.2 billion euros at the end of 2019, which includes the impact of the sale of non-performing portfolios and the large corporates' segment growth;
- Customers' deposits reached 12.5 billion euros, benefiting from the increase in deposits from individuals and from the favorable evolution of the cash deposits component.



Net income

In 2019, Banco Montepio recorded a consolidated net income of €21.7Mn, an increase of 59.6% when compared to €13.6Mn recorded in 2018. The favorable evolution was supported by the total operating income increase of 13.8%, and by the 2.1% decrease in operating costs.

Net interest income totaled €236.8Mn in 2019, compared with €248.1Mn in the previous year, revealing the unfavorable impacts of market interest rates, which remain historically low, and of pricing management for low risk assessment customers. The performance of the wholesale funding contributed positively to the net interest income, enabling to offset the cost of subordinated debt issuances.

Net commissions reached €121.5Mn in 2019, an increase of 2.7% when compared to the same period of last year, reflecting the positive performance of commissions related to securities transactions, to collection and administration of securities and to payment cards, as a result of the price adjustment to Banco Montepio Group's value proposal.

Results from financial operations totaled €49.9Mn in 2019 and reflect, when comparing to the €10.9Mn accounted for in 2018, the increase of gains obtained in the third quarter of 2019 with the Portuguese and foreign sovereign debt portfolio.

Other operating results amounted to €13.6Mn in 2019, comparing favorably with those recorded in the previous year, to which mainly contributed the gains realized on the sale of a portfolio of non-core assets and on the sale of securities.



Operating costs fell 2.1%, from €259.6Mn in 2018 to €254.3Mn in 2019, reflecting the effect of the measures implemented aiming at reducing costs, namely the performance observed in general administrative expenses, in particular the costs of consultancy and real estate conservation and repair.

Loan impairment totaled €120.3Mn in 2019, an increase of €48.0Mn when compared to the amount recorded in 2018, as a result of the effort undertaken by the Bank to ensure adequate levels of the loan portfolio coverage.

Other impairments and provisions, related to other financial assets, other assets and provisions, amounted to €20.8Mn in 2019, in line with the €20.3Mn recorded in 2018.

The total amount of current and deferred taxes was calculated based on the elements that contributed to the formation of the results and the relevant tax framework, namely in what regards to the constitution and reversal of temporary differences and the identification of permanent differences.

The contribution of discontinuing operations reflects the appropriation on a consolidated basis of the results obtained by Finibanco Angola, in the proportion of the participation held by the Group in the share capital, and also the effect associated to this participation, in the context of the processes that have been conducted with a view to its deconsolidation.



Balance sheet

As of 31 December 2019, total assets stood at €17,740Mn, compared with €18,332Mn recorded at the end of 2018, following the decrease observed in the loan portfolio.

Net loans to customers changed from €12,095Mn on 31 December 2018 to €11,465Mn at the end of 2019, reflecting the impacts associated with the sale of a non-performing loans portfolio accomplished within the scope of the implementation of the strategy aiming at reducing the exposure to non-performing assets, and with the adoption of a prudent policy on undertaking credit risk. In addition, the growth of loans to corporates is noteworthy, with emphasis on the segment of large companies.

The quality of the loan portfolio (assessed by the weight of non-performing exposures (NPE) over total loans), improved, with the NPE ratio standing at 12.2% at the end of 2019, benefiting from the impact of the sale of a non-performing loans portfolio and from the measures that have been implemented in the credit recovery scope.

The reinforcement of impairments carried out in 2019 also allowed for an increase in the NPE portfolio coverage by impairments, from 51.7% in 2018 to 52.1% at the end of 2019. However, if we consider, in addition to impairments, the collaterals and financial guarantees associated, the NPE coverage rises to 87.2% on 31 December 2019, compared with 87.7% at the end of 2018.



