Banco Montepio

# Market Discipline Report

# 2021

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crescem consigo.

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## Declaration of responsibility

The present declaration of responsibility is issued by the Board of Directors (BoD) 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(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 2021.

The relevant events occurred during 2021, as well as Banco Montepio's Social Commitment Charter Proposal, can be consulted on pages 12 to 13 and 106 to 107 of the Annual Report for 2021.

The situation created by the invasion of Ukraine has direct and indirect implications for the banking system. The direct effects include the impact on the deterioration of the quality of direct exposure to these geographies or to others interconnected with them, amplified by international sanctions, which will also increase operational risk. The Banco Montepio Group's exposure to the 23 member states of the United Nations (UN) that make up the Eastern Europe Regional Group, which include Russia and Ukraine, corresponding to positions in the credit portfolio, is residual, totalling 0.5 million euros (0.0023% of the Group's total assets). In the case of the exposure to Russia and Ukraine, the exposure, under the same criteria, is only 0.04 million euros and 0.002 million euros, respectively, as at 31 December 2021.

Additionally, on 11 March 2020, the World Health Organisation qualified as a pandemic the public health emergency caused by the SARS- CoV- 2 (known 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 first state of emergency was enforced in Portugal up to 2 May 2020, succeeded by situations of calamity, alert and contingency which gave way to successive renewals of the state of emergency, and have required the adaptation of economic and social activity to the new health reality.

A series of exceptional and extraordinary measures of support to the population and the economy were approved, with the financial sector being responsible, in particular, due to its financing function, for an essential participation in the joint effort between authorities and economic agents.

Thus, at the same time as adjusting their operations to face the pandemic crisis, the Banks were there to support Families and Companies, namely by granting moratoria and state guarantees.

Further information regarding the impacts of the Covid-19 pandemic and Banco Montepio's response can be found on pages 44 to 50 of the Annual Report for 2021.

With regard to the information disclosed in the Market Discipline Report, the BoD 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(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 BoD. 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 that are materially relevant.

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 BoD aims to ensure that there are sufficient levels of capital to cover potential losses, above the 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.

With regard to related party transactions, these are regularly monitored pursuant to article 109 of the Legal Framework of Credit Institutions and Financial Companies, and no intra-group or related party transactions with a significant impact on the bank's risk profile were identified.

Hence, the defined risk appetite under the business strategy, aimed at ensuring sustained growth with adequate levels of liquidity and capital while maintaining support for companies and families in this post-pandemic context and ensuring its historical vocation to provide financial services with added value and appropriate to the nature of social economy institutions and social entrepreneurs, is based on the following Banco Montepio Group's (BM) pillars of action in risk management:

- Use risk-adjusted profitability, by assessing the RORC of credit operations, and increase the Bank's profitability; strengthen the recurring component of total operating income with a focus on credit but reduce exposure to non-strategic assets: non-performing loans (NPL), real estate, financial holdings and units of participation; increase the core business of retail and commercial banking and increase operational efficiency by reducing the Bank's cost to income.
- Promote technological innovation in its services and operations in the understanding that technology should be used by people and communities to improve their quality of life and support processes of social innovation while improving operational efficiency and reducing operational risk.
- Improve the risk profile of the credit portfolio: aim towards business growth with suitable risk levels, with the reference being an average rating of 10[1] for individuals and 11[2] for companies, as well as compliance with the macroprudential recommendation with respect to household’s 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.

[1] Corresponds to a rating of 8 before revision of the Bank's Master Scale

[2] Corresponds to a rating of 9 before revision of the Bank's Master Scale

- 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 real estate held in Banco Montepio's balance sheet, 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 lines of the Mutual Guarantee Companies (*Sociedades de Garantia Mútua* (SGM)) and financing 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.
- Adopt best international practices and the highest ethical standards in compliance with the law and contracts, in particular with respect to money laundering, terrorism financing, tax evasion, breaches of labour or environmental legislation.
- Respect and protect the environment, adopting sustainable practices in its operations, and boosting economic, social and environmental sustainability among all its stakeholders.
- Maintain a robust reputational position among customers, investors and the public in general, supported by the solidity of the image of a centenary institution in the banking market.

The high-level definition of risk management and risk appetite is supported by a series of 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/2021 | Dec/2020 |
|---|---|---|
| CET1 ratio (phasing in) | 12.7% | 11.6% |
| T1 ratio (phasing in) | 12.7% | 11.6% |
| Total Capital Ratio (phasing in) | 15.1% | 13.8% |
| Leverage Ratio (phasing in) | 5.6% | 6.0% |
| LCR Ratio | 264.1% | 200.7% |
| NPE Ratio (EBA) | 8.0% | 10.4% |
| Net income before taxes / Average net assets | 0.2% | -0.7% |
| Net income before taxes / Average equity | 2.4% | -8.8% |

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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, BM or the Bank), 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 Banco de Portugal Instruction 11/2021 (which implements in the Portuguese legal system the EBA/2016/11 and EBA/GL/2020/01 guidelines), the EBA/GL/2018/01 guideline, 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 the 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 2021.
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, relative to 31 December 2021.

## 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 domestic 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.

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 activity exclusively on the domestic market, Banco Montepio remains committed to taking measures to ensure the deconsolidation/disposal of its subsidiary Finibanco Angola. Regarding Banco Montepio Geral Cabo Verde, considering the new legal framework of Cape Verde and having weighed up all the relevant strategic options, the Board of Directors of Banco Montepio decided not to promote the changes required to adapt its subsidiary Banco Montepio Geral Cabo Verde to a bank with general authorisation, having approved the development of the procedural initiatives stipulated in the Law for its voluntary dissolution and orderly liquidation.

10. In the domestic market, as part of the Group's simplification, on 30 December 2021, Caixa Económica Montepio Geral, caixa económica bancária, S.A. sold its investment in Montepio Valor - Sociedade Gestora de Organismos de Investimento Coletivo, S.A., which was 100% controlled through Montepio Holding SGPS, S.A.

11. Taking into consideration the deliberations taken by the Board of Directors, also aiming at simplifying the Group's corporate structure, in addition to the provisions of IFRS 5, the activities developed by the subsidiaries Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. - In Liquidation and Montepio Valor - Sociedade Gestora de Organismos de Investimento Coletivo, S.A. were considered discontinued operations. However, the application of this accounting standard does not change the prudential reporting and the calculation of capital requirements on a consolidated basis, since the total assets and liabilities are considered under the full consolidated method (i.e. not considering the reclassification of assets and liabilities under IFRS 5). Likewise, in the present report, the tables presented relative 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.

12. 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.

13. Pursuant to points g) and h) 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.

14. 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.

Full consolidation: 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 | Template EU LI3: Entities of the consolidation perimeter of the BM Group

Ref: Dec 21

| Name of the entity | Accounting consolidation method | Prudential consolidation method | | | | | Description of the entity |
|---|---|---|---|---|---|---|---|
| | | Full consolidation | Proportional consolidation | Equity method | No consolidation or deduction | Deduced | |
| Caixa Económica Montepio Geral, caixa económica bancária, S.A. | Full | X | | | | | Banking |
| Montepio Holding S.G.P.S., S.A. | Full | X | | | | | Holding company |
| Montepio Investimento, S.A. | Full | X | | | | | Banking |
| Montepio Crédito - Instituição Financeira de Crédito, S.A. | Full | X | | | | | Specialised Credits |
| Finibanco Angola, S.A. | Full | X | | | | | Banking |
| Banco Montepio Geral - Cabo Verde, Sociedade Unipessoal, S.A. | Full | X | | | | | Banking |
| Montepio - Gestão de Activos Imobiliários, A.C.E. | Equity Method | | | X | | | Management of real estate assets |
| H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A. | Equity Method | | | X | | | Hotels, restaurants and similar activities |
| Valor Arrendamento - Fundo de Investimento Imobiliário Fechado | Full | X | | | | | Real estate investment fund |
| Polaris - Fundo de Investimento Imobiliário Fechado | Full | X | | | | | Real estate investment fund |
| PEF - Fundo de Investimento Imobiliário Fechado | Full | X | | | | | Real estate investment fund |
| Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto | Full | X | | | | | Real estate investment fund |
| SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. | Full | X | | | | | Real estate management |
| CESource, ACE | Equity Method | | | X | | | Management of IT resources |
| Pelican Mortgages No. 3 | Full | X | | | | | Securitisation of Credits |
| Pelican Mortgages No. 4 | Full | X | | | | | Securitisation of Credits |
| Aqua Mortgages No. 1 | Full | X | | | | | Securitisation of Credits |
| Pelican Finance No. 2 | Full | X | | | | | Securitisation of Credits |
| Pelican Finance No. 4 | Full | X | | | | | Securitisation of Credits |

Ref: Dec 20

| Name of the entity | Accounting consolidation method | Prudential consolidation method | | | | | Description of the entity |
|---|---|---|---|---|---|---|---|
| | | Full consolidation | Proportional consolidation | Equity method | No consolidation or deduction | Deduced | |
| Caixa Económica Montepio Geral | Full | X | | | | | Banking |
| Montepio Holding SGPS, S.A. | Full | X | | | | | Holding company |
| Montepio Investimento, S.A. | Full | X | | | | | Banking |
| Montepio Crédito, Instituição Financeira de Crédito, S.A. | Full | X | | | | | Specialised Credits |
| Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. | Full | X | | | | | Investment fund management |
| Finibanco Angola, S.A. | Full | X | | | | | Banking |
| Banco Montepio Geral - Cabo Verde, Sociedade Unipessoal, S.A. | Full | X | | | | | Banking |
| Montepio - Gestão de Activos Imobiliários, A.C.E. | Equity Method | | | X | | | Management of real estate assets |
| H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A. | Equity Method | | | X | | | Hotels, restaurants and similar activities |
| Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado | Full | X | | | | | Real estate investment fund |
| Quadros_Disciplina de Mercado_Master_dez21.xlsb | Full | X | | | | | Real estate investment fund |
| Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado | Full | X | | | | | Real estate investment fund |
| Polaris - Fundo de Investimento Imobiliário Fechado | Full | X | | | | | Real estate investment fund |
| PEF - Fundo de Investimento Imobiliário Fechado | Full | X | | | | | Real estate investment fund |
| Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto | Full | X | | | | | Real estate investment fund |
| SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. | Full | X | | | | | Real estate management |
| CESource, ACE | Equity Method | | | X | | | Management of IT resources |
| Pelican Mortgages No. 3 | Full | X | | | | | Securitisation of Credits |
| Pelican Mortgages No. 4 | Full | X | | | | | Securitisation of Credits |
| Aqua Mortgages No. 1 | Full | X | | | | | Securitisation of Credits |
| Pelican Mortgages No. 5 | Full | X | | | | | Securitisation of Credits |
| Pelican Mortgages No. 6 | Full | X | | | | | Securitisation of Credits |
| Pelican Finance No. 1 | Full | X | | | | | Securitisation of Credits |
| Aqua Finance No. 4 | Full | X | | | | | Securitisation of Credits |

## Table 2 | Template EU LIA: Explanation of the differences between the accounting and regulatory exposure amounts

| Line No. | Qualitative Information | Comments |
|---|---|---|
| a) | Differences between columns a) and b) in the template EU LI1 | Not applicable |
| b) | Qualitative information on the main sources of differences between the accounting and regulatory consolidation perimeter presented in the EU LI2 template | Not applicable for the reason that there are no sources of difference between the perimeters |

## 3. Risk management in the Banco Montepio Group

15. During 2021, the Group presented the following ratios and risk indicators:

## Table 3 | Template EU KM1: Template for baseline indicators

(thousands of euros)

| | Available own funds (amounts) | dec/21 | sep/21 | jun/21 | mar/21 | dec/20 |
|---|---|---|---|---|---|---|
| 1 | Common equity tier 1 (CET1) capital | 1,121,521 | 1,082,759 | 1,068,145 | 1,081,677 | 1,114,188 |
| 2 | Tier 1 capital | 1,121,721 | 1,082,980 | 1,068,357 | 1,081,931 | 1,114,413 |
| 3 | Total capital | 1,328,243 | 1,289,524 | 1,274,891 | 1,288,508 | 1,320,961 |
| | **Risk-weighted exposure amounts** | | | | | |
| 4 | Total exposure amount | 8,799,976 | 9,309,991 | 9,376,579 | 9,599,659 | 9,576,942 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 12.74% | 11.63% | 11.39% | 11.27% | 11.63% |
| 6 | Tier 1 ratio (%) | 12.75% | 11.63% | 11.39% | 11.27% | 11.64% |
| 7 | Total capital ratio (%) | 15.09% | 13.85% | 13.60% | 13.42% | 13.79% |
| | **Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amou** | | | | | |
| EU 7a | Additional own funds requirements to address risks other than th | 3.25% | 3.25% | 3.25% | 3.25% | 3.25% |
| EU 7b | *of which: to be made up of CET1 capital (percentage points)* | 1.83% | 1.83% | 1.83% | 1.83% | 1.83% |
| EU 7c | *of which: to be made up of Tier 1 capital (percentage points)* | 2.44% | 2.44% | 2.44% | 2.44% | 2.44% |
| EU 7d | Total SREP own funds requirements (%) | 11.25% | 11.25% | 11.25% | 11.25% | 11.25% |
| | **Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)** | | | | | |
| 8 | Capital conservation buffer | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| EU 8a | Conservation buffer due to macro-prudential or systemic risk ider | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 9 | Institution specific countercyclical capital buffer (%) | 0.01% | 0.01% | 0.01% | 0.01% | 0.00% |
| EU 9a | Systemic risk buffer (%) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 10 | Global systemically important institution buffer (%) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| EU 10a | Other systemically important institution buffer (%) | 0.19% | 0.19% | 0.19% | 0.19% | 0.19% |
| 11 | Combined buffer requirement (%) | 2.69% | 2.69% | 2.69% | 2.69% | 2.69% |
| EU 11a | Overall capital requirements (%) | 13.94% | 13.94% | 13.94% | 13.94% | 13.94% |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | 564,650 | 242,867 | 474,786 | 474,201 | 508,149 |
| | **Leverage ratio** | | | | | |
| 13 | Total exposure measure | 20,106,313 | 20,091,898 | 19,898,886 | 20,441,763 | 18,435,409 |
| 14 | Leverage ratio (%) | 5.58% | 5.39% | 5.37% | 5.29% | 6.04% |
| | **Additional own funds requirements to address the risk of excessive leverage (as a percentage of the total exposure measure)** | | | | | |
| EU 14a | Additional own funds requirements to address the risk of excessi | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 14b | *of which: to be made up of CET1 capital (percentage points)* | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 14c | Total SREP leverage ratio requirements (%) | 3.00% | 3.00% | 3.00% | 0.00% | 0.00% |
| | **Leverage ratio buffer and overall leverage ratio requirement (as a percentage of the total exposure measure)** | | | | | |
| EU 14d | Leverage ratio buffer requirement (%) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| EU 14e | Overall leverage ratio requirement (%) | 3.00% | 3.00% | 3.00% | 0.00% | 0.00% |
| | **Liquidity Coverage Ratio** | | | | | |
| 15 | Total high quality liquid assets (HQLA) (weighted value - average | 3,706,730 | 3,435,763 | 3,207,101 | 2,952,541 | 2,633,091 |
| EU 16a | Cash outflows - Total weighted value | 1,597,716 | 1,520,275 | 1,446,617 | 1,478,983 | 1,449,547 |
| EU 16b | Cash inflows - Total weighted value | 194,036 | 206,504 | 217,763 | 195,304 | 137,843 |
| 16 | Total net cash outflows (adjusted value) | 1,403,681 | 1,313,771 | 1,228,854 | 1,283,679 | 1,311,704 |
| 17 | Liquidity coverage ratio (%) | 264.1% | 261.5% | 261.0% | 230.0% | 200.7% |
| | **Net Stable Funding Ratio (NSFR)** | | | | | |
| 18 | Total available stable funding | 16,283,816 | 16,544,796 | 16,494,338 | 16,386,843 | 14,927,513 |
| 19 | Total required stable funding | 12,997,744 | 13,543,317 | 13,680,404 | 14,734,968 | 13,595,022 |
| 20 | NSFR ratio (%) | 125.3% | 122.2% | 120.6% | 111.2% | 109.8% |

## 3.1 Risk management policy and governance

### Global risk management principles

16. 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.

17. 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.

18. The RMF regularly reports information to the Risk Committee, an autonomous body composed of non-executive members, with a minimum of three and a maximum of five members including the Chairman, appointed by the Board of Directors, from among its non-executive members, who have the knowledge, skills and experience to understand and supervise the Bank's risk management strategy. 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 (RC) and the Audit Committee (AC), and the final approval is the responsibility of the BoD.

19. Also within the scope of the Risk Management Function, the AC 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 duties 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.

20. Additional information on the RMF can be found on pages 86 to 89 of the Annual Report.

21. Throughout 2021, in articulation with the BoD 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 duties conferred on it. During this year, the Risk Committee held twelve meetings, with members of the BoD, the Chief Risk Officer (CRO) and the various departments of BM or of the Group having taken part.

22. In addition, various Commissions 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 management body in the areas of their scope of intervention.

23. Commissions 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 Commission (COMCRED) holds weekly meetings, where loan operations are appraised and decided in accordance with the policy and regulation on loan concession. The Assets and Liabilities Commission (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, interest rate risk 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 Commission (COMIMP), the Non-Performing Asset Monitoring Commission (COMAANP), the Business Commission (COMNEG), the Pension Fund Monitoring Commission (COMAFP), the Technology Commission (COMTECH), the Internal Commission (COMCI) and the Cyber Security Commission (COMCS), 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.[3]

### Risk appetite framework

24. 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.

25. 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.

26. 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 BoD, 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;

[3] At the reference date of the report, the committee had not yet been formed.

- 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, enabling 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.

27. 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 BoD 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

28. 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.

29. 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.

30. 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 |

| Risk category | Risk Subcategory/Risk Factor |
|---|---|
| Internal Governance risk | Business model risk<br>Internal governance structure<br>Risk management structure and risk culture<br>Infrastructure, data and reporting |
| Credit risk | Default risk<br>Country risk<br>Credit risk (spread)<br>Foreign exchange credit risk<br>Specialised lending risk<br>Counterparty credit risk<br>Migration risk<br>Counterparty concentration risk<br>Sectoral concentration risk<br>Regional concentration risk<br>Securitisation risk<br>Residual risk<br>Risk of reduction of amounts receivable<br>Settlement and delivery risk |
| Market Risk | General position risk (debt instruments)<br>Specific position risk (debt instruments)<br>Credit spread risk<br>Equity instrument risk<br>Migration risk<br>Default risk<br>Commodities risk<br>Options risk<br>Credit valuation adjustment risk<br>Basis risk<br>Sovereign risk<br>Trading book interest rate risk<br>Concentration risk / Liquidity risk |
| Financial holdings risk | |
| FX risk | Transaction risk<br>Conversion risk<br>Economic risk |
| Interest Rate Risk of the Banking Book | Revaluation risk<br>Yield curve risk<br>Basis risk<br>Option risk |
| Operational Risk | Internal fraud<br>External fraud<br>Employment practices and safety at work practices<br>Customers, products and commercial practices<br>Damage to physical assets<br>Disruption of activity<br>Implementation, delivery and management of processes<br>Outsourcing risk |
| Information and communication technologies | Information Security Risk (Cybersecurity)<br>Outsourcing risk<br>Project Risk / Development requests<br>System Risk |
| Liquidity and Financing | Wholesale funding risk |

| Risk category | Risk Subcategory/Risk Factor |
|---|---|
| Risk | Retail funding risk<br>Cost of funding risk<br>Intraday risk<br>Liquidity and/or financing foreign exchange risk<br>Intra-group liquidity and/or funding risk<br>Liquidity concentration and/or funding risk<br>Cash flow mismatch risk |
| Model risk | |
| Reputational risk | |
| Compliance risk | Regulatory Compliance Risk<br>Legal and contractual risk<br>Conduct Risk<br>Financial crime risk |
| Pension fund risk | |
| Real estate risk | |
| Climate and Environmental Risks | Physical Risk<br>Transition risk |
| Capital Risk | Capital adequacy risk<br>Risk of Excessive Leverage |
| Other | Insurance risk<br>Step-in risk<br>Other concentration risks<br>Group risk |

31. In the annual review, finalised in early 2022, Banco Montepio included climate and environmental risk in its taxonomy of risks under Environmental, Social and Governance (ESG). Further information on the bank's sustainability commitment is disclosed on pages 108 to 112 of the Annual Report.

32. 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 the history of 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

33. 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.

34. 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.

35. 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 relative 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 BoD, which is responsible for defining and approving any action plans, objectives and risk limits with a view to controlling the adequacy of internal capital.

36. 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

37. Within the scope of overall risk management, the RMF must, on a regular basis, conduct stress tests on key risks. In this regard, the objective of which is to: (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.

38. 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.

39. 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.

40. 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.

41. 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.

42. 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, repayment of deposits, margins of assessment of eligible assets applied by the ECB, ratings (of the Group and counterparties), portfolio loss ratios, collateral, among others.

43. The stress tests and analyses of adverse scenarios are disclosed and discussed 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).

44. 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.

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

46. 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

47. During 2021, a one-tier governance model was enforced at Caixa Económica Montepio Geral, caixa económica bancária, S.A., hereinafter Banco Montepio (BM), composed of a Board of Directors, which includes an Audit Committee (elected at the General Meeting from among the non-executive members), and a Statutory Auditor.

48. Pursuant to Article 13(1)(m) of the Articles of Association of Banco Montepio and Article 6 of the Regulations of the Board of Directors, the Board of Directors (BoD) approved the constitution of three internal Committees composed exclusively of non-executive members: the Risk Committee (RC), 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 spheres. Further details on the RC can be found on pages 648 and 649 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 CRNA can be found on page 650 of the Report and Accounts.

- 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 CGSES can be found on page 650 of the Report and Accounts.
- The **Executive Committee (CE)** 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 CE can be found on page 651 of the Report and Accounts.

49. Pursuant to Article 4 of its Regulations, the Remunerations, Nominations and Assessment Committee (CRNA), 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 BoD.

50. 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, in order to submit annually to the General Meeting a statement on the remuneration policy of the members of the management body, submitting to the General Meeting the reports prepared 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 BoD 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.

51. Concerning Nominations, the CRNA is responsible for formulating and conveying to the Board of Directors recommendations on candidate members to 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 supervenient alterations or nominations for new duties and about nominations in terms of knowledge, skills, diversity and experience.

52. 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.

53. Banco Montepio recognises as good practice the safeguarding of diversity and its Policies for the Selection and Assessment of Suitability of Members of the Management and Supervisory Body (MOAFs) and Key Function Holders (KFHs) 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 Appraisals Committee has worked to establish objectives and targets to ensure gender diversity, with a view to increasing the number of people of the under-represented gender.

54. On 29 July 2021, the Board of Directors approved the setting of objectives and targets in the representation of under-represented gender, to be considered as part of the review of the Policy of Selection and Evaluation of the Adequacy of the MOAF and KFH and to be submitted for approval to the general meeting of shareholders in 2022. In fact, a proposal was made to reach a percentage of not less than 33% for representation of the under-represented gender, either on the Board of Directors as a whole, or on the Audit Committee, or on the Executive Committee, an objective to be reached within a transitory adjustment period of 5 years, a time period that encompasses two terms of office, given the need to find suitable profiles and to make this objective compatible with the specific needs of Banco Montepio and the importance of ensuring the collective suitability of its bodies. In the same vein, a target of no less than 33% of the under-represented gender was also set for KFH.

55. On 16 December 2021, the Board of Directors approved the first Diversity and Inclusion Policy to be applied in the Banco Montepio Group, being applicable with the necessary adaptations to the employees of Banco Montepio Group companies. This policy defines the institution's objectives in the dimensions concerned and the following commitments:
   - Promote diversity, including in the composition of the various hierarchical levels and corporate bodies;
   - Promote the enrichment of the organisation by attracting and bringing together a diversity of profiles (with different cultures, gender and ages) in order to stimulate creativity and innovation;
   - Guarantee a work environment free of prejudice and discrimination, with respect and appreciation for individuality and guided by fairness;
   - Monitor the alignment of this Policy, with the principles set out in the Code of Conduct, as well as with the best practices and applicable legislation, namely:

i) Implement positive discrimination measures and prohibit any form of discrimination or harassment on the basis of gender, age, nationality and residence, among others;
ii) Promote equal treatment and opportunities in the recruitment and selection process, in training and professional development, in performance evaluation, in career progression, and in remuneration conditions;
iii) Implement measures that enable the integration of people with special needs and promote the adaptation of jobs, whenever necessary.

56. On the other hand, the Succession Policies for MOAF and KFH establish the process for identifying the profiles of future MOAFs and KFHs, defining the professional profiles with the qualifications and experience required to assume the responsibilities inherent to the position and the exercise of those functions.

57. Additional information relative to 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

58. 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.

59. 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.

60. 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 in question (i.e. the capacity of modelling of those risks) and the liquidity of the instruments.

61. The credit risk models play an essential role in the credit-decision procedure. Therefore, the decision process for loan portfolio operations is based on a set of policies using scoring models for retail portfolios and rating models for the non-retail segment.

62. 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.

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

64. There are acceptance scoring models for lending to individuals in retail portfolios, namely for mortgage loans, personal loans and for credit cards. Regarding Sole Proprietors (SPs) 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.

65. In the field of 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.

66. 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 18 categories, of which the first 15 correspond to performing risk categories, categories 16 to 17 correspond to procedural categories of delay, and category 18 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.

67. 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 BoD, 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.

68. 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).

69. 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.

70. 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).

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

72. 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.

73. The measurement of expected credit 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.

74. 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.

75. 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.

76. 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.

77. 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.

78. The individual analysis is the responsibility of the Specialised Credit Analysis Department (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

79. 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 in force in 2021 were approved in 2020 by the respective management body. As a process subject to annual review, it must be reassessed during this year. As early as the year 2022, the limits were revised in their annual review process.

80. 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 BoD as a whole, in accordance with the Group's Risk Management Policy.

81. 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 large exposure risk 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 large exposures. 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

82. 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.

83. 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).

84. 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.

85. 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 and the COVID-19 pandemic. Regarding the trading book, specific risk reports are produced.

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

## Banking book interest rate risk

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

88. 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).

89. 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.

90. 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.

91. 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.

92. 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 BoD or the implementation of measures to cover the exposure.

93. 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..

94. The Risk Department ensures monthly interest rate risk monitoring reports to the Risk Committee and ALCO, as well as quarterly reports on the evolution of KPIs and indicators related to interest rate risk to the Executive Committee, Risk Committee, ADC and BoD.

### FX risk

95. 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.

96. 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.

97. The Risk Department submits specific reports to the Executive Committee and the Risk Committee on the exposure to exchange rate risk and to the BoD on a half-yearly basis.

### Liquidity and funding risk

98. 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 inferior to the market values (market liquidity risk).

99. 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.

100. 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.

101. 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.

102. 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 ECB eligible assets.

103. 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, Risk Committee, Audit Committee and the BoD.

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

**Real estate risk**

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

106. 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.

107. 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:

108. 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 Commission;

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

110. 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 BoD.

111. Limits are defined for property risk indicators that are monitored, in addition to the quarterly RAS reports, through monthly reports that are submitted by the Risk Department to the CE, the Risk Committee and the Audit Committee.

## Operational risk

112. 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.

113. 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.

114. 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.

115. 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 risks 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.

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

117. 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.

118. 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).

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

- **Board of Directors (BoD)**: the BoD is responsible for establishing a culture of operational risk control through the involvement of the entire institution. The BoD is responsible for defining and approving the policy for management of operational risk at BM, from an individual and Group perspective. The BoD is responsible for ensuring the resources that allow the operational risk to be managed appropriately and effectively. In particular, the BoD 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 BoD for the management of the operational risk and deciding on the action plans proposed to it.
- **Risk Committee:** as an advisory body to the BoD 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.

120. 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 Defence**, 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 Risk Department, 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 Risk Department **(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 BoD and mitigating the relevant negative impacts.

121. The years 2020 and 2021 were marked by the serious health and economic crisis due to the Covid- 19 pandemic, with profound consequences for all economic agents, including banks, which were faced with an extremely adverse and highly uncertain macroeconomic scenario. This brought into question not only the defined strategies but also the sustainability and paradigms of life of people and organisations.

122. In this scenario, in 2020, Banco Montepio activated the Crisis Management Office, in order to ensure business continuity and recovery, and approved an Adjustment Plan, based on 4 pillars - Focus 1: Maximisation of the complementary margin; Focus 2: Operational adjustment; Focus 3: Capital preservation; and Focus 4: Simplification of the Group and its offer - which involved optimising the branch network, resizing staff and acceleration of the digital transition which, in a manner integrated with the initial Transformation Plan, aimed at achieving a service and business model that would ensure a sustained increase in the efficiency of the Banco Montepio Group.

123. In early 2021, the pandemic crisis intensified, and the Government was forced to adopt strong containment measures, which was reflected in the Banco Montepio Group's results and activity. The impact of contingencies on the institution's main activities is regularly followed up and monitored with procedures to accelerate the digital transition and optimise and innovate its processes, in order to increase its efficiency, both in responding to customers and in internal organisation.

124. 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**, telework 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 Direção Geral de Saúde (DGS) 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

125. 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.

126. The Code of Conduct is also a fundamental instrument in mitigating compliance risk, to the extent that it identifies the values, principles of action, and standards of professional conduct that all employees and members of the corporate bodies must observe in the performance of their activities. The Code of Conduct was revised in October 2021 in order to make it simpler, clearer, more concise, in order to provide guidance to the conduct of its intended recipients and, to that end, some examples of expected behaviour as well as unacceptable behaviour are given. For Banco Montepio, ethical conduct in business is an essential element for serving customers well, meeting the expectations of its shareholders and other stakeholders, satisfying and motivating its

employees and contributing, in general, to consolidate its position as a unique financial institution on the national scene due to its origin and mutual base and, as a savings bank, to provide universal financial services to private customers at all stages of their life cycle, to all customers in the business sector and, in particular, to social economy institutions and social entrepreneurs.

127. 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.

128. 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.

129. 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.

130. Further information on the Compliance function can be found on pages 88 and 89 of the Annual Report.

## Pension fund risk

131. 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.

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

133. 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.

134. The Risk Department 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.

135. 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 the 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

136. Regarding other risks - reputation risk, strategy and business risk, model risk, capital risk and internal governance risk - these are also followed-up by the BoD, 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, as well as the monitoring of the internal control deficiencies in the COMCI. The Risk Department submits specific reports to the Executive Committee and the Risk Committee at least quarterly and to the BoD on a half-yearly basis, which include other risks considered material in addition to those referred to in the previous sections.

137. With regard to Climate and Environmental Risks, these were included in Banco Montepio's taxonomy of risks revised at the beginning of 2022. This risk will be followed up and monitored as part of the RAS.

138. Banco Montepio responded to Banco de Portugal's initiative to identify current practices and areas where progress is most needed, based on defined supervisory expectations, and planned actions that contribute to the realisation of such expectations, in line with the European Central Bank's Guide on Climate and Environmental Risks, and within the supervisory dialogue that will incorporate these matters in the second quarter of 2022.

## 3.4 Hedging policies and risk mitigating

139. 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.

140. 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.

141. 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.

142. 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. In the Group, the verification process is automatic and is based on the verification of the value of the assets through the application of property indexes. If, by applying the aforementioned indexes, a devaluation of more than 20% is estimated in relation to the last real valuation, it becomes necessary for the valuation to be reviewed by an expert appraiser. In addition, with regard to other assets received as collateral in credit operations, despite their reduced weight in relation to the real estate component, the respective valuation is at market prices, when available, or resorting to the internal definitions considered in the bank's internal regulations, in the remaining situations.

143. 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.

144. 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.

145. 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.

146. 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

147. The Group's own funds are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV), the CRR and Banco de Portugal Notice No. 10/2017. 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. With regard to fair value reserves, under Regulation 2020/873 Banco Montepio adhered to the possibility of applying a prudential filter on fair value reserves associated with sovereign debt. 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 (not associated to computer programmes), 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 subject to deduction, as well as the deferred tax assets associated with tax losses. Deductions are also made under Article 36(k), relating alternatively to the application of the 1,250% risk weight. 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. Under the implementation of the requirements defined in Regulation (EU) No. 575/2013, a transitional plan was defined that allowed the gradual recognition of some of the deductions, and on this reference date only the transitional plan applicable to deferred tax assets that do not depend on future profitability, in the balance sheet on 1 January 2014 is maintained. This plan allows a gradual recognition of the value calculated subject to deduction, and in 2021 this value is 70%. With the revision of Regulation (EU) 575/2013, the applicable amount of insufficient coverage for non-performing exposures became subject to deduction, if the exposure was originated after 26 April 2019.

- *Tier 1 (T1) capital:* Includes quasi-equity instruments, whose conditions comply with the requirements defined in Article 52 of Regulation 575/2013 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 the 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.

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

149. 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 CVA (credit valuation adjustments) requirement is also ascertained.

150. 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, Banco Montepio has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a period of 5 years. Therefore, on 31 December 2021, Banco Montepio prudentially recognises only 50.0% of the impact related to the adoption of IFRS 9.

151. 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.

152. As previously mentioned, in 2021, the effects of the regulations regarding deferred tax assets, which do not depend on future profitability (provided they are on the 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).

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

## Table 4 | Template EU CC2: Reconciliation of regulatory own funds to the balance sheet in the audited financial statements

| (thousands of euros) | Balance sheet as in published financial statements | Under regulatory scope of consolidation | Reference |
|---|---|---|---|
| Dec/21 | As at period end | As at period end | |
| **Assets - Breakdown by asset classes according to the balance sheet in the published financial statements** | | | |
| 1 Cash and deposits at central banks | 2,967,996 | 2,967,996 | |
| 2 Deposits at other credit institutions | 67,360 | 67,360 | |
| 3 Loans and advances to credit institutions | 229,065 | 229,065 | |
| 4 Loans and advances to customers | 11,667,688 | 11,667,688 | |
| 5 Financial assets held for trading | 7,582 | 7,582 | |
| 6 Financial assets at fair value through profit or loss | 203,427 | 203,427 | k) |
| 7 Financial assets at fair value through other comprehensive income | 123,338 | 123,338 | |
| of which: Significant investment in CET1 instruments of financial sector entities | 0 | 0 | n) |
| of which: Non-significant investment in CET1 instruments of financial sector entities | 18,297 | 18,297 | m) |
| of which: Non-significant investment in AT1 instruments of financial sector entities | 1,331 | 1,331 | o) |
| 8 Hedge derivatives | 5,411 | 5,411 | |
| 9 Other financial assets at amortised cost | 3,004,196 | 3,004,196 | |
| 10 Investments in associated companies | 3,952 | 3,952 | |
| of which: Significant investment in CET1 instruments of financial sector entities | 0 | 0 | |
| 11 Non-current assets held for sale | 38,862 | 38,862 | |
| 12 Non-current assets held for sale - discontinued operations | 429 | 429 | |
| 13 Investment properties | 102,933 | 102,933 | |
| 14 Other tangible assets | 231,610 | 231,610 | |
| 15 Intangible assets | 40,150 | 40,150 | g) |
| 16 Current tax assets | 6,714 | 6,714 | |
| 17 Deferred tax assets | 459,871 | 459,871 | |
| of which: Deferred tax assets which do not depend on future profitability | 56,911 | 56,911 | |
| of which: Deferred tax assets that depend on future profitability and do not arise from temporary differen | 214,331 | 214,331 | h) |
| of which: Deferred tax assets that depend on future profitability and arise from temporary differences | 188,628 | 188,628 | l) |
| 18 Other assets | 552,575 | 552,575 | |
| of which: Defined-benefit pension fund assets | 9,776 | 9,776 | j) |
| 19 **Total assets** | **19,713,160** | **19,732,789** | |
| **Liabilities - Breakdown by liability classes according to the balance sheet in the published financial statements** | | | |
| 20 Resources from central banks | 2,902,003 | 2,902,003 | |
| 21 Resources from other credit institutions | 555,412 | 555,412 | |
| 22 Customer resources | 12,786,886 | 12,786,886 | |
| 23 Debt securities issued | 1,617,125 | 1,617,125 | |
| 24 Financial liabilities held for trading | 7,470 | 7,470 | |
| 25 Hedge derivatives | 335 | 335 | |
| 26 Non-current liabilities held for sale - discontinued operations | 329 | 329 | |
| 27 Provisions | 34,133 | 34,133 | |
| 28 Current tax liabilities | 2,351 | 2,351 | |
| 29 Deferred tax liabilities | 0 | 0 | |
| of which: Deferred tax liabilities not deductible to deferred tax assets that depend on future profitability | 0 | 0 | |
| of which: Deferred tax liabilities deductible from deferred tax assets that depend on future profitability | 0 | 0 | |
| of which: Deductible deferred tax liabilities associated with deferred tax assets that depend on future profitability and do not arise from temporary differences | 0 | 0 | i) |
| of which: Deductible deferred tax liabilities associated with deferred tax assets that depend on future profitability and arise from temporary differences | 0 | 0 | m) |
| 30 Other subordinated liabilities | 217,265 | 217,265 | |
| 31 Other liabilities | 226,718 | 226,718 | |
| 33 **Total liabilities** | **18,350,027** | **18,350,027** | |
| **Shareholders' equity** | | | |
| 34 Share capital | 2,420,000 | 2,420,000 | a) |
| 35 Legal reserve | 193,266 | 193,266 | c) |
| 36 Fair value reserves | 9,267 | 9,267 | d) |
| 37 Other reserves and retained earnings | -1,278,873 | -1,278,873 | b) |
| 38 Consolidated net income for the year attributable to shareholders | 6,570 | 6,570 | f) |
| 39 **Total shareholders' equity** | **1,350,230** | **1,350,230** | |
| 40 **Non-controlling interests** | 12,903 | | e) |

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

## Table 5 | Template EU CCA: Main features of regulatory own funds instruments and eligible liabilities 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 equity instruments | 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 | | | | | |
| Link to the instrument's full terms and conditions (signage) | | 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 | https://www.bancomontepio.pt/iwov-resources/SitePublico/documentos/pt_PT/informacao-financeira-montepio/funding-programes/convocatoria-ag-obrigacionistas/PTFNI1OM0011-condicoes-finais-atualizadas-30062020.pdf | 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 | 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 |

(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.