Customers' deposits totaled €12,525Mn as of 31 December 2019, in line with the amount recorded at the end of 2018, mainly supported by the retail segment, despite the decrease in the cost of deposits in 2019 (with interest rate benchmarks at their lowest historically levels), which, together with the increase in cash deposits, contributed favorably to the net interest income.

Own funds totaled €1,452Mn at the end of 2019, compared with €1,517Mn on 31 December 2018, and reflect the favorable impacts of the net income for the year and the increase in the fair value reserve, and the unfavorable impacts coming from the calculation of negative actuarial deviations in the Pension Fund and from negative foreign exchange reserves.

Pension Fund

The liabilities with post-employment and long-term benefits at the end of 2019 were fully financed, with a 100% coverage ratio, taking into account the provisions booked in the balance sheet and the contribution made by the Bank to the Pension Fund (settled in early 2020).

As of 31 December 2019, liabilities with the Pension Fund amounted to €850.9Mn, representing an increase of €108.4Mn when compared to the amount recorded at the end of 2018, which reflects the effect of the change in actuarial assumptions, with emphasis on the impact of the change in the discount rate from 2.25% in 2018 to 1.50% in 2019.

The Pension Fund's rate of return in 2019 stood at 6.5%, comparing favorably with the adopted actuarial assumption, providing positive financial actuarial deviations.



Capital

The total capital ratio reached 13.9% on 31 December 2019, including the favorable impacts from the positive consolidated net income of €21.7Mn and the €100Mn subordinated debt issued in the first half of 2019.

The management of the balance sheet in 2019 concerning credit risk allowed for a decrease in risk-weighted assets between the end of 2018 and the end of 2019, also reflecting the reduction recorded in non-core exposures, thus contributing positively to the capital ratios.

The capital ratios as of 31 December 2019 already include the effects resulting from the actuarial deviations determined for pension liabilities, due to the change in actuarial assumptions, as well as the recognition of negative exchange differences and the recording of positive fair value reserves.

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Key Indicators

| | 2018 | 2018 Restated | 2019 | Change 19/18 |
|--|--------|------------------|--------|--------------|
| ACTIVITY AND RESULTS (million euros) | | | | |
| Total assets | 18 351 | 18 332 | 17 740 | (3.2%) |
| Loans to customers (gross) | 13 068 | 13 068 | 12 239 | (6.3%) |
| Customers' deposits | 12 575 | 12 575 | 12 525 | (0.4%) |
| Net income | 13 | 14 | 22 | 59.6% |
| SOLVENCY (a) | | | | |
| Common Equity Tier 1 ratio | 13.5% | 13.3% | 12.4% | (0.9 p.p.) |
| Total Capital ratio | 14.1% | 13.9% | 13.9% | 0.0 p.p. |
| Risk weighted assets (EUR million) | 10 759 | 10 731 | 10 299 | 4.0% |
| LIQUIDITY RATIOS | | | | |
| Loans to customers (net) / Customers' deposits (b) | 96.4% | 96.2% | 91.5% | (4.7 p.p.) |
| Loans to customers (net) / On-balance sheet customers' resources (c) | 88.7% | 88.5% | 82.4% | (6.1 p.p.) |
| CREDIT QUALITY | | | | |
| Cost of credit risk | 0.5% | 0.5% | 1.0% | 0.5 p.p. |
| Non-performing exposures (NPE) (d) / Gross customer loans | 14.4% | 14.4% | 12.2% | (2.2 p.p.) |
| NPE (d) coverage by Impairment for balance sheet loans | 50.3% | 51.7% | 52.1% | 0.4 p.p. |
| NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees | 86.2% | 87.7% | 87.2% | 5.7 p.p. |
| PROFITABILITY AND EFFICIENCY | | | | |
| Total operating income / Average total assets (b) | 2.0% | 2.0% | 2.3% | 0.3 p.p. |
| Net income before income tax / Average total assets (b) | 0.3% | 0.3% | 0.2% | (0.1 p.p.) |
| Net income before income tax / Average total equity (b) | 3.5% | 3.6% | 2.9% | (0.7 p.p.) |
| Cost-to-income (Operating costs / Total operating income) (b) | 68.8% | 68.8% | 59.2% | (9.6 p.p.) |
| Cost-to-Income, excluding specific impacts (e) | 69.3% | 69.3% | 69.5% | 0.2 p.p. |
| Staff costs / Total operating income (b) | 41.3% | 41.3% | 36.7% | (4.6 p.p.) |
| EMPLOYEES AND DISTRIBUTION NETWORK (Number) | | | | |
| Employees | | | | |
| Group Banco Montepio total | 3 944 | 3 944 | 3 962 | 18 |
| Banco Montepio | 3 566 | 3 566 | 3 563 | (3) |
| Branches | | | | |
| Domestic network - Banco Montepio | 324 | 324 | 332 | 8 |
| International Network | 24 | 24 | 24 | 0 |
| Representation Offices - Banco Montepio | 5 | 5 | 5 | 0 |