155. While already included in the previous table, the table below repeats the addresses where the full terms and conditions relating to issuances eligible for additional Tier 1 own funds and Tier 2 own funds can be found on the following websites.

**Table 6 | 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 |

156. Pursuant to Article 437(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 7 | Template EU CC1: Composition of regulatory own funds (1/2)

| Dec/21 | Units: thousand euros | Amounts | Source based on the reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
|---|---|---|---|
| **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | | |
| 1 | Capital instruments and the related share premium accounts | 2,420,000 | a) |
| | of which: Instrument type 1 | 2,420,000 | |
| | of which: Instrument type 2 | 0 | |
| | of which: Instrument type 3 | 0 | |
| 2 | Retained earnings | -715,155 | b) + c) + d) reduced by the amount of Accumulated other comprehensive income (and other reserves) |
| 3 | Accumulated other comprehensive income (and other reserves) | -361,185 | b) + c) + d) reduced by the amount of Retained Earnings |
| EU-3a | Funds for general banking risk | 0 | |
| 4 | Amount of qualifying items referred to in Article 484 (3) of the CRR and the related share premium accounts subject to phase out from CET1 | 0 | |
| 5 | Minority interests (amount allowed in consolidated CET1) | 4,007 | e) reduced by the non-eligible amount for minority interests (8,498 million euros) |
| EU-5a | Independently reviewed interim profits, net of any foreseeable charge or dividend | 6,570 | f) |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **1,354,237** | |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | |
| 7 | Additional value adjustments (negative value) | -366 | |
| 8 | Intangible assets (net of related tax liability)(negative amount) | -9,184 | g) Software assets are deducted from CET1 on the basis of prudential accumulated amortisation (30,996 million euros) |
| 9 | Not applicable | | |
| 10 | 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 (3) of the CRR are met) (negative amount) | -214,344 | h) - i) |
| 11 | Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | 0 | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | 0 | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | 0 | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing. | 10 | |
| 15 | Defined-benefit pension fund assets (negative amount) | -9,776 | j) |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | 0 | |
| 17 | Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | |
| 18 | Direct, indirect and synthetic holdings by the institution of the CET1 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) (negative amount) | 0 | |
| 19 | 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)(value) | 0 | |
| 20 | Not applicable | 0 | |
| EU-20a | Exposure amount of the following items which qualify for a RW of 1 250 %, where the institution opts for the deduction alternative | -10,620 | k) value corresponding to equity tranches held from the synthetic securitisation undertaken in 2020 and the consumer credit securitisation undertaken in 2021. |
| EU-20b | of which: qualifying holdings outside the financial sector (negative amount) | 0 | |
| EU-20c | of which: securitisation positions (negative amount) | -10,620 | |
| EU-20d | of which: free deliveries (negative amount) | 0 | |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) of the CRR are met) (negative amount) | -77,794 | k) - m) that exceeds the 10% threshold of CET1 (110,835 million euros) |
| 22 | Amount above the 17.65 % threshold (negative value) | 0 | the sum of: k) - m) not exceeding the 10% threshold of CET1 n) not exceeding the 10% threshold, but exceeding the 17.65% threshold (162,330 million euros |
| 23 | 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 | 0 | |
| 24 | Not applicable | 0 | |
| 25 | of which: deferred tax assets arising from temporary differences | 0 | |
| EU-25a | Losses for the current financial year (negative amount) | 0 | |
| EU-25b | Foreseeable tax charges on CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount) | 0 | |
| 26 | Not applicable | 0 | |
| 27 | Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount) | 0 | |
| 27a | Other regulatory adjustments | 89,359 | IFRS9 transition (89,001 million euros) + Phase in AID for temporary differences in the balance sheet in January 2024 (2,330 million euros) - NPL hedge (1,612 million euros) + phase in of sovereign debt revaluation reserves CRR Quick fix (-361 million euros) |
| 28 | Total regulatory adjustments to Common Equity Tier 1 (CET1) | -232,715 | |
| **29** | **Common equity tier 1 (CET1) capital** | **1,121,521** | |

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## Table 7.1| Template EU CC1: Composition of regulatory own funds (2/2)

| Dec/21 | Units: thousand euros | Amounts | Source based on the reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
|---|---|---|---|
| **Additional tier 1 (AT1) capital: Instruments** | | | |
| 30 | Capital instruments and the related share premium accounts | 0 | |
| 31 | of which: classified as equity under applicable accounting standards | 0 | |
| 32 | of which: classified as liabilities under applicable accounting standards | 0 | |
| 33 | Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1 | 0 | |
| EU-33a | Amount of qualifying items referred to in Article 494a(1) of the CRR subject to phase out from AT1 | 0 | |
| EU-33b | Amount of qualifying items referred to in Article 494b(1) of the CRR subject to phase out from AT1 | 0 | |
| 34 | Qualifying Tier 1 capital included in the consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties | 199 | e) reduced by the non-eligible amount for minority interests (8,498 million euros) |
| 35 | of which: instruments issued by subsidiaries subject to phase out | 0 | |
| **36** | **Common Tier 1 (AT1) capital before regulatory adjustments** | **199** | |
| **Additional tier 1 (AT1) capital: regulatory adjustments** | | | |
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | 0 | |
| 38 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | |
| 39 | Direct, indirect and synthetic holdings of the AT1 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) (negative amount) | 0 | |
| 40 | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | 0 | |
| 41 | Not applicable | | |
| 42 | Qualifying T2 deductions that exceed the T2 items of the institution (negative amount) | 0 | |
| 42a | Other regulatory adjustments to AT1 capital | 0 | |
| 43 | Total regulatory adjustments to Additional Tier 1 (AT1) capital | 0 | |
| 44 | Additional tier 1 (AT1) capital | 199 | |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **1,121,721** | |
| **Tier 2 (T2) capital: Instruments** | | | |
| 46 | Capital instruments and the related share premium accounts | 206,323 | |
| 47 | Amount of qualifying items referred to in Article 484(5) of the CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) of the CRR | 0 | |
| EU-47a | Amount of qualifying items referred to in Article 494a(2) of the CRR subject to phase out from T2 | 0 | |
| EU-47b | Amount of qualifying items referred to in Article 494b(2) of the CRR subject to phase out from T2 | 0 | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | 199 | e) reduced by the non-eligible amount for minority interests (8,498 million euros) |
| 49 | of which: instruments issued by subsidiaries subject to phase out | 0 | |
| 50 | Credit risk adjustments | 0 | |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **206,522** | |
| **Tier 2 (T2) capital: regulatory adjustments** | | | |
| 52 | Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount) | 0 | |
| 53 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | |
| 54 | Direct, indirect and synthetic 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 10% threshold and net of eligible short positions) (negative amount) | 0 | |
| 54a | Not applicable | 0 | |
| 55 | Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | 0 | |
| 56 | Not applicable | 0 | |
| EU-56a | Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount) | 0 | |
| EU-56b | Other regulatory adjustments to T2 capital | 0 | |
| 57 | Total regulatory adjustments to Tier 2 (T2) capital | 0 | |
| 58 | Tier 2 (T2) capital | 206,522 | |
| 59 | Total Capital (TC = T1 + T2) | 1,328,243 | |
| 60 | Total risk exposure amount | 8,799,976 | |
| **Capital ratios and requirements including buffers** | | | |
| 61 | Common Equity Tier 1 capital | 12.74% | |
| 62 | Tier 1 capital | 12.75% | |
| 63 | Total capital | 15.09% | |
| 64 | Institution CET1 overall capital requirements | 9.02% | |
| 65 | of which: capital conservation buffer requirement | 2.50% | |
| 66 | of which: countercyclical capital buffer requirement | 0.01% | |
| 67 | of which: systemic risk buffer requirement | 0.00% | |
| EU-67a | of which: Global systemically important institution (G-SII) or Other systemically important institution (O-SII) buffer requirement | 0.19% | |
| EU-67b | of which: additional own funds requirements to address the risks other than the risk of excessive leverage | 1.83% | |
| 68 | Common Equity Tier 1 capital (as a percentage of the risk exposure amount) available after meeting the minimum capital requirements | 3.72% | |
| **National minima (if different from Basel III)** | | | |
| 69 | Not applicable | | |
| 70 | Not applicable | | |
| 71 | Not applicable | | |
| **Amounts below the thresholds for deduction (before risk weighting)** | | | |
| 72 | Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 19,629 | n) + o) which does not exceed the 10% threshold |
| 73 | 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 (amount below 17.65% threshold and net of eligible short positions) | 0 | |
| 74 | Not applicable | 0 | 0 |
| 75 | Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) of the CRR are met) | 110,835 | k) - m) which does not exceed the 10% threshold of CET1 and does not exceed the but exceeding the 17.65% threshold (162,330 million euros) |
| **Applicable caps on the inclusion of provisions in T2** | | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach (prior to the application of the cap) | 0 | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under the standardised approach | 94,839 | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to the internal ratings-based approach (prior to the application of the cap) | 0 | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under the internal ratings-based approach | 0 | |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)** | | | |
| 80 | Current cap on CET1 instruments subject to phase-out arrangements | 0 | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | 0 | |
| 82 | Current cap on AT1 instruments subject to phase-out arrangements | 0 | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | 0 | |
| 84 | Current cap on T2 instruments subject to phase-out arrangements | 0 | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | 0 | |

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

158. Since the Group decided to recognise the impacts of IFRS9 in phases, pursuant to Article 473-A of the 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.

## Table 8 | Uniform disclosure of the transitional regime to reduce the impact of IFRS 9

(thousands of euros)

| | AVAILABLE OWN FUNDS (AMOUNTS) | 31/Dec/2021 | 30/Jun/2021 | 31/Mar/2021 | 31/Dec/2020 |
|---|---|---|---|---|---|
| 1 | Common equity tier 1 (CET1) capital | 1,121,521 | 1,068,145 | 1,081,677 | 1,114,188 |
| 2 | Common equity tier 1 (CET1) capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied | 1,032,520 | 959,944 | 955,580 | 958,502 |
| 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 | 1,121,882 | 1,068,478 | 1,082,228 | 1,115,704 |
| 3 | Tier 1 capital | 1,121,721 | 1,068,357 | 1,081,931 | 1,114,413 |
| 4 | Tier 1 capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied | 1,032,719 | 960,156 | 955,835 | 958,727 |
| 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 | 1,122,082 | 1,068,689 | 1,082,482 | 1,115,929 |
| 5 | Total capital | 1,328,243 | 1,274,891 | 1,288,508 | 1,320,961 |
| 6 | Total capital if the transitional regime of IFRS 9 or similar expected credit losses had not been applied | 1,239,242 | 1,166,690 | 1,162,412 | 1,165,275 |
| 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 | 1,328,604 | 1,275,223 | 1,289,060 | 1,322,477 |
| | RISK-WEIGHTED ASSETS (AMOUNTS) | | | | |
| 7 | Total risk-weighted assets | 8,799,976 | 9,376,579 | 9,599,659 | 9,576,942 |
| 8 | Total risk-weighted assets if the transitional regime of IFRS 9 or similar expected credit losses had not been applied | 8,716,773 | 9,278,374 | 9,487,166 | 9,436,711 |
| | CAPITAL RATIOS | | | | |
| 9 | Common equity tier 1 capital (as a percentage of the amount of the exposures) | 12.7% | 11.4% | 11.3% | 11.6% |
| 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 | 11.8% | 10.3% | 10.1% | 10.2% |
| 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 | 12.7% | 11.4% | 11.3% | 11.6% |
| 11 | Tier 1 capital (as a percentage of the amount of the exposures) | 12.7% | 11.4% | 11.3% | 11.6% |
| 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 | 11.8% | 10.3% | 10.1% | 10.2% |
| 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 | 12.8% | 11.4% | 11.3% | 11.7% |
| 13 | Total capital (as a percentage of the amount of the exposures) | 15.1% | 13.6% | 13.4% | 13.8% |
| 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 | 14.2% | 12.6% | 12.3% | 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 | 15.1% | 13.6% | 13.4% | 13.8% |
| | LEVERAGE RATIO | | | | |
| 15 | Total leverage ratio exposure | 20,106,313 | 19,898,886 | 20,441,763 | 18,435,409 |
| 16 | Leverage ratio | 5.6% | 5.4% | 5.3% | 6.0% |
| 17 | Leverage ratio if the transitional regime of IFRS 9 or similar expected credit losses had not been applied | 5.2% | 4.9% | 4.7% | 5.2% |

Banco Montepio

**Table 9 | Template EU LIB: Other qualitative information on the scope**

| Line No. | Qualitative Information | Comments |
|---|---|---|
| a) | Impediment to a timely transfer of own funds or prompt repayment of intra-group liabilities | 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. |
| b) | Subsidiaries not included in the consolidation with lower than required own funds | There are no subsidiaries not included in the consolidation with lower than required own funds. |
| c) | Use of the derogation referred to in Article 7 of the CRR or individual consolidation method referred to in Article 9 of the CRR | The derogation referred to in Article 7 of the CRR or individual consolidation method provided for in Article 9 of the CRR is not used. |
| d) | Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation | Not applicable. |

## 4.2 Capital requirements

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

160. In 2021, the capital requirements for credit risk were fully calculated based on the standard method, based on the business segments of the various group entities.

161. In 2021, 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 the CRD IV and the CRR.

162. The following table exhibits, according to Article 438(c) to (f) of the 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.

163. In December 2021, the value of risk-weighted assets (RWA) came to 8,798 million euros, which represents a decrease of about 8.13% 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. The reduction in RWA was also driven by the decrease in non-strategic assets, achieved in the stock of non-performing loans (NPL) and real estate assets, and by the recomposition of the balance sheet that benefited from an efficient management of risk allocation in the credit and debt securities portfolios, despite the adverse Covid-19 context.

164. The reduction in the RWA associated with its credit portfolio had an important contribution from the Pelican Finance No.2 credit securitisation operation in the amount of 356.8 million euros (sale of consumer credit) co-originated by Banco Montepio and Montepio Crédito, with an overall impact on capital ratios of about 40 b.p.

165. On 6 December 2021, Banco Montepio and Montepio Crédito signed, with Ares Lusitani - STC, S.A., the contracts leading to the securitisation of a consumer credit portfolio. The securitisation operation, with the name Pelican Finance No. 2, has a legal maturity of 13 years (25 January 2035), and the associated bonds have a Weighted Average Life of 2.76 years (assuming a CPR of 7.5%). The Aggregate Principal Amount Outstanding of the securitised credits was, on the reference date of 31 October 2021 (Portfolio Determination Date), 356,774 thousand euros, being a static portfolio, with no revolving mechanisms. The sale was made through a syndicated public placement model, with class A placed above par (100.606%) and the others at par.