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

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

(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued. Computed in accordance with the Financial Statements annexed to this report.

(d) EBA definition.

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

Consolidated Income Statement

| (million euro) | Dec-18 | Dec-18 Restated | Dec-19 | Change € 19/18 (restated) | Change % 19/18 (restated) |
|--|--------------|--------------------|--------------|------------------------------|------------------------------|
| Interest and similar income | 361.7 | 361.7 | 316.5 | -45.2 | -12.5% |
| Interest and similar expense | 113.6 | 113.6 | 79.7 | -33.9 | -29.9% |
| NET INTEREST INCOME | 248.1 | 248.1 | 236.8 | -11.3 | -4.6% |
| Dividends from equity instruments | 8.1 | 8.1 | 7.6 | -0.4 | -5.6% |
| Net fee and commission income | 118.4 | 118.4 | 121.5 | 3.1 | 2.7% |
| Net gains/(losses) from financial operations | 10.9 | 10.9 | 49.9 | 39.0 | 357.6% |
| Net gains/(losses) arising from sale of other financial assets | 9.1 | 9.1 | 22.9 | 13.9 | 152.7% |
| Other operating income/(expenses) | -17.2 | -17.2 | -9.3 | 7.9 | -45.9% |
| TOTAL OPERATING INCOME | 377.4 | 377.4 | 429.5 | 52.1 | 13.8% |
| Staff Costs | 156.0 | 156.0 | 157.6 | 1.6 | 1.0% |
| General and administrative expenses | 77.7 | 77.7 | 65.5 | -12.2 | -15.7% |
| Depreciation and amortization | 25.9 | 25.9 | 31.2 | 5.3 | 20.6% |
| OPERATING COSTS | 259.6 | 259.6 | 254.3 | -5.3 | -2.1% |
| Loan impairments | 73.2 | 72.3 | 120.3 | 48.0 | 66.3% |
| Other financial assets impairments | 2.9 | 2.9 | 9.5 | 6.6 | 230.7% |
| Other assets impairments | 13.2 | 13.2 | 11.7 | -1.5 | -11.3% |
| Provisions net of reversals and annulments | 4.2 | 3.7 | -0.4 | -4.1 | -110.8% |
| Share of profit of associates under the equity method | 0.3 | 0.3 | 0.2 | 0.0 | -17.5% |
| EARNINGS BEFORE TAX AND NON-CONTROLLING INTERESTS | 24.5 | 25.9 | 34.3 | 8.4 | 32.5% |
| Tax | -44.8 | -45.2 | -22.7 | 22.4 | -49.6% |
| Non-controlling interests | 3.3 | 3.3 | 2.5 | -0.8 | -24.4% |
| Profit/(loss) from discontinuing operations | 36.2 | 36.2 | 12.6 | -23.5 | -65.1% |
| NET INCOME | 12.5 | 13.6 | 21.7 | 8.1 | 59.6% |