## Table 10 | Template EU OV1: Overview of risk-weighted assets

(thousands of euros)

| | | RWAs | | Capital Requirements |
|---|---|---|---|---|
| | | Dec-21 | Dec-20 | Dec-21 |
| **Credit Risk (excluding CCR)** | | **6,638,452** | **7,219,694** | **531,076** |
| Art. 438(c)(d) | of which: standardised approach | 6,638,452 | 7,219,694 | 531,076 |
| | of which: IRB approach | 0 | 0 | 0 |
| | of which: advanced IRB approach | 0 | 0 | 0 |
| Art. 438(d) | of which: equity IRB under the simple risk-weighted approach or IMA | 0 | 0 | 0 |
| **Art. 107<br>Art. 438(c)(d)** | **CCR** | **89,798** | **80,174** | **7,184** |
| Art. 438(c)(d) | Of which: mark to market (MtM) | 57,983 | 64,044 | 4,639 |
| | Of which: original exposure approach | 0 | 0 | 0 |
| | of which: standardised approach | 0 | 0 | 0 |
| | of which: internal model method (IMM) | 0 | 0 | 0 |
| | of which: exposure amount for contributions to the Default Fund of a CCP | 0 | 0 | 0 |
| | of which: CVA | 31,815 | 16,130 | 2,545 |
| **Art. 438(e)** | **Settlement Risk** | **0** | **0** | **0** |
| **Art. 449(o)(i)** | **Banking book securitisation exposures (net of cap)** | **890,964** | **1,057,583** | **71,277** |
| | of which: IRB approach | 0 | 0 | 0 |
| | of which: supervisory formula method (SFA) | 0 | 0 | 0 |
| | of which: internal assessment approach | 0 | 0 | 0 |
| | of which: standardised approach | 890,964 | 1,057,583 | 71,277 |
| **Art. 438(e)** | **Market Risk** | **97,089** | **55,019** | **7,767** |
| | of which: standardised approach | 97,089 | 55,019 | 7,767 |
| | of which: IMA | 0 | 0 | 0 |
| **Art. 438(e)** | **Large Exposures** | **0** | **0** | **0** |
| **Art. 438(f)** | **Operational Risk** | **635,507** | **688,081** | **50,841** |
| | of which: basic indicator approach | 0 | 0 | 0 |
| | of which: standardised approach | 635,507 | 688,081 | 50,841 |
| | of which: advanced measurement approach | 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%)** | **446,524** | **476,391** | **35,722** |
| **Art. 500** | **Threshold adjustment** | **0** | **0** | **0** |
| | **Total** | **8,798,334** | **9,576,942** | **703,867** |

166. The following table exhibits the evolution in 2021 of the Pillar I requirements.

### Table 11 | Capital Requirements

(thousands of euros)

| | Dec/2021 | Jun/2021 | Dec/2020 |
|---|---|---|---|
| **Capital requirements** | **703,867** | **750,126** | **766,155** |
| For credit, counterparty credit and dilution risks and free deliveries | 606,992 | 646,379 | 667,306 |
| **Standardised Approach** | 606,992 | 646,379 | 667,306 |
| Standardised Approach Exposure classes, excluding secur | 606,971 | 646,346 | 667,269 |
| Claims or contingent claims on central governments or central banks | 13,464 | 9,961 | 9,169 |
| Claims or contingent claims on regional governments or local authorities | 711 | 430 | 498 |
| Claims or contingent claims on administrative bodies and non-commercial undertakings | 5,819 | 5,804 | 5,606 |
| 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 | 14,673 | 18,729 | 23,759 |
| Claims or contingent claims on Corporates | 136,719 | 131,754 | 134,255 |
| Retail claims or contingent retail claims | 59,565 | 80,181 | 85,531 |
| Claims or contingent claims secured on real estate property | 186,527 | 187,761 | 179,750 |
| Past due items | 41,254 | 41,446 | 43,630 |
| Items belonging to regulatory high-risk categories | 58,706 | 67,357 | 80,191 |
| Covered bonds | 0 | 0 | 434 |
| Exposures on collective investment undertakings (CIU): | 18,254 | 25,290 | 19,840 |
| Other items | 71,277 | 77,634 | 84,607 |
| Securitisation positions under the Standardised Approach | 21 | 33 | 36 |
| (-) Provisions for general credit risks | 0 | 0 | 0 |
| Settlement risk | 0 | 0 | 0 |
| Capital requirements for position, foreign exchange and commo | 7,767 | 6,822 | 4,402 |
| Standardised Approach | 7,767 | 6,822 | 4,402 |
| Debt instruments | 0.25 | 1,182.71 | 4 |
| Equity securities | 0 | 728 | 1,109 |
| Foreign exchange risks | 7,767 | 4,911 | 3,288 |
| Commodities risk | 0 | 0 | 0 |
| Capital requirements for operational risk | 50,841 | 55,046 | 55,046 |
| Basic indicator approach | 0 | 0 | 0 |
| Standardised Approach | 50,841 | 55,046 | 55,046 |
| Advanced measurement approaches | 0 | 0 | 0 |
| Capital requirements - CVA | 2,545 | 5,998 | 1,290 |
| Transitional or other capital requirements | 35,722 | 35,881 | 38,111 |

## 4.3 Assessment and adequacy of own funds

167. Bearing in mind the Risk Appetite Statement, the BoD 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.

168. The positive evolution of capital ratios in December 2021 compared to December 2020 benefited from the implementation of a series of measures aimed at improving the ratios of own funds, namely through the reduction of risk weighted assets (RWA), focused on deleveraging the balance sheet via divestment of non-performing or non-strategic assets, fostering the growth of the core business of granting loans in lower risk segments, and with a view to maximising the return on the assigned capital.

169. In this context, emphasis is given to the reduction of non-strategic assets achieved in 2021 through the sale of the Bank's equity stakes in Monteiro Aranha S.A., in March 2021, and in Almina Holding S.A., in June 2021. In addition, at the end of the year,

Banco Montepio sold a portfolio of non-performing loans (Gerês Operation), with a positive impact of 3 b.p. on capital ratios for that year, as well as completing a consumer credit securitisation operation (Pelican Finance No.2), a measure included in the capital plan and which proved decisive in reducing RWA, with an overall impact on capital ratios of around 40 b.p.

170. Total equity registered a positive evolution in 2021 compared to 2020, reflecting the favourable evolution of net income for the year and of actuarial deviations determined at the level of pension liabilities, in a context still marked by the exogenous adverse effects brought about by the Covid-19 pandemic and by the unfavourable impacts resulting from the phasing-in of IFRS 9.

171. 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 12 | Capital indicators**

| Phasing In | Dec-2021 | Sep-2021 | Jun-2021 | Mar-2021 | Dec-2020 |
|---|---|---|---|---|---|
| CET1 Ratio | 12.7% | 11.6% | 11.4% | 11.3% | 11.6% |
| T1 Ratio | 12.7% | 11.6% | 11.4% | 11.3% | 11.6% |
| Total Capital Ratio | 15.1% | 13.9% | 13.6% | 13.4% | 13.8% |
| Leverage Ratio | 5.6% | 5.4% | 5.4% | 5.3% | 6.0% |
| **Full Implementation** | **Dec-2021** | **Sep-2021** | **Jun-2021** | **Mar-2021** | **Dec-2020** |
| CET1 Ratio | 11.8% | 10.6% | 10.3% | 10.0% | 10.1% |
| T1 Ratio | 11.8% | 10.6% | 10.3% | 10.0% | 10.1% |
| Total Capital Ratio | 14.2% | 12.9% | 12.5% | 12.2% | 12.3% |
| Leverage Ratio | 5.1% | 4.9% | 4.8% | 4.7% | 5.2% |

172. 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%.

173. The minimum requirements, which include the minimum requirements components (Pillar 1), specific requirements arising from SREP (Pillar 2) and combined reserve requirements, in December 2021, were the following:

| Ratios | 2021 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% |

174. 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 requirements of own funds (Overall Capital Requirements – OCR), considering that the capital reserves were designed to enable credit institutions to overcome especially adverse situations.

175. With reference to 31 December 2021, the capital ratios reported by Banco Montepio were above the required levels of the overall capital requirement (OCR), including the combined own funds reserves, not only according to the phasing-in criteria, but also on a fully implemented basis. Nevertheless, the Board of Directors remains committed to strengthening capital ratios and has undertaken a number of initiatives to this end.

176. 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.

177. 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 (BoD, 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.

178. 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 BoD.

179. 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.

180. 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.

181. 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.

182. 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.

183. 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

184. 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 2021 was 0%.

185. The following table exhibits, in compliance with Article 440(1)(a) of the CRR, the geographical distribution of the relevant credit exposures for the calculation of the countercyclical capital buffer and also the exposures to countries where the countercyclical capital buffer rate is different from 0%.

**Table 13 | Template EU CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.**

(thousands of euros)

| | | | | | | Capital Requirements | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | c | e | f | g | h | i | j | k | l | m |
| | 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 | Total exposure value | Of which: general credit exposures | Of which: exposures in the trading book | Of which: securitised exposures | Total | Risk-weighted exposure amounts | Weighting of capital requirements | Countercyclical capital buffer rate |
| 001 | Portugal | 18,570,918 | 0 | 616 | 18,571,534 | 566,027 | 0 | 10 | 566,037 | 7,075,467 | 90.75% | 0.00% |
| 002 | Italy | 1,254,056 | 0 | 0 | 1,254,056 | 74 | 0 | 0 | 74 | 923 | 0.01% | 0.00% |
| 003 | Spain | 1,004,719 | 0 | 697 | 1,005,416 | 3,011 | 0 | 11 | 3,022 | 37,774 | 0.48% | 0.00% |
| 004 | Angola | 219,922 | 0 | 0 | 219,922 | 33,186 | 0 | 0 | 33,186 | 414,820 | 5.32% | 0.00% |
| 005 | United Kingdom | 123,738 | 0 | 0 | 123,738 | 3,786 | 0 | 0 | 3,786 | 47,321 | 0.61% | 0.00% |
| 006 | Luxembourg | 84,662 | 0 | 0 | 84,662 | 7,190 | 0 | 0 | 7,190 | 89,871 | 1.15% | 0.50% |
| 007 | Norway | 886 | 0 | 0 | 886 | 19 | 0 | 0 | 19 | 240 | 0.00% | 1.00% |
| 008 | Czech Rep. | 121 | 0 | 0 | 121 | 3 | 0 | 0 | 3 | 39 | 0.00% | 1.00% |
| 009 | Hong Kong | 2 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0.00% | 1.00% |
| 010 | Bulgaria | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.50% |
| 011 | Other Countries | 534,918 | 0 | 0 | 534,918 | 10,444 | 0 | 0 | 10,444 | 130,554 | 1.67% | - |
| **012** | **TOTAL** | **21,793,943** | **0** | **1,313** | **21,795,257** | **623,740** | **0** | **21** | **623,761** | **7,797,010** | **100.00%** | **0.0057991%** |

186. The countercyclical capital buffer 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 capital buffer tended to be 0.0058%.

187. The following table shows the countercyclical capital buffer requirement of the Montepio Group's Own Funds as at 31 December 2021.

**Table 14 | Template EU CCyB2: Calculation of the countercyclical capital buffer for Own Funds Requirements**

(thousands of euros)

| | | a |
|---|---|---|
| | | Dec-21 |
| 001 | Total amount of exposures (RWA) | 8,798,334 |
| 002 | Countercyclical reserve rate of own funds specific to the institution | 0.00580% |
| 003 | Countercyclical reserve requirement of own funds specific to the institu | 510 |

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

## 4.5 Leverage ratio

189. 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.

190. 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).

191. As at 31 December 2021, the leverage ratio was 5.6%, a value that exceeds the minimum value of 3% which entered into force on 30 June 2021. Compared to the previous year, there was a decrease of 47 b.p. mainly due to the increase in the bank's total exposure, namely in terms of cash and deposits at central banks.

192. 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 the CRR, as shown in the following tables.

**Table 15 | Leverage ratio**

(thousands of euros)

| Capital and total exposure measure | Dec-21 | Jun-21 | Dec-20 |
|---|---|---|---|
| Tier 1 capital | 1,121,721 | 1,068,357 | 1,114,413 |
| Leverage ratio total exposure measure | 20,106,313 | 19,898,886 | 18,435,409 |
| **Leverage ratio** | | | |
| Leverage ratio | 5.58% | 5.37% | 6.04% |
| **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 |

## Table 16 | Template EU LRA: Disclosure of quantitative information on leverage ratio

| Row No. | Qualitative Information | Comments |
|---|---|---|
| a) | Description of the processes used to manage the risk of excessive leverage | The leverage ratio is a metric calculated monthly, and is periodically monitored by the management and supervisory bodies. |
| b) | Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers | The Leverage ratio stood at 5.58% in December 2021 versus 6.04% a year earlier. The evolution of the ratio in 2021 represented a decrease of 0.46 p.p. that resulted essentially from the growth of BM's total assets. This increase resulted mainly from the decrease in resources from central banks. |

# Table 17 | Template EU LR2: Common disclosure of leverage ratio

(thousands of euros)

| | CRR leverage ratio exposures | Dec-21 | Dec-20 |
|---|---|---|---|
| | **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFT and fiduciary assets, but including guarantees) | 19,700,167 | 17,920,643 |
| 2 | Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 | 0 |
| 3 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 | 0 |
| 4 | (Adjustment for securities received under securities financing transactions that are recognised as an asset) | 0 | 0 |
| 5 | (General credit risk adjustments to on-balance sheet items) | 0 | 0 |
| 6 | (Asset amounts deducted in determining Tier 1 capital) | -231,104 | -206,736 |
| **7** | **Total On-balance sheet exposures (excluding derivatives and SFTs)** | **19,469,063** | **17,713,907** |
| | **Derivative exposures** | | |
| 8 | Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin) | 12,993 | 20,092 |
| EU-8a | Derogation for derivatives: replacement costs contribution under the simplified standardised approach | 0 | 0 |
| 9 | Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions | 44,098 | 29,523 |
| EU-9a | Derogation for derivatives: potential future exposure contribution under the simplified standardised approach | 0 | 0 |
| EU-9b | Exposure determined under the Original Exposure Method | 0 | 0 |
| 10 | (Exempted CCP leg of client-cleared trade exposures) (SA-CCR) | 0 | 0 |
| EU-10a | (Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach) | 0 | 0 |
| EU-10b | (Exempted CCP leg of client-cleared trade exposures) (original exposure method) | 0 | 0 |
| 11 | Adjusted effective notional amount of written credit derivatives | 0 | 0 |
| 12 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 | 0 |
| **13** | **Total derivatives exposures** | **57,091** | **49,615** |
| | **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 14 | Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions | 190,741 | 109,693 |
| 15 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | -190,741 | -109,693 |
| 16 | Counterparty credit risk exposure for SFT assets | 8,176 | 55,660 |
| EU-16a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429-B(5) and 222 of the CRR | 0 | 0 |
| 17 | Agent transaction exposures | 0 | 0 |
| EU-17a | (Exempted CCP leg of client-cleared SFT exposure) | 0 | 0 |
| **18** | **Total securities financing transaction exposures** | **8,176** | **55,660** |
| | **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 19 | Off-balance sheet exposures at gross notional amount | 1,967,195 | 1,936,976 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | -1,395,212 | -1,320,748 |
| 21 | (General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures) | 0 | 0 |
| **22** | **Off-balance sheet exposures** | **571,983** | **616,228** |
| | **Excluded exposures** | | |
| EU-22a | (Exposures excluded from the total exposure measure according to Article 429a(1)(c) of the CRR) | 0 | 0 |
| EU-22b | (Exposures exempted under Article 429-A(1)(j) of the CRR (on- and off-balance sheet)) | 0 | 0 |
| EU-22c | (Excluded exposures of public development banks (or units) - Public sector investments) | 0 | 0 |
| EU-22d | (Excluded exposures of public development banks (or units) - Promotional loans ) | 0 | 0 |
| EU-22e | (Excluded passing-through promotional loan exposures by non-public development banks (or units)) | 0 | 0 |
| EU-22f | (Excluded guaranteed parts of exposures arising from export credits) | 0 | 0 |
| EU-22g | (Excluded excess collateral deposited at triparty agents) | 0 | 0 |
| EU-22h | (Excluded CSD related services of CSD/institutions in accordance with Article 429-A(1)(o) of the CRR) | 0 | 0 |
| EU-22i | (Excluded CSD related services of designated institutions in accordance with Article 429-A(1)(p) of the CRR) | 0 | 0 |
| EU-22j | (Reduction of the exposure value of pre-financing or intermediate loans) | 0 | 0 |
| **EU-22k** | **(Total exempted exposures)** | **0** | **0** |
| | **Capital and total exposure measure** | | |
| 23 | Tier 1 capital | 1,121,721 | 1,114,413 |
| **24** | **Total exposure measure** | **20,106,313** | **18,435,409** |
| | **Leverage ratio** | | |
| 25 | Leverage ratio (%) | 5.58% | 6.04% |
| EU-25 | Leverage ratio (excluding the impact of exemption of public sector investments and promotional loans) (%) | 5.58% | 6.04% |
| 25a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%) | 5.58% | 6.04% |
| 26 | Regulatory minimum leverage ratio requirement (%) | 3.00% | |
| 27 | Leverage ratio buffer requirement (%) | 0.00% | |
| EU-27a | Overall leverage ratio requirement (%) | 3.00% | |
| | **Choice on transitional arrangements and relevant exposures** | | |
| EU-27b | Choice on transitional arrangements for the definition of the capital measure | N.A. | N.A. |
| | **Disclosure of mean values** | | |
| 28 | Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable | | |
| 29 | Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables | | |
| 30 | Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 20,106,313 | 18,435,409 |
| 30a | Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 20,106,313 | 18,435,409 |
| 31 | Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 5.58% | 6.04% |
| 31a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 5.58% | 6.04% |

193. 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.

## Table 18 | Template EU LR1: Summary reconciliation of accounting assets and leverage ratio exposures

(thousands of euros)

| | | a | |
|---|---|---|---|
| | | Applicable Amount | |
| | | Dec-21 | Dec-20 |
| **001** | **Total assets as per published financial statements** | **19,713,160** | **17,940,735** |
| 002 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 | 0 |
| 003 | (Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference) | 0 | 0 |
| 004 | (Adjustment for temporary exemption of exposures to central banks (if applicable)) | 0 | 0 |
| 005 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with Article 429-A(1)(i) of the CRR) | 0 | 0 |
| 006 | Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting | 0 | 0 |
| 007 | Adjustment for eligible cash pooling transactions | 0 | 0 |
| 008 | Adjustments for derivative financial instruments | 44,098 | 29,523 |
| 009 | Adjustment for securities financing transactions (SFTs) | 8,176 | 55,660 |
| 010 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures) | 571,983 | 616,228 |
| 011 | (Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital) | -366 | -649 |
| EU-11a | (Adjustment for exposures excluded from the total exposure measure in accordance with Article 429-A(1)(c) of the CRR) | 0 | 0 |
| EU-11b | (Adjustment for exposures excluded from the total exposure measure in accordance with Article 429-A(1)(i) CRR | 0 | 0 |
| 012 | Other adjustments | -230,738 | -206,087 |
| **013** | **Total exposure measure** | **20,106,313** | **18,435,409** |

## Table 19 | Template EU LR3: Breakdown of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

(thousands of euros)

| | | a | |
|---|---|---|---|
| | | CRR leverage ratio exposures | |
| | | Dec-21 | Dec-20 |
| **EU-1** | **Total on-balance sheet exposures (excluding derivatives and SFTs, and exempted exposures), of which:** | **27,029,546** | **25,947,648** |
| EU-2 | Trading book exposures | 0 | 0 |
| **EU-3** | **Banking book exposures, of which:** | **27,029,546** | **25,947,648** |
| *EU-4* | *Covered Bonds* | *0* | *0* |
| *EU-5* | *Exposures treated as sovereigns* | *6,105,038* | *3,957,225* |
| *EU-6* | *Exposures to regional governments, MDB, International organisations and PSE, not treated as sovereigns* | *198,786* | *177,774* |
| *EU-7* | *Institutions* | *475,015* | *608,697* |
| *EU-8* | *Secured by mortgages of immovable properties* | *8,657,774* | *8,441,838* |
| *EU-9* | *Retail exposures* | *2,457,069* | *3,107,193* |
| *EU-10* | *Corporates* | *3,804,281* | *3,681,709* |
| *EU-11* | *Exposures in default* | *958,972* | *1,023,744* |
| *EU-12* | *Other exposures (eg equity, securitisations, and other non-credit obligation assets)* | *4,372,611* | *4,949,468* |

194. The provisions in Article 429(8) of the CRR do not apply to the Group.

195. Based on the gap between the current level of the leverage ratio which reached 5.58%, 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.

196. 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.

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

198. The leverage ratio is a key performance indicator monitored monthly 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 BoD 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

199. On 31 December 2021, 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 the CRR do not apply.

## 6. Counterparty credit risk

200. 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.

201. 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.

202. 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).

203. 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.

204. 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).

205. 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).

206. 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.

207. 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.

208. 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.

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

210. For prudential purposes, resulting from the CRR review in June 2021, the exposures to derivatives are calculated in accordance with the initial risk method described in Article 282 (Part III, Title II, Chapter 6, Section 5) of the CRR.

211. 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 20 | Template EU CCR1: Analysis of the CCR exposure by approach

(thousands of euros)

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | Dec-2021 | Replacement Cost (RC) | Potential future exposure (PFE) | EEPE | Alpha used for computing regulatory exposure value | Exposure value pre-CRM | Exposure value post-CRM | Exposure value | RWEA |
| EU1 | EU - Original exposure method (for derivatives) | 8,608 | 44,098 | | 1.4 | 73,789 | 73,789 | 73,789 | 36,214 |
| EU2 | EU - Simplified SA-CCR (for derivatives) | - | - | | 1.4 | - | - | - | - |
| 1 | SA-CCR (for derivatives) | - | - | | 1.4 | - | - | - | - |
| 2 | IMM (for derivatives and SFTs) | | | - | - | - | - | - | - |
| 2a | *Of which securities financing transactions netting sets* | | | - | | - | - | - | - |
| 2b | *Of which derivatives and long settlement transactions netting sets* | | | - | | - | - | - | - |
| 2c | *Of which from contractual cross-product netting sets* | | | - | | - | - | - | - |
| 3 | Financial collateral simple method (for SFTs) | | | | | 8,176 | 8,176 | 8,176 | 1,635 |
| 4 | Financial collateral comprehensive method (for SFTs) | | | | | - | - | - | - |
| 5 | VaR for SFTs | | | | | - | - | - | - |
| 6 | **Total** | | | | | **81,965** | **81,965** | **81,965** | **37,849** |

| | Jun-21 | Replacement Cost (RC) | Potential future exposure (PFE) | EEPE | Alpha used for computing regulatory exposure value | Exposure value pre-CRM | Exposure value post-CRM | Exposure value | RWEA |
|---|---|---|---|---|---|---|---|---|---|
| EU1 | Mark to Market | 19,313 | 116,666 | | 1.4 | 190,370 | 190,370 | 190,370 | 69,477 |
| EU2 | Original exposure | - | - | | 1.4 | - | - | - | - |
| 1 | Standardised approach | - | - | | 1.4 | - | - | - | - |
| 2 | Internal Model Method - IMM (for derivatives and SFTs) | | | - | - | - | - | - | - |
| 2a | *Of which securities financing transactions* | | | - | - | - | - | - | - |
| 2b | *Of which derivatives and long settlement transactions* | | | - | - | - | - | - | - |
| 2c | *Of which from contractual cross-product netting* | | | - | - | - | - | - | - |
| 3 | Financial collateral simple method (for SFTs) | | | | | 1,402 | 1,402 | 1,402 | 701 |
| 4 | Financial collateral comprehensive method (for SFTs) | | | | | - | - | - | - |
| 5 | VaR for SFTs | | | | | - | - | - | |
| 6 | **Total** | | | | | **191,773** | **191,773** | **191,773** | **70,179** |

212. 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 the CRR.

213. 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 21 | Template EU CCR2: Transactions subject to own funds requirements for CVA risk

(thousands of euros)

| | | a | b | a | b |
|---|---|---|---|---|---|
| | | Dec-21 | | Dec-20 | |
| | | Exposure value | RWAs | Exposure value | RWEA |
| 1 | Total transactions subject to the advanced method | 0 | 0 | 0 | 0 |
| *2* | *VaR component (including the 3x multiplier)* | | | | |
| *3* | *Stressed VaR component (including the 3× multiplier)* | | | | |
| 4 | Transactions subject to the standardised approach | 64,336 | 31,815 | 36,943 | 16,130 |
| EU4 | Transactions subject to the alternative approach (based on the original exposure method) | 0 | 0 | 0 | 0 |
| **5** | **Total transactions subject to own funds requirements for CVA risk** | **64,336** | **31,815** | **36,943** | **16,130** |

214. 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(4)(b) of the CRR.

215. 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 22 | Template EU CCR3: Standardised Approach - CCR exposures by regulatory exposure class and risk weights

(thousands of euros)

| | | Risk weights | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-2021 | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Other | Total exposure value |
| 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 | - | - | - | - | 28,474 | 85,502 | - | - | 464 | - | - | 114,440 |
| | Companies | - | - | - | - | - | - | - | - | 9,060 | - | - | 9,060 |
| | Retail | - | - | - | - | - | - | - | 18 | - | - | - | 18 |
| | 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:** | | **-** | **-** | **-** | **-** | **28,474** | **85,502** | **-** | **18** | **9,523** | **-** | **-** | **123,518** |
| 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 | - | - | - | - | 5,695 | 42,751 | - | - | 464 | - | - | 48,910 |
| | Companies | - | - | - | - | - | - | - | - | 9,060 | - | - | 9,060 |
| | 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:** | | **-** | **-** | **-** | **-** | **5,695** | **42,751** | **-** | **13** | **9,523** | **-** | **-** | **57,983** |

216. As at 31 December 2021, there were no credit risk coverage operations through the use of credit derivatives, and thus the procedure described in Article 439(g) and (i) of the CRR was not applied.

217. As at 31 December 2021, there were no derivative operations carried out through central counterparties (CCP). template EU CCR8 - Exposures to CCP

218. The following table presents, in accordance with Article 442(e) of the CRR, 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 23 | Template EU CCR5: Composition of collateral for exposures to CCR

| | (thousands of euros) | Collateral used in derivative transactions | | | | Collateral used in SFTs | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Collateral type | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | | Fair value of posted collateral | |
| | | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated |
| 1 | Cash - domestic currency | | 0 | | 0 | | 2,125 | | 4,800 |
| 2 | Cash - other currencies | | | | | | | | |
| 3 | Domestic sovereign debt | | | | | | | | |
| 4 | Other sovereign debt | | | | | | - | | 192,694 |
| 5 | Government agency debt | | | | | | | | |
| 6 | Corporate bonds | | | | | | | | |
| 7 | Equity securities | | | | | | | | |
| 8 | Other collateral | | | | | | | | |
| **9** | **Total** | **0** | **0** | **0** | **0** | **0** | **2,125** | **0** | **197,494** |

Under Article 5 of Banco de Portugal Instruction 5/2018, 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

219. 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 Report[4] on pages 178 and 179 (Impairment of financial assets section) and 180-185 (Definition of default section).

220. 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 the CRR and which are described in note 1 of the consolidated financial statements, point c) Loans to Customers, in section c.10.2) Definition of default' (page 180 of the Annual Report).

[4] https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/banco-montepio-annual-report-2021.pdf

221. Regarding the definition of impaired credit, it is included in Note 1 to the consolidated financial statements, item c.10.1) Loans to customers impairment model (page 179 and 180 of the Annual Report).

## 7.2 Portfolio structure

222. As at 31 December 2021, the net exposure value was 20,846 million euros and was broken down by the risk categories defined in Article 112 of the CRR as exhibited in the table below.

### Table 24 | Total amount and average amount of net exposures

(thousands of euros)

| Exposure classes | Net exposure | | Net exposure (average throughout the period) | |
|---|---|---|---|---|
| | Dec-2021 | Dec-2020 | Dec-2021 | Dec-2020 |
| Central Governments or Central Banks | 5,938,503 | 3,844,598 | 5,334,710 | 3,549,070 |
| Regional Governments or Local Authorities | 45,711 | 31,664 | 32,901 | 33,014 |
| Public Sector Entities | 72,993 | 70,348 | 72,563 | 70,846 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 |
| International Organisations | 0 | 0 | 0 | 0 |
| Institutions | 604,502 | 703,289 | 727,871 | 705,189 |
| Corporates | 2,647,179 | 2,592,614 | 2,566,259 | 2,468,728 |
| Retail | 2,590,015 | 2,869,072 | 2,797,423 | 2,565,576 |
| Positions Guaranteed by Real Estate | 6,514,777 | 6,336,703 | 6,444,070 | 6,809,386 |
| Past due Items | 532,056 | 577,135 | 558,637 | 840,978 |
| Exposures associated with Particularly High Risks | 621,466 | 783,856 | 731,901 | 501,382 |
| Covered bonds | 0 | 54,216 | 21,687 | 17,798 |
| Institutions and Corporates with a Short-Term Credit Assessment | 0 | 0 | 0 | 0 |
| Exposures on Collective Investment Undertakings | 189,466 | 247,999 | 234,196 | 269,283 |
| Shares | 26,765 | 122,949 | 59,572 | 131,498 |
| Other Items | 1,062,236 | 1,238,648 | 1,149,323 | 1,435,461 |
| Securitisations | 1,313 | 2,059 | 1,822 | 2,434 |
| **TOTAL** | **20,846,984** | **19,475,150** | **20,732,936** | **19,400,643** |

223. According to Article 442(c) of the CCR, the distribution of exposures, relative to credit risk, by exposure class, a higher 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 85% of the net positions.

224. The individual contributions of the original exposures were registered in loans secured on real estate (31%), to Central Government or Central Banks (28%), to companies (13%) and to retail (12%). As in the previous year, the positions classified under “Positions with Collateral of Real Estate Property” consist mainly of mortgage loans for individuals and credit for corporate investment. The exposures of Central

Governments or Central Banks result essentially from an increase in Cash and Deposits at the Banco de Portugal (1,506 million euros)

225. Relative to the previous period, it is important to mention that the net exposure registered an increase of about 1,372 million euros (+7.04%), mainly in the exposure classes of Governments and Central Banks, Retail and Positions with Collateral of Real Estate Property.

226. The distribution of exposures that are not past due and past due and impaired is shown in the following table:

## Quadro 25 | Distribution of exposures that are not past due and past due and impaired

(thousands of euros)

| Dec-2021 | 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 | 0 | 5,943,680 | 5,177 | 0 | 0 | -1,279 | 5,938,503 |
| Regional Governments or Local Authorities | 0 | 45,838 | 126 | 0 | 0 | 52 | 45,711 |
| Public Sector Entities | 0 | 72,996 | 3 | 0 | 0 | 2 | 72,993 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| International Organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 0 | 604,526 | 23 | 0 | 0 | -11 | 604,502 |
| Corporates | 109 | 2,686,138 | 39,068 | 0 | 0 | 2,931 | 2,647,179 |
| *of which SMEs* | *109* | *1,552,089* | *27,362* | *0* | *0* | *-854* | *1,524,836* |
| Retail | 0 | 2,624,044 | 34,029 | 0 | 0 | -10,190 | 2,590,015 |
| *of which SMEs* | *0* | *2,018,166* | *28,928* | *0* | *0* | *-6,902* | *1,989,238* |
| Positions Guaranteed by Real Estate | 0 | 6,538,956 | 24,180 | 0 | 0 | -15,338 | 6,514,777 |
| *of which SMEs* | *0* | *1,150,028* | *10,840* | *0* | *0* | *-6,532* | *1,139,188* |
| Past due Items | 929,174 | 7,673 | 404,792 | 0 | 0 | -108,090 | 532,056 |
| Exposures associated with Particularly High Risks | 195,962 | 498,185 | 72,681 | 0 | 0 | -81,386 | 621,466 |
| Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions and Corporates with a Short-Term Credit Assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Positions on Collective Investment Undertakings (CIU): | 0 | 204,376 | 14,910 | 0 | 0 | 14,910 | 189,466 |
| Shares | 0 | 26,765 | 0 | 0 | 0 | 0 | 26,765 |
| Other Items | 0 | 1,415,521 | 353,285 | 0 | 0 | -18,811 | 1,062,236 |
| Securitisations | 0 | 1,313 | 0 | 0 | 0 | 0 | 1,313 |
| **TOTAL** | **1,125,245** | **20,670,011** | **948,273** | **0** | **0** | **-217,212** | **20,846,984** |
| *Of which: Loans* | *1,058,564* | *12,360,760* | *568,789* | *0* | *0* | *-213,085* | *12,850,534* |
| *Of which: Debt securities* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *Of which: Off-balance sheet exposu* | *66,151* | *366,795* | *6,448* | *0* | *0* | *909* | *426,497* |

227. In December 2021, 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 26 | Credit and counterparty risk capital requirements

(thousands of euros)

| Dec-2021 | | Risk weights 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Original exposure by exposure class | Central Governments or Central Banks | 5,829,988 | 0 | 0 | 0 | 0 | 0 | 4,466 | 109,226 | 0 | 5,943,680 |
| | Regional Governments or Local Authorities | 0 | 0 | 45,838 | 0 | 0 | 0 | 0 | 0 | 0 | 45,838 |
| | Public Sector Entities | 0 | 0 | 0 | 0 | 0 | 0 | 72,996 | 0 | 0 | 72,996 |
| | Institutions | 218,976 | 0 | 204,347 | 0 | 134,578 | 0 | 40,618 | 6,007 | 0 | 604,526 |
| | Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 2,657,364 | 28,883 | 0 | 2,686,247 |
| | Retail | 0 | 0 | 0 | 0 | 0 | 2,624,044 | 0 | 0 | 0 | 2,624,044 |
| | Positions guaranteed by real estate | 0 | 0 | 0 | 5,475,286 | 613,528 | 248,343 | 201,800 | 0 | 0 | 6,538,956 |
| | Past due Items | 0 | 0 | 0 | 0 | 0 | 0 | 779,184 | 157,664 | 0 | 936,848 |
| | Exposures associated with Particularly High Risks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 694,147 | 0 | 694,147 |
| | Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Positions on Collective Investment Undertakings (CIU): | 0 | 0 | 0 | 0 | 0 | 0 | 112,045 | 92,331 | 0 | 204,376 |
| | Shares | 0 | 0 | 0 | 0 | 0 | 0 | 26,765 | 0 | 0 | 26,765 |
| | Other Items | 158,698 | 0 | 15,718 | 0 | 0 | 0 | 1,241,105 | 0 | 0 | 1,415,521 |
| | Securitisation positions under the Standardised Approach | 0 | 0 | 908 | 0 | 405 | 0 | 0 | 0 | 0 | 1,313 |
| | **TOTAL original exposures:** | **6,207,662** | **0** | **266,811** | **5,475,286** | **748,511** | **2,872,387** | **5,136,343** | **1,088,257** | **0** | **21,795,257** |
| 2. Exposure by exposure class (reserve base of risk weights): | Central Governments or Central Banks | 5,823,041 | 0 | 0 | 0 | 0 | 0 | 4,466 | 109,226 | 0 | 5,936,733 |
| | Regional Governments or Local Authorities | 0 | 0 | 44,437 | 0 | 0 | 0 | 0 | 0 | 0 | 44,437 |
| | Public Sector Entities | 0 | 0 | 0 | 0 | 0 | 0 | 72,742 | 0 | 0 | 72,742 |
| | Institutions | 208,087 | 0 | 200,335 | 0 | 134,578 | 0 | 40,286 | 6,007 | 0 | 589,293 |
| | Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 2,211,302 | 13,737 | 0 | 2,225,039 |
| | Retail | 0 | 0 | 0 | 0 | 0 | 1,754,049 | 0 | 0 | 0 | 1,754,049 |
| | Positions guaranteed by real estate | 0 | 0 | 0 | 5,465,730 | 574,947 | 128,266 | 164,683 | 0 | 0 | 6,333,625 |
| | Past due Items | 0 | 0 | 0 | 0 | 0 | 0 | 358,051 | 105,763 | 0 | 463,814 |
| | Exposures associated with Particularly High Risks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 521,325 | 0 | 521,325 |
| | Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Positions on Collective Investment Undertakings (CIU): | 0 | 0 | 0 | 0 | 0 | 0 | 112,045 | 77,421 | 0 | 189,466 |
| | Shares | 0 | 0 | 0 | 0 | 0 | 0 | 26,765 | 0 | 0 | 26,765 |
| | Other Items | 158,698 | 0 | 15,718 | 0 | 0 | 0 | 887,820 | 0 | 0 | 1,062,236 |
| | Securitisation positions under the Standardised Approach | 0 | 0 | 908 | 0 | 405 | 0 | 0 | 0 | 0 | 1,313 |
| | **TOTAL exposures:** | **6,189,825** | **0** | **261,399** | **5,465,730** | **709,930** | **1,882,314** | **3,878,159** | **833,479** | **0** | **19,220,836** |
| **3. TOTAL risk weighted exposures (=S (2."x" risk weights))** | | **0** | **0** | **52,280** | **1,913,005** | **354,965** | **1,411,736** | **3,878,159** | **1,250,218** | **0** | **8,860,363** |
| Capital requirements by exposure class (2. "x" risk weights "x" 8%) | Central Governments or Central Banks | 0 | 0 | 0 | 0 | 0 | 0 | 357 | 13,107 | 0 | 13,464 |
| | Regional Governments or Local Authorities | 0 | 0 | 711 | 0 | 0 | 0 | 0 | 0 | 0 | 711 |
| | Public Sector Entities | 0 | 0 | 0 | 0 | 0 | 0 | 5,819 | 0 | 0 | 5,819 |
| | Institutions | 0 | 0 | 3,205 | 0 | 5,383 | 0 | 3,223 | 721 | 0 | 12,532 |
| | Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 120,234 | 16,485 | 0 | 136,719 |
| | Retail | 0 | 0 | 0 | 0 | 0 | 59,565 | 0 | 0 | 0 | 59,565 |
| | Positions guaranteed by real estate | 0 | 0 | 0 | 150,803 | 18,541 | 6,673 | 10,511 | 0 | 0 | 186,527 |
| | Past due Items | 0 | 0 | 0 | 0 | 0 | 0 | 28,563 | 12,692 | 0 | 41,254 |
| | Exposures associated with Particularly High Risks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 58,706 | 0 | 58,706 |
| | Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Exposures on Collective Investment Undertakings (CIU): | 0 | 0 | 0 | 0 | 0 | 0 | 8,964 | 9,291 | 0 | 18,254 |
| | Shares | 0 | 0 | 0 | 0 | 0 | 0 | 2,141 | 0 | 0 | 2,141 |
| | Other Items | 0 | 0 | 251 | 0 | 0 | 0 | 71,026 | 0 | 0 | 71,277 |
| | Securitisation positions under the Standardised Approach | 0 | 0 | 15 | 0 | 6 | 0 | 0 | 0 | 0 | 21 |
| | **TOTAL capital requirements:** | **0** | **0** | **4,182** | **150,803** | **23,930** | **66,238** | **250,838** | **111,001** | **0** | **606,992** |