Consolidated Balance Sheet

| (million euro) | Dec-18 | Dec-18 Restated | Dec-19 | Change € 19/18 (restated) | Change % 19/18 (restated) |
|---|---------------|--------------------|---------------|------------------------------|------------------------------|
| Cash and deposits at central banks | 1 611 | 1 611 | 1 004 | -607 | -37.7% |
| Loans and advances to credit institutions repayable on demand | 78 | 78 | 29 | -49 | -62.3% |
| Other loans and advances to credit institutions | 210 | 210 | 276 | 66 | 31.3% |
| Loans and advances to customers | 12 123 | 12 095 | 11 465 | -631 | -5.2% |
| Financial assets held for trading | 24 | 24 | 36 | 12 | 51.2% |
| Financial assets not held for trading mandatorily at fair value through profit or loss (FVPL) | 493 | 493 | 385 | -108 | -21.9% |
| Financial assets at fair value through other comprehensive income (FVOCI) | 444 | 444 | 1 860 | 1 416 | 318.8% |
| Hedging derivatives | 6 | 6 | 11 | 5 | 96.8% |
| Other financial assets at amortised cost | 1 256 | 1 256 | 899 | -357 | -28.4% |
| Investments in associates | 4 | 4 | 4 | 0 | 3.7% |
| Non-current assets held for sale* | 738 | 738 | 0 | -738 | -100.0% |
| Non-current assets held for sale - Discontinuing operations | 295 | 295 | 217 | -78 | -26.5% |
| Investment properties | 253 | 253 | 145 | -108 | -42.8% |
| Property and equipment | 230 | 230 | 248 | 19 | 8.2% |
| Intangible assets | 32 | 32 | 34 | 2 | 4.7% |
| Current tax assets | 11 | 11 | 15 | 4 | 38.0% |
| Deferred tax assets | 460 | 469 | 435 | -34 | -7.3% |
| Other Assets* | 84 | 84 | 678 | 594 | 703.3% |
| TOTAL NET ASSETS | 18 351 | 18 332 | 17 740 | -592 | -3.2% |
| Deposits from central banks | 1 395 | 1 395 | 1 291 | -104 | -7.5% |
| Deposits from other financial institutions | 1 245 | 1 245 | 522 | -723 | -58.1% |
| Deposits from customers | 12 575 | 12 575 | 12 525 | -51 | -0.4% |
| Debt securities issued | 1 094 | 1 094 | 1 390 | 296 | 27.1% |
| Financial liabilities held for trading | 13 | 13 | 13 | 0 | -0.9% |
| Hedging derivatives | 0 | 0 | 1 | 1 | |
| Non-current liabilities held for sale – Discontinuing operations | 194 | 194 | 134 | -60 | -30.7% |
| Provisions | 31 | 32 | 32 | 0 | -1.2% |
| Current tax liabilities | 11 | 11 | 2 | -9 | -83.7% |
| Other subordinated debt | 50 | 50 | 158 | 108 | 215.4% |
| Other liabilities | 205 | 205 | 221 | 16 | 7.7% |
| TOTAL LIABILITIES | 16 814 | 16 815 | 16 288 | -527 | -3.1% |
| Share Capital | 2 420 | 2 420 | 2 420 | 0 | 0.0% |
| Other equity instruments | 6 | 6 | 6 | 0 | 0.0% |
| Fair value reserves | -19 | -19 | 1 | 20 | -104.3% |
| Other reserves and retained earnings | -899 | -920 | -1 008 | -89 | -9.6% |
| Consolidated net profit/ (loss) for the period attributable to the shareholders | 13 | 14 | 22 | 8 | 59.6% |
| Total equity attributable to the shareholders | 1 521 | 1 501 | 1 440 | -61 | -4.1% |
| Non-controlling interests | 16 | 16 | 12 | -4 | -25.7% |
| TOTAL EQUITY | 1 537 | 1 517 | 1 452 | -65 | -4.3% |
| TOTAL LIABILITIES AND EQUITY | 18 351 | 18 332 | 17 740 | -592 | -3.2% |

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