(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 |
| | 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 | 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 |
| | Institutions and Corporates with a Short-Term Credit Assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Exposures 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 |
| | 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 | 214,181 | 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 |
| | 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 | 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 |
| | 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 | 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 |
| | 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 | 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** |

228. The table also shows, in accordance with Article 442(c), the distribution of exposures, where it can be observed that around 94% are performing, registering a higher concentration in the counterparties "Households" (about 60%) and "Non-financial companies" (about 36%), of which 87% are SMEs

## 7.3 Performing and non-performing exposures and provisions

229. In accordance with Article 442(c) of the CRR, and with regard to the performing and non-performing exposures and related provisions, the following table shows their breakdown, notwithstanding their classification as to default status.

### Table 27 | Template EU CR1: Performing and non-performing exposures and related provisions.

(thousands of euros)

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collateral and financial guarantees received | |
| | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | | of which, stage 1 | of which, stage 2 | | of which, stage 2 | of which, stage 3 | | of which, stage 1 | of which, stage 2 | | of which, stage 2 | of which, stage 3 | | | |
| **Cash balances at central banks and other demand deposits** | 2,862,579 | 2,862,579 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Loans and advances** | 10,969,878 | 9,008,249 | 1,942,633 | 942,302 | 0 | 941,322 | -92,542 | -27,576 | -64,965 | -411,375 | 0 | -411,375 | -198,495 | 8,538,884 | 414,074 |
| *Central banks* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *General governments* | 104,408 | 103,280 | 1,128 | 0 | 0 | 0 | -579 | -398 | -181 | 0 | 0 | 0 | 0 | 512 | 0 |
| *Credit institutions* | 244,551 | 244,551 | 0 | 0 | 0 | 0 | -464 | -464 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Other financial corporations* | 37,542 | 35,575 | 1,937 | 49,571 | 0 | 49,571 | -188 | -91 | -97 | -12,198 | 0 | -12,198 | 0 | 14,734 | 37,246 |
| *Non-financial corporations* | 3,935,578 | 2,836,477 | 1,081,121 | 707,797 | 0 | 706,943 | -71,286 | -22,448 | -48,837 | -331,842 | 0 | -331,842 | -198,495 | 2,455,667 | 276,117 |
| of which, SMEs | 3,416,939 | 2,503,954 | 901,249 | 678,053 | 0 | 677,199 | -59,872 | -20,214 | -39,657 | -318,050 | 0 | -318,050 | 0 | 2,263,705 | 270,031 |
| *Households* | 6,647,798 | 5,788,366 | 858,447 | 184,934 | 0 | 184,808 | -20,026 | -4,175 | -15,850 | -67,335 | 0 | -67,335 | 0 | 6,067,971 | 100,711 |
| **Debt securities** | 3,612,187 | 3,595,302 | 16,886 | 33,000 | 0 | 33,000 | -12,311 | -10,994 | -1,317 | -14,272 | 0 | -14,272 | 0 | 8,786 | 0 |
| *Central banks* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| *General governments* | 3,067,854 | 3,067,854 | 0 | 0 | 0 | 0 | -5,533 | -5,533 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Credit institutions* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Other financial corporations* | 10,894 | 8,408 | 2,487 | 0 | 0 | 0 | -794 | -44 | -750 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Non-financial corporations* | 533,439 | 519,040 | 14,399 | 33,000 | 0 | 33,000 | -5,984 | -5,417 | -567 | -14,272 | 0 | -14,272 | 0 | 8,786 | 0 |
| **Off-balance sheet exposures** | 1,902,482 | 1,515,098 | 387,279 | 117,002 | 0 | 117,002 | -6,738 | -3,294 | -3,444 | -14,524 | 0 | -14,524 | | 0 | 0 |
| *Central banks* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 0 |
| *General governments* | 2,676 | 2,664 | 12 | 0 | 0 | 0 | 1 | -1 | 0 | 0 | 0 | 0 | | 0 | 0 |
| *Credit institutions* | 212,342 | 59,855 | 152,472 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 0 |
| *Other financial corporations* | 20,144 | 12,499 | 7,644 | 5 | 0 | -5 | -152 | -4 | -148 | 0 | 0 | 0 | | 0 | 0 |
| *Non-financial corporations* | 1,174,387 | 971,474 | 186,873 | 114,100 | 0 | -114,100 | -5,109 | -2,521 | -2,589 | 14,488 | 0 | -14,488 | | 0 | 0 |
| *Households* | 492,933 | 452,830 | 40,036 | 2,897 | 0 | -2,897 | -1,454 | -747 | -707 | 36 | 0 | -36 | | 0 | 0 |
| **Total** | 19,347,125 | 16,981,228 | 2,346,797 | 1,092,304 | 0 | 1,091,324 | -111,591 | -41,864 | -69,725 | -440,171 | 0 | -440,171 | -198,495 | 8,547,669 | 414,074 |

230. It is important to mention that the gross value of these exposures came to approximately 20,432 million euros, of which about 1,092 million euros (5.34%) corresponded to non-performing exposures.

231. Regarding the stages, it can be seen that 83% of the exposure is concentrated in stage 1, while 11.48% and 5.34% represent stage 2 and stage 3, respectively.

232. In addition, the previous table was prepared taking into account the financial statements of the Group, to which the accounting standard IFRS 5 is applied.

233. Loans and advances" and "Debt securities" accounted for about 75% of the productive exposures, accounting for 57% and 18% respectively.

234. The following table shows that the guarantees obtained by acquisition of possession and enforcement proceedings are mostly of residential and commercial real estate.

### Table 28 | Template EU CQ7: Bailments obtained by acquisition of possession and enforcement proceedings

(thousands of euros)

| | | a | b |
|---|---|---|---|
| | | Collateral obtained by taking possession | |
| | | Value at initial recognition | Accumulated negative changes |
| **010** | **Property, plant and equipment (PP&E)** | **789** | **-51** |
| **020** | **Other than PP&E** | **603,162** | **-138,575** |
| *030* | *Residential immovable property* | *392,494* | *-71,621* |
| *040* | *Commercial immovable property* | *200,200* | *-63,866* |
| *050* | *Movable property (auto, shipping, etc.)* | *74* | *-58* |
| *060* | *Equity and debt instruments* | *0* | *0* |
| *070* | *Other collateral* | *10,394* | *-3,031* |
| **080** | **Total** | **603,951** | **-138,627** |

235. Regarding the nominal amount of exposures that are subject to restructuring measures, the following table presents its breakdown as to its quality. The restructured exposures account for about 3% of the total exposure and about 89% of the non-performing exposure.

## Table 29 | Template EU CQ1: Credit quality of restructured exposures

(thousands of euros)

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forborne exposures | Of which, collateral and financial guarantees received on non-performing exposures with forbearance measures |
| | | Performing forborne | Non-performing forborne | | | On performing forborne exposures | On non-performing forborne exposures | | |
| | | | | Of which defaulted | Of which impaired | | | | |
| **005** | **Cash balances at central banks and other demand deposits** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **010** | **Loans and advances** | **68,070** | **555,721** | **555,721** | **555,022** | **-2,514** | **-253,180** | **2,939** | **2,939** |
| *020* | *Central banks* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *030* | *General governments* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *040* | *Credit institutions* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *050* | *Other financial corporations* | *359* | *48,324* | *48,324* | *48,324* | *-23* | *-12,119* | *0* | *0* |
| *060* | *Non-financial corporations* | *37,376* | *421,251* | *421,251* | *420,677* | *-1,970* | *-209,410* | *2,868* | *2,868* |
| *070* | *Households* | *30,335* | *86,146* | *86,146* | *86,020* | *-521* | *-31,651* | *71* | *71* |
| **080** | **Debt securities** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **090** | **Loan commitments given** | **280** | **398** | **398** | **398** | **2** | **17** | **0** | **0** |
| **100** | **Total** | **68,350** | **556,119** | **556,119** | **555,420** | **-2,512** | **-253,163** | **2,939** | **2,939** |

236. The following table presents, in accordance with Article 442(d), the analysis of the ageing past due exposures by counterparty type, in December 2021.

# Table 30 | Template EU CQ3: Credit quality of performing and non-performing exposures, by past due days

(thousands of euros)

| | | a | b | c | d | e | f | g | h | i | j | k | l |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | | | | | | |
| | | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| **005** | **Cash balances at central banks and other demand deposits** | **2,862,579** | **2,862,579** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **010** | **Loans and advances** | **10,969,878** | **10,938,065** | **31,812** | **942,302** | **537,847** | **15,647** | **33,548** | **78,715** | **118,599** | **81,931** | **76,015** | **942,302** |
| *020* | *Central banks* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *030* | *General governments* | *104,408* | *104,408* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *040* | *Credit institutions* | *244,551* | *244,551* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *050* | *Other financial corporations* | *37,542* | *37,541* | *2* | *49,571* | *49,504* | *1* | *0* | *19* | *47* | *0* | *0* | *49,571* |
| *060* | *Non-financial corporations* | *3,935,578* | *3,927,607* | *7,971* | *707,797* | *366,229* | *7,170* | *24,635* | *67,534* | *103,494* | *73,314* | *65,421* | *707,797* |
| *070* | *of which, SMEs* | *3,416,939* | *3,408,980* | *7,960* | *678,053* | *336,610* | *7,170* | *24,633* | *67,479* | *103,425* | *73,314* | *65,421* | *678,053* |
| *080* | *Households* | *6,647,798* | *6,623,959* | *23,839* | *184,934* | *122,114* | *8,476* | *8,913* | *11,162* | *15,058* | *8,617* | *10,594* | *184,934* |
| **090** | **Debt securities** | **3,612,187** | **3,612,187** | **0** | **33,000** | **0** | **0** | **0** | **0** | **33,000** | **0** | **0** | **33,000** |
| *100* | *Central banks* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *110* | *General governments* | *3,067,854* | *3,067,854* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *120* | *Credit institutions* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *130* | *Other financial corporations* | *10,894* | *10,894* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *140* | *Non-financial corporations* | *533,439* | *533,439* | *0* | *33,000* | *0* | *0* | *0* | *0* | *33,000* | *0* | *0* | *33,000* |
| | **Off-balance sheet exposures** | **1,902,482** | | | **117,002** | | | | | | | | **117,002** |
| *150* | *Central banks* | *0* | | | *0* | | | | | | | | *0* |
| *160* | *General governments* | *2,676* | | | *0* | | | | | | | | *0* |
| *170* | *Credit institutions* | *212,342* | | | *0* | | | | | | | | *0* |
| *180* | *Other financial corporations* | *20,144* | | | *5* | | | | | | | | *5* |
| *190* | *Non-financial corporations* | *1,174,387* | | | *114,100* | | | | | | | | *114,100* |
| *200* | *Households* | *492,933* | | | *2,897* | | | | | | | | *2,897* |
| **210** | **Total** | **19,347,125** | **17,412,831** | **31,812** | **1,092,304** | **537,847** | **15,647** | **33,548** | **78,715** | **151,599** | **81,931** | **76,015** | **1,092,304** |

237. The non-performing portion of the portfolio, corresponding to about 5.3% of the total original exposure, presents about 54% with ageing of less than 1 year and about 13% in the "Past due > 2 years ≤ 5 years" bucket.

238. 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.

# Table 31 | Exposures by sector or type of counterparty

(thousands of euros)

| Dec-2021 | | 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 | 9,921 | 0 | 0 | 9,921 |
| Regional Governments or Local Authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 24,445 | 0 | 0 | 24,445 |
| Public Sector Entities | 0 | 0 | 0 | 0 | 0 | 72,597 | 0 | 0 | 396 | 0 | 0 | 72,993 |
| Institutions | 0 | 0 | 0 | 0 | 0 | 288,055 | 0 | 0 | 0 | 0 | 0 | 288,055 |
| Corporates | 56,789 | 207,125 | 718,848 | 235,478 | 291,753 | 208,726 | 259,316 | 163,462 | 61,834 | 159,145 | 226,965 | 2,589,443 |
| Retail | 50,848 | 161,727 | 440,292 | 47,623 | 561,431 | 12,387 | 113,422 | 101,411 | 151,141 | 78,111 | 177,604 | 1,895,997 |
| Positions guaranteed by real estate | 8,858 | 41,828 | 98,450 | 74,183 | 121,048 | 17,604 | 141,771 | 109,963 | 98,435 | 30,341 | 67,928 | 810,410 |
| Past due Items | 2,982 | 78,520 | 71,690 | 15,791 | 60,265 | 70,610 | 62,948 | 14,727 | 20,694 | 6,704 | 10,652 | 415,582 |
| Exposures associated with Particularly High Risks | 0 | 193,766 | 2,064 | 347,472 | 587 | 23,529 | 34,384 | 0 | 0 | 15,727 | 414 | 617,943 |
| **Total** | **119,477** | **682,966** | **1,331,344** | **720,547** | **1,035,084** | **693,509** | **611,841** | **389,563** | **366,865** | **290,028** | **483,564** | **6,724,788** |
| *Of which SMEs* | *105,072* | *471,231* | *769,362* | *694,118* | *851,104* | *153,344* | *529,375* | *212,425* | *302,972* | *182,241* | *382,019* | *4,653,262* |

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

| 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* |

239. Also with regard to the quality of exposures by sector/type of counterparty, and in accordance with Article 442(e) of the CRR, the table (loans and advances to non-financial corporations) is broken down by sector of activity and uses, as in Table 30, the Portuguese classification of economic activities (CAEs rev3.0) as shown on the INE website[5].

## Table 32 | Template EU CQ5: Credit quality of loans and advances to non-financial corporations, by sector

(thousands of euros)

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Gross carrying amount | | | | Accumulated Impairment | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| | | | Of which non-performing | | Of which loans and advances subject to impairment | | |
| | | | | Of which defaulted | | | |
| 010 | Agriculture, forestry and fisheries | 94,096 | 5,832 | 5,832 | 94,096 | -5,004 | 0 |
| 020 | Mining and quarrying | 15,985 | 648 | 648 | 15,985 | -587 | 0 |
| 030 | Manufacturing | 884,702 | 131,760 | 131,760 | 883,509 | -90,603 | 0 |
| 040 | Electricity, gas, steam and air conditioning supply | 38,747 | 9,565 | 9,565 | 38,747 | -4,976 | 0 |
| 050 | Water supply | 52,621 | 782 | 782 | 52,621 | -1,083 | 0 |
| 060 | Construction | 452,217 | 155,019 | 155,019 | 452,094 | -67,051 | 0 |
| 070 | Wholesale and retail trade | 812,030 | 115,001 | 115,001 | 806,867 | -74,495 | 0 |
| 080 | Transport and storage | 375,990 | 20,557 | 20,557 | 375,990 | -19,336 | 0 |
| 090 | Accommodation and food service activities | 576,340 | 73,002 | 73,002 | 576,340 | -26,305 | 0 |
| 100 | Information and communication | 63,887 | 2,102 | 2,102 | 63,887 | -2,865 | 0 |
| 110 | Financial and insurance activities | 616,942 | 92,070 | 92,070 | 616,855 | -27,577 | 0 |
| 120 | Real estate activities | 0 | 0 | 0 | 0 | 0 | 0 |
| 130 | Professional, scientific and technical activities | 151,192 | 11,009 | 11,009 | 148,578 | -5,861 | 0 |
| 140 | Administrative and support service activities | 118,707 | 3,171 | 3,171 | 118,444 | -3,961 | 0 |
| 150 | Public administration and defence, compulsory social security | 177 | 0 | 0 | 177 | 0 | 0 |
| 160 | Education | 37,102 | 611 | 611 | 37,102 | -985 | 0 |
| 170 | Human health services and social work activities | 106,639 | 4,428 | 4,428 | 106,639 | -2,842 | 0 |
| 180 | Arts, entertainment and recreation | 48,193 | 2,424 | 2,424 | 48,193 | -1,580 | 0 |
| 190 | Other services | 197,807 | 79,817 | 79,817 | 197,807 | -68,018 | 0 |
| **200** | **Total** | **4,643,375** | **707,797** | **707,797** | **4,633,932** | **-403,128** | **0** |

240. 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.

[5] INE's website: https://www.ine.pt/

## Table 33 | Geographical distribution of exposures

(thousands of euros)

| Dec-2021 | Geographic distribution of exposures (as a % of the original exposure) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Portugal | | | | | | | | |
| Exposure classes | Alentejo | Algarve | Centre | Lisbon | North | A.R. of Madeira | A.R. of the Azores | Angola | TOTAL |
| Central Governments or Central Banks | 0 | 0 | 11 | 5,828,272 | 994 | 0 | 0 | 109,226 | 5,938,503 |
| Regional Governments or Local Authorities | 260 | 34 | 3,262 | 21,623 | 253 | 19,483 | 796 | 0 | 45,711 |
| Public Sector Entities | 0 | 0 | 0 | 72,993 | 0 | 0 | 0 | 0 | 72,993 |
| 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 | 13,887 | 558,977 | 28,847 | 300 | 0 | 0 | 604,502 |
| Corporates | 57,766 | 148,247 | 265,187 | 1,447,980 | 621,993 | 51,742 | 31,331 | 22,933 | 2,647,179 |
| Retail | 106,564 | 128,958 | 584,918 | 577,951 | 1,090,198 | 41,113 | 53,298 | 7,016 | 2,590,015 |
| Positions Guaranteed by Real Estate | 314,532 | 407,572 | 1,055,459 | 2,597,669 | 1,700,113 | 175,151 | 264,282 | 0 | 6,514,777 |
| Past due Items | 22,475 | 13,962 | 87,623 | 257,842 | 132,545 | 12,078 | 4,490 | 1,040 | 532,056 |
| Exposures associated with Particularly High Risks | 12,284 | 44,764 | 40,526 | 390,153 | 110,754 | 10,732 | 711 | 11,542 | 621,466 |
| Covered Bonds | 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 |
| Exposures on Collective Investment Undertakings (CIU): | 0 | 0 | 0 | 189,466 | 0 | 0 | 0 | 0 | 189,466 |
| Shares | 0 | 0 | 0 | 26,765 | 0 | 0 | 0 | 0 | 26,765 |
| Other Items | 301 | 569 | 1,630 | 1,021,024 | 35,881 | 250 | 63 | 2,519 | 1,062,236 |
| Securitisations | 0 | 0 | 0 | 1,313 | 0 | 0 | 0 | 0 | 1,313 |
| **Total** | **514,343** | **746,435** | **2,052,504** | **12,992,028** | **3,721,578** | **310,848** | **354,971** | **154,275** | **20,846,984** |

| Dec-2020 | Geographic distribution of exposures (as a % of the original exposure) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Portugal | | | | | | | | |
| Exposure classes | Alentejo | Algarve | Centre | Lisbon | North | A.R. of Madeira | A.R. of the Azores | Angola | TOTAL |
| 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** |

241. 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 80%). The Group has, nonetheless, a commercial presence in most of the regions of the country.

242. Regarding the exposures of the BM subsidiaries in African countries, there was a 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 respective contribution.

243. 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.

244. The following table shows the breakdown of geographical areas by materially relevant countries and it can be seen that most of the exposures, whether defaulted on or not, are concentrated in Portugal (around 84%).

## Table 34 | Template EU CQ4: Quality of non-performing exposures, by geographic location

(thousands of euros)

| | | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | Accumulated Impairment | Provisions on off-balance sheet financial commitments and guarantees granted | Provisions on off-balance sheet financial commitments and guarantees granted |
| | | | Of which non-performing | | Of which subject to impairment | | | |
| | | | | Of which defaulted | | | | |
| **010** | **On-balance-sheet exposures** | **15,557,366** | **975,302** | **975,302** | **15,547,599** | **-530,499** | | **0** |
| *020* | *Portugal* | *12,554,461* | *868,586* | *868,586* | *12,544,693* | *-446,306* | | *0* |
| *030* | *Italy* | *1,255,919* | *0* | *0* | *1,255,919* | *-2,321* | | *0* |
| *040* | *Spain* | *994,849* | *86* | *86* | *994,849* | *-2,025* | | *0* |
| *050* | *Angola* | *186,773* | *65,244* | *65,244* | *186,773* | *-38,274* | | *0* |
| *070* | *Other Countries* | *565,364* | *41,386* | *41,386* | *565,364* | *-41,573* | | *0* |
| **080** | **Off-balance sheet exposures** | **2,019,484** | **117,002** | **117,002** | | | **21,262** | |
| *090* | *Portugal* | *1,967,542* | *81,667* | *81,667* | | | *15,948* | |
| *100* | *Italy* | *34* | *0* | *0* | | | *0* | |
| *110* | *Spain* | *990* | *0* | *0* | | | *1* | |
| *120* | *Angola* | *39,347* | *35,313* | *35,313* | | | *5,300* | |
| *140* | *Other Countries* | *11,572* | *22* | *22* | | | *14* | |
| **150** | **Total** | **17,576,850** | **1,092,304** | **1,092,304** | | | **21,262** | **0** |

245. The following table presents the default or impaired (stage 3) exposures and the respective movements in 2021:

## Table 35 | Template EU CR2: Changes in the stock of non-performing loans and advances

(thousands of euros)

| | | a |
|---|---|---|
| | | Gross carrying amount |
| **010** | **Initial stock of non-performing loans and advances** | **1,255,504** |
| 020 | Inflows to non-performing portfolios | 235,624 |
| 030 | Outflows from non-performing portfolios | -548,826 |
| *040* | *Outflows due to write-offs* | *-208,488* |
| *050* | *Outflows due to other situations* | *-340,338* |
| **060** | **Final stock of non-performing loans and advances** | **942,302** |

246. In accordance with Article 442(g) of the CRR, the table below breaks down the net positions by residual maturity type of instrument (debt securities and loans and advances) It is currently observed that approximately 36% of assets are long-term (remaining maturity of more than 5 years).

## Table 36 | Template EU CR1-A: Maturity of exposures

(thousands of euros)

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Net exposure value | | | | | |
| | | On demand | ≤ 1 year | > 1 Year ≤ 5 Year | ≥ 5 years | No stated maturity | Total |
| 1 | Loans and advances | 15,260 | 1,109,147 | 2,025,184 | 8,194,504 | 64,166 | 11,408,262 |
| 2 | Debt securities | - | 272,091 | 1,385,310 | 1,959,872 | 1,332 | 3,618,605 |
| **3** | **Total** | **15,260** | **1,381,238** | **3,410,495** | **10,154,376** | **65,498** | **15,026,867** |

247. In note 61 of the Annual Report - Exposures and impacts resulting from related measures (pages 361 and 362), and in accordance with Instruction 19/2020 on reporting and disclosure of information on exposures subject to measures implemented in response to the COVID-19 crisis, tables are presented detailing the portfolios subject to moratoria and loans granted under the new public guarantee plans, with reference to 31 December 2021.

## 7.4 Concentration risk

248. 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, according to Banco de Portugal Instruction 5/2011.

249. The calculation of the individual CR[6] is based on the 100 greatest exposures in portfolio, aggregated by client/economic group. The weight of these exposures in December 2021 corresponded to approximately 19.4% of the credit portfolio, in comparison with 20.8% in 2020.

250. With regards to the sectoral CR[7], it is calculated from the classification of economic activities (CEA) associated with the counterparties in the portfolio.

**Table 37 | Concentration rates**

| | Credit Portfolio | |
|---|---|---|
| | Dec-21 | Dec-20 |
| Individual CR | 0.36 | 0.39 |
| Sectoral CR | 8.07 | 8.50 |

251. It should be noted that the value of the gross exposure of the 100 largest exposures by counterparty fell by 227 million euros, essentially due to the sale of credits and write-offs that took place in 2021.

252. The reduction of the sectoral CR in 2021 reflects the ongoing business diversification strategy that has been implemented in the credit portfolio.

## 7.5 Use of ECAIs

253. The calculation of the credit and counterparty capital requirements is determined according to the Standardised Approach whose requirements are defined in the 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 and Fitch are used for attributing the respective risk weights.

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

[6] 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 $\Sigma y$ corresponds to the total portfolio exposure.
[7] Sectoral Concentration Rate = $\Sigma x^2 / (\Sigma x)^2 * 100$, in which x represents all the exposures to each sector of economic activity.

- 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.

255. 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.

256. Taking into account the guarantees and collateral associated to the exposures, the 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 the CRR.

257. 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

258. 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.

259. 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 the CRR, and do not correspond to all collaterals received.

## Table 38 | 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-21 | Dec-20 | Dec-21 | Dec-20 | Dec-21 | Dec-20 |
| **Total exposures** | **20,846,984** | **19,475,150** | **927,683** | **327,427** | **140,260** | **204,886** |
| Central Governments or Central Banks | 5,938,503 | 3,844,598 | 0 | 0 | 0 | 0 |
| Regional Governments or Local Authorities | 45,711 | 31,664 | 0 | 0 | 0 | 0 |
| Public Sector Entities | 72,993 | 70,348 | 0 | 0 | 0 | 0 |
| Institutions | 604,502 | 703,289 | 0 | 0 | 0 | 51,571 |
| Companies | 2,647,179 | 2,592,614 | 297,488 | 95,109 | 39,493 | 31,802 |
| Retail | 2,590,015 | 2,869,072 | 551,150 | 225,372 | 85,696 | 103,189 |
| Positions Guaranteed by Real Estate | 6,514,777 | 6,336,703 | 37,469 | 5,659 | 6,590 | 8,674 |
| Past due Items | 532,056 | 577,135 | 8,582 | 1,287 | 2,072 | 1,331 |
| Exposures associated with Particularly High Risks | 621,466 | 783,856 | 32,995 | 0 | 6,409 | 8,318 |
| Covered Bonds | 0 | 54,216 | 0 | 0 | 0 | 0 |
| Positions on Collective Investment Undertakings (CIU): | 189,466 | 247,999 | 0 | 0 | 0 | 0 |
| Shares | 26,765 | 122,949 | 0 | 0 | 0 | 0 |
| Other Items | 1,062,236 | 1,238,648 | 0 | 0 | 0 | 0 |
| Securitisation positions under the Standardised Approach | 1,313 | 2,059 | 0 | 0 | 0 | 0 |

260. 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 the CRR, with the haircuts defined in the mentioned Regulation being applicable.

261. With regards to mortgage collateral, the assessment of the assets is carried out by independent assessors, 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 the CRR, by applying the property variation rates or by carrying out assessments on-site, by an assessor. With regards to financial collateral, its value is updated according to the relevant market information.

262. 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.

## Table 39 | Template EU CR3: CRM Techniques – Overview

(thousands of euros)

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | Unsecured carrying amount | Secured carrying amount | | | |
| | | | | Of which secured by collateral | Of which secured by financial guarantees | Of which secured by credit derivatives |
| 010 | Loans and advances | 5,821,800 | 8,952,957 | 8,348,951 | 604,006 | 0 |
| 020 | Debt securities | 3,636,402 | 8,786 | 8,786 | 0 | |
| **030** | **Total** | **9,458,202** | **8,961,743** | **8,357,737** | **604,006** | **0** |
| *040* | *Of which non-performing exposures* | *127,166* | *414,074* | *405,685* | *8,389* | *0* |
| *050* | *Of which defaulted* | *127,166* | *414,074* | *405,685* | *8,389* | *0* |

263. In December 2021, no positions covered by credit derivatives were held.

264. 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 40 | Template EU CR4: Standardised Approach – Credit exposures and CRM effects

(thousands of euros)

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | Dec-21 | Exposures before CCF and before CRM | | Exposures post CCF and post CRM | | RWAs and RWAs density | |
| | Exposure classes | On-balance-sheet exposures | Off-balance-sheet exposures | On-balance-sheet exposures | Off-balance sheet exposures | RWAs | RWAs density |
| 010 | Central governments or central banks | 5,936,733 | 1,770 | 6,493,102 | 3,785 | 168,305 | 2.59% |
| 020 | Regional governments or local authorities | 44,419 | 1,292 | 44,419 | 18 | 8,887 | 20.00% |
| 030 | Public sector entities | 72,742 | 252 | 90,576 | 0 | 72,742 | 80.31% |
| 040 | Multilateral development banks | 0 | 0 | 333,982 | 0 | 0 | 0.00% |
| 050 | International organisations | 0 | 0 | 0 | 0 | 0 | |
| 060 | Institutions | 310,463 | 224,299 | 310,463 | 209,089 | 124,482 | 23.96% |
| 070 | Corporates | 2,168,914 | 474,234 | 1,838,115 | 87,760 | 1,704,958 | 88.53% |
| 080 | Retail | 1,756,042 | 833,956 | 1,132,518 | 75,249 | 744,545 | 61.65% |
| 090 | Secured by mortgages on immovable property | 6,330,709 | 184,067 | 6,287,021 | 9,156 | 2,331,593 | 37.03% |
| 100 | Exposures in default | 456,182 | 75,874 | 453,412 | 9,386 | 515,680 | 111.43% |
| 110 | Exposures associated with particularly high risk | 457,346 | 164,120 | 418,003 | 71,214 | 733,825 | 150.00% |
| 120 | Covered Bonds | 0 | 0 | 0 | 0 | 0 | |
| 130 | Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | |
| 140 | Collective investment undertakings (CIUs) | 189,466 | 0 | 189,466 | 0 | 228,176 | 120.43% |
| 150 | Equity exposures | 26,765 | 0 | 26,765 | 0 | 26,765 | 100.00% |
| 160 | Other items | 1,062,236 | 0 | 1,062,236 | 0 | 890,964 | 83.88% |
| 170 | **Total** | **18,812,017** | **1,959,864** | **18,680,078** | **465,657** | **7,550,922** | |

265. 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.

266. The net effect of inflows and outflows is especially relevant in the risk category of "Central Governments or Central Banks", "Public Sector Entities" and "Multilateral Banks", which comes to approximately 908 million euros. Regarding financial collateral, about 70% of the credit risk mitigation effect is allocated to the Companies and Retail risk categories.

267. 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.

Banco Montepio

## Table 41 | Template EU CR5: Standardised Approach - Exposure by Risk Category

(thousands of euros)

| Dec-21 | Risk weights | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exposure classes | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Other | Total | Of which not rated |
| Central Governments or Central Banks | 5,823,041 | - | - | - | - | - | - | - | - | 4,466 | 109,226 | - | - | - | - | 5,936,733 | - |
| Regional Governments or Local Authorities | - | - | - | - | 44,437 | - | - | - | - | - | - | - | - | - | - | 44,437 | - |
| Public Sector Entities | - | - | - | - | - | - | - | - | - | 72,742 | - | - | - | - | - | 72,742 | - |
| Multilateral Development Banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| International Organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | 208,087 | - | - | - | 190,561 | - | 75,076 | - | - | 39,822 | 6,007 | - | - | - | - | 519,552 | - |
| Corporates | - | - | - | - | - | - | - | - | - | 2,207,271 | 13,737 | - | - | - | - | 2,221,009 | - |
| Retail | - | - | - | - | - | - | - | - | 1,754,031 | - | - | - | - | - | - | 1,754,031 | - |
| Positions Guaranteed by Real Estate | - | - | - | - | - | 5,465,730 | 574,947 | - | 128,266 | 164,683 | - | - | - | - | - | 6,333,625 | - |
| Past due Items | - | - | - | - | - | - | - | - | - | 358,051 | 105,763 | - | - | - | - | 463,814 | - |
| Exposures associated with Particularly High Risks | - | - | - | - | - | - | - | - | - | - | 521,325 | - | - | - | - | 521,325 | - |
| Covered Bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions and Corporates with a Short-Term Credit Assessment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Positions on Collective Investment Undertakings | - | - | - | - | - | - | - | - | - | 112,045 | 77,421 | - | - | - | - | 189,466 | - |
| Shares | - | - | - | - | - | - | - | - | - | 26,765 | - | - | - | - | - | 26,765 | - |
| Other Items | 158,698 | - | - | - | 15,718 | - | - | - | - | 887,820 | - | - | - | - | - | 1,062,236 | - |
| Securitisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | **6,189,825** | **-** | **-** | **-** | **250,716** | **5,465,730** | **650,023** | **-** | **1,882,297** | **3,873,665** | **833,479** | **-** | **-** | **-** | **-** | **19,145,734** | **-** |

| Jun-21 | Risk Weights | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exposure classes | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Other | Total | Of which not rated |
| Central Governments or Central Banks | 5,359,597 | - | - | - | - | - | - | - | - | 98 | 82,940 | - | - | - | - | 5,442,635 | - |
| Regional Governments or Local Authorities | - | - | - | - | 27,014 | - | - | - | - | - | - | - | - | - | - | 27,014 | - |
| Public Sector Entities | - | - | - | - | 539 | - | - | - | - | 72,437 | - | - | - | - | - | 72,977 | - |
| Multilateral Development Banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| International Organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | 210,688 | - | - | - | 282,583 | - | 68,600 | - | - | 48,517 | 1,007 | - | - | - | - | 611,395 | - |
| Corporates | - | - | - | - | - | - | - | - | - | 2,105,742 | 5,431 | - | - | - | - | 2,111,173 | - |
| Retail | - | - | - | - | - | - | - | - | 1,996,090 | - | - | - | - | - | - | 1,996,090 | - |
| Positions Guaranteed by Real Estate | - | - | - | - | - | 5,526,100 | 641,203 | - | 105,751 | 139,871 | - | - | - | - | - | 6,412,925 | - |
| Past due Items | - | - | - | - | - | - | - | - | - | 375,146 | 95,689 | - | - | - | - | 470,835 | - |
| Exposures associated with Particularly High Risks | - | - | - | - | - | - | - | - | - | - | 604,203 | - | - | - | - | 604,203 | - |
| Covered Bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions and Corporates with a Short-Term Credit Assessment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Exposures on Collective Investment Undertakings | - | - | - | - | - | - | - | - | - | 196,819 | 79,536 | - | - | - | - | 276,355 | - |
| Shares | - | - | - | - | - | - | - | - | - | 27,039 | - | - | - | - | - | 27,039 | - |
| Other Items | 145,578 | - | - | - | 20,664 | - | - | - | - | 966,297 | - | - | - | - | - | 1,132,539 | - |
| Securitisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | **5,715,864** | **-** | **-** | **-** | **330,801** | **5,526,100** | **709,803** | **-** | **2,101,841** | **3,931,966** | **868,805** | **-** | **-** | **-** | **-** | **19,185,180** | **-** |

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

268. It is also worth mentioning that about 32% 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)

269. In December 2021, about 29% 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.

270. The second most significant credit risk weight is that of 100%, which corresponds to 20% of the exposure. This weight is essentially applicable to exposures to Companies and Other Items (mostly properties and tangible fixed assets).

## 9. Wrong way risk

271. 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).

272. 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.

273. 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.

274. 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

275. 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 2021, 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, Aqua Mortgage 1, Pelican Finance No. 1 and Pelican Finance No. 2.

276. 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.

277. 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.

278. 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 and funding 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.

279. 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.

280. None of the other securitisation operations complies with the requirements set out in Article 243 of the 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. Thus, BM only calculates capital requirements for securitisations in which it acts as an investor, and it should be noted that these positions do not qualify as simple, transparent and standardised (STS) securitisation.

281. 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 the 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.

282. 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 followed 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 shall be the guarantors of the senior and mezzanine tranches. Banco Montepio retained the risk of the junior tranche and the excess spread.

283. On 6 December 2021, Banco Montepio and Montepio Crédito signed, with Ares Lusitani - STC, S.A., the contracts leading to the securitisation of a consumer credit portfolio. The securitisation operation, with the name Pelican Finance No. 2, has a legal maturity of 13 years (25 January 2035), and the associated bonds have a Weighted Average Life of 2.76 years (assuming a CPR of 7.5%). The maturing capital of the securitised credits (Aggregate Principal Amount Outstanding) was, on the reference date of 31 October 2021 (Portfolio Determinative Date), 356,774 thousand euros, being a static portfolio, with no revolving mechanisms. The sale was made through a syndicated public placement model, with class A placed above par (100.606%) and the others at par.

284. The credits covered by the above securitisation operations were not derecognised from the balance sheet since the Bank retained most of the risks and benefits associated with the securitised credits.

285. However, prudentially, in accordance with Article 244, (1) of the CRR, the exposures underlying the securitisation are excluded from the RWA calculation since BM deducts all securitisation positions it holds in the securitisation from core tier 1 capital in accordance with Article 36(1)(k).

286. 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 their 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 contracted an 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 Group 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 will be the guarantors of the senior and mezzanine tranches, with the Group bearing a fee of 0.3% and 4.5% to guarantee each of the tranches, respectively. The Montepio Group retained the risk of the junior tranche and the excess spread. With this operation the Group 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 the financial assets defined in the accounting policy presented in c.7) above are not met.

287. 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 (page 163), 37 (pages 262 and 263), 49 (pages 509-513) and 52 (pages 297- 301) which are included in the Annual Report of 2021.

288. The following tables indicate the traditional securitisation positions, both in relation to own operations and as an investor.

# Table 42 | Securitisation operations

(thousands of euros)

| Originator Institution: BM (100%) | | Sponsor Institutions: Sagres STC, SA | | | | Rating | | | | | | | 2021 | | 2020 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 324 | 659 | 184 | 1,141 |
| 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 | | | | | | | 2021 | | 2020 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 246 | 1,890 | 261 | 2,456 |
| 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: Tagus STC, SA | | | | Rating | | | | | | | 2020 | | 2020 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 179 | 954 | 165 | 1,218 |
| 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. | | | | | |

# Table 43 | Template EU-SEC1: Securitisation exposures in the non-trading book

(thousands of euros)

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Institution acts as originator | | | | | | | Institution acts as sponsor | | | | Institution acts as an investor | | | |
| | | Traditional | | | | Synthetic | | Subtotal | Traditional | | Synthetic | Subtotal | Traditional | | Synthetic | Subtotal |
| | | STS | | Non-STS | | | of which SRT | | STS | Non-STS | | | STS | Non-STS | | |
| Dec-21 | | | of which SRT | | of which SRT | | | | | | | | | | | |
| 001 | Total exposures | - | - | - | - | - | - | - | - | - | - | - | - | 1,313 | - | 1,313 |
| 002 | Retail (total) | - | - | - | - | - | - | - | - | - | - | - | - | 1,313 | - | 1,313 |
| 003 | *residential mortgage* | - | - | - | - | - | - | - | - | - | - | - | - | *1,313* | - | *1,313* |
| 004 | *credit card* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 005 | *other retail exposures* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 006 | *re-securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 007 | Wholesale (total) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 008 | *loans to corporates* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 009 | *commercial mortgage* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 010 | *lease and receivables* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 011 | *other wholesale* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 012 | *re-securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

(thousands of euros)

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Institution acts as originator | | | | | | | Institution acts as sponsor | | | | Institution acts as an investor | | | |
| | | Traditional | | | | Synthetic | | Subtotal | Traditional | | Synthetic | Subtotal | Traditional | | Synthetic | Subtotal |
| | | STS | | Non-STS | | | of which SRT | | STS | Non-STS | | | STS | Non-STS | | |
| Dec-20 | | | of which SRT | | of which SRT | | | | | | | | | | | |
| 001 | Total exposures | - | - | - | - | - | - | - | - | - | - | - | - | 2,059 | - | 2,059 |
| 002 | Retail (total) | - | - | - | - | - | - | - | - | - | - | - | - | 2,059 | - | 2,059 |
| 003 | *residential mortgage* | - | - | - | - | - | - | - | - | - | - | - | - | *2,059* | - | *2,059* |
| 004 | *credit card* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 005 | *other retail exposures* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 006 | *re-securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 007 | Wholesale (total) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 008 | *loans to corporates* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 009 | *commercial mortgage* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 010 | *lease and receivables* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 011 | *other wholesale* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 012 | *re-securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

# Table 44 | Template EU-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor.

(thousands of euros)

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | p | q |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Exposure values (by RW bands/deductions) | | | | | Exposure values (by regulatory approach) | | | | RWEA (by regulatory approach) | | | | Capital charge after cap | | | |
| Dec-21 | | ≤ 20 % RW | > 20 % to 50 % RW | > 50 % to 100 % RW | > 100 % to < 1 250 % RW | 1 250 % RW/ deductions | SEC-IRBA | SEC-ERBA (including IAA) | SEC-SA | 1 250 % RW/ deductions | SEC-IRBA | SEC-ERBA (including IAA) | SEC-SA | 1 250 % RW/ deductions | SEC-IRBA | SEC-ERBA (including IAA) | SEC-SA | 1 250 % RW/ deductions |
| 001 | **Total exposures** | 908 | 405 | - | - | - | - | - | 1,313 | - | - | - | 263 | - | - | - | 21 | - |
| 002 | **Traditional securitisation** | 908 | 405 | - | - | - | - | - | 1,313 | - | - | - | 263 | - | - | - | 21 | - |
| 003 | **Securitisations** | 908 | 405 | - | - | - | - | - | 1,313 | - | - | - | 263 | - | - | - | 21 | - |
| 004 | *Retail underlying* | 908 | 405 | - | - | - | - | - | 1,313 | - | - | - | 263 | - | - | - | 21 | - |
| 005 | *of which STS* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 006 | **Wholesale** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 007 | *of which STS* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 008 | *Re-securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 009 | *Synthetic securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 010 | *Securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 011 | *Retail underlying* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 012 | *Wholesale* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 013 | **Re-securitisation** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

(thousands of euros)

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | p | q |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Exposure values (by RW bands/deductions) | | | | | Exposure values (by regulatory approach) | | | | RWEA (by regulatory approach) | | | | Capital charge after cap | | | |
| Dec-20 | | ≤ 20 % RW | > 20 % to 50 % RW | > 50 % to 100 % RW | > 100 % to < 1 250 % RW | 1 250 % RW/ deductions | SEC-IRBA | SEC-ERBA (including IAA) | SEC-SA | 1 250 % RW/ deductions | SEC-IRBA | SEC-ERBA (including IAA) | SEC-SA | 1 250 % RW/ deductions | SEC-IRBA | SEC-ERBA (including IAA) | SEC-SA | 1 250 % RW/ deductions |
| 001 | **Total exposures** | 1,018 | 1,041 | - | - | - | - | - | 2,059 | - | - | - | 453 | - | - | - | 36 | - |
| 002 | **Traditional securitisation** | 1,018 | 1,041 | - | - | - | - | - | 2,059 | - | - | - | 453 | - | - | - | 36 | - |
| 003 | **Securitisation** | 1,018 | 1,041 | - | - | - | - | - | 2,059 | - | - | - | 453 | - | - | - | 36 | - |
| 004 | *Retail underlying* | 1,018 | 1,041 | - | - | - | - | - | 2,059 | - | - | - | 453 | - | - | - | 36 | - |
| 005 | *of which STS* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 006 | **Wholesale** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 007 | *of which STS* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 008 | *Re-securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 009 | *Synthetic securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 010 | *Securitisation* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 011 | *Retail underlying* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 012 | *Wholesale* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 013 | **Re-securitisation** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

289. For further information relative to securitisation operations, note 52 (pages 297-301) of the notes attached to the financial statements of the Annual Report for 2021 can be consulted.

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

290. 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 the 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.

291. 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.

292. 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 the 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 the 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 the 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 45 | Capital Requirements: Trading book

(thousands of euros)

| Trading book risks | Requirements Own funds | |
|---|---|---|
| | Dec-21 | Dec-20 |
| **Total trading book risk (1 + 2)** | **2,093** | **2,334** |
| **Position risk** | 0 | 1,114 |
| **Standardised approach for the trading book** | 0 | 1,114 |
| **Debt instruments** | | |
| Specific risk | 0 | 0 |
| General risk | 0 | 4 |
| **Equity securities** | | |
| Specific risk | 0 | 528 |
| General risk | 0 | 581 |
| **Collective investment undertakings (CIU)** | 0 | 0 |
| **Counterparty credit risk** | 2,092 | 1,220 |
| Bonds | 0 | 0 |
| Derivative instruments | 2,092 | 1,220 |
| Other | 0 | 0 |

293. In quantitative terms, using the methods described above, a capital requirement of 2.09 million euros was calculated for the trading book risks in December 2021.

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

294. 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.

295. 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 the 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.

296. 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.

297. 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.

298. The following tables present the RWAs and the capital requirements for market risk by the standardised approach.

### Table 46 | Capital Requirements: Foreign exchange and commodities risks

(thousands of euros)

| CAPITAL REQUIREMENTS - FOREIGN EXCHANGE AND COMMODITIES RISKS | | | |
|---|---|---|---|
| | Foreign Exchange and Commodities Ri | Dec-21 | Dec-20 |
| **1. Foreign Exchange Risk (=1.1.+1.2.)** | | **7,767** | **3,288** |
| 1.1. | Standardised Approach | 7,767 | 3,288 |
| 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** |

**Table 47 | Template EU MR1: Market risk under the standardised approach**

(thousands of euros)

| Dec-21 | RWAs | Capital Requirements |
| --- | --- | --- |
| | | |
| **OutrightProducts** | | |
| Interest rate risk (general and specific) | 3 | 0 |
| Equity risk (general and specific) | 0 | 0 |
| Foreign exchange risk | 97,086 | 7,767 |
| Commodity risk | 0 | 0 |
| **Options** | | |
| Simplified approach | | |
| Delta-plus method | | |
| Scenario approach | | |
| **Securitisations (specific risk)** | | |
| **Total** | **97,089** | **7,767** |

299. With regard to market risk requirements, the increase in comparison to the previous year essentially results from foreign exchange risk, particularly the devaluation of the Kwanza resulting from Finibanco Angola's activity.

300. 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 2021, notes 23 and 24 on pages 440 to 447 in particular, must be consulted.

## 13. Exposures to banking book shares

301. 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).

302. 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.

303. 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.

304. 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 48 | Equity exposures in the banking book

(thousands of euros)

| | Listed shares | | Unlisted shares | | Other Equity Instruments | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Dec-21 | Dec-20 | Dec-21 | Dec-20 | Dec-21 | Dec-20 | Dec-21 | Dec-20 |
| Acquisition cost | 2,943 | 68,243 | 8,423 | 77,783 | 49,923 | 51,340 | 61,289 | 197,365 |
| Fair value | 2,700 | 32,072 | 19,435 | 86,605 | 40,480 | 41,884 | 62,615 | 160,561 |
| Market price | 2,700 | 32,072 | | | | | 2,700 | 32,072 |
| Gains or losses arising from sales and settlements in the period: | | | | | | | 3,750 | 4,067 |
| Total unrealised gains or losses: | | | | | | | -27,348 | -36,804 |
| **Total latent revaluation gains or losses** | | | | | | | **-27,348** | **-36,804** |

Note:
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

305. With regard to shares in the trading portfolio, as at 31 December 2021, there were no positions in shares in this portfolio (as at 31 December 2020, they were worth 3,397 thousand euros, all corresponding to listed shares).

306. Further details on the portfolio of shares can be consulted in the notes attached to the financial statements of the Annual Report for 2021, in particular note 24 (page 447 and 448) and note 25 (page 245 to 452).

## 14. Operational risk

307. 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.

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

309. As referred to in Article 317, Chapter 3, Title III, Part III of Regulation (EU) 575/2013 of the European Parliament and of 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.

310. 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 49 | 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;<br>- Services related to underwriting;<br>- Investment advisory services;<br>- Corporate advisory services on capital structure, industrial strategy and related matters;<br>- Advisory services relating to mergers and acquisitions;<br>- 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;<br>- Monetary markets intermediation;<br>- Receiving and giving orders related to one or more financial instruments;<br>- Orders carried out according to client's demands;<br>- Placing of financial instruments without underwriting;<br>- Exploration of multilateral trading facilities. | 18% |
| Payment and settlement | - Payment transactions;<br>- Issuing and management of payment options. | 18% |
| Commercial banking | - Booking deposits and other reimbursable funds;<br>- Loans;<br>- Leasing;<br>- 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;<br>- Loans;<br>- Leasing;<br>- Guarantee concession and undertaking commitments. | 12% |
| Retail brokerage | - Receiving and giving orders related to one or more financial instruments.<br>- Orders carried out according to client's demands;<br>- Placing of financial instruments without underwriting. | 12% |
| Asset management | - Portfolio management<br>- Management of OICVM.<br>- Other forms of asset management. | 12% |

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

312. 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;

313. 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;

314. 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;

315. 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;

316. 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;

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

318. 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.

319. 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.

320. 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

321. 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.

322. 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 50 | Template EU OR1: Operational risk own funds requirements and risk-weighted exposure amounts**

(thousands of euros)

| | Approach | Relevant indicator | | | Own funds requirements | Risk exposure amount |
|---|---|---|---|---|---|---|
| | | 2019 | 2020 | 2021 | | |
| 1 | Banking activities subject to the basic indicator approach (BIA) | 0 | 0 | 0 | 0 | 0 |
| 2 | Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches | 420,481 | 365,295 | 378,798 | 50,841 | 635,507 |
| 3 | *Subject to TSA:* | 420,481 | 365,295 | 378,798 | | |
| 4 | *Subject to ASA:* | 0 | 0 | 0 | | |
| 5 | Banking activities subject to advanced measurement approaches (AMA) | 0 | 0 | 0 | 0 | 0 |

## 15. Banking book interest rate risk

323. 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.

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

325. 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.

326. 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.

327. 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. |

328. 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 51 | Interest Rate Risk**

| (thousands of euros) | Impact Dec21 | | Impact Dec20 | |
|---|---|---|---|---|
| Scenario | 1-year net interest income | Economic Value | 1-year net interest income | Economic Value |
| Parallel shock up | 82,700 | -176,500 | 63,937 | -110,951 |
| Parallel shock down | -82,700 | 223,900 | -63,937 | 136,995 |
| Short rates up | 98,100 | 25,800 | 75,933 | 4,178 |
| Short rates down | -98,100 | 14,400 | -75,933 | -5,234 |
| Steepener shock | -61,900 | -118,500 | -47,921 | -59,251 |
| Flattener shock | 77,200 | 88,400 | 59,789 | 42,124 |

329. The impacts on the economic value and on the estimated 1-year net interest income are based on the repricing gaps calculated as described below and on the standard shock on the interest rates to be applied to the amounts that reprice at each moment. The standard shock is applied as described in Article 4 of Banco de Portugal Instruction 34/2018, using as risk-free yield curve the EURIBOR curve for maturities up to 12 months and the euro swap curve for subsequent maturities. A repricing gap is the difference between the value of assets and the value of liabilities that renew the interest rate in a given period. The gap will be positive (negative) if the total assets are higher (lower) than the total liabilities that reset the rate in that period. The following aspects are considered in the construction of the repricing model:

- The cash flows of principal and interest relating to assets, liabilities and hedging derivatives, remunerated at a variable rate, are grouped according to the interest rate reset period;
- Cash flows of principal and interest relating to assets, liabilities and hedging derivatives, remunerated at a fixed rate, are considered as interest rate resets on the maturity date;
- Interest cash flows include the spread component;
- A static model is applied on a consolidated basis, i.e. the balance sheet positions on the reference date are considered, including hedging derivatives, in which the total volume and composition of cash flows that mature or that reprice are replaced by new cash flows with identical characteristics in terms of amount, repricing period and spread, considering, however, the incorporation of the following behavioural aspects, whose modelling is unconditional to the interest rate scenario:

- The cash flows of principal and interest on loans and time deposits are distributed over the time band of maturities based on prepayment rates and early withdrawal rates, respectively, gauged through historical analysis of these behaviours at Banco Montepio.
- There is no materiality of positions in currencies other than the Euro; a currency is considered material whenever the exposure to this currency represents more than 5% of total assets or liabilities of the banking portfolio, in line with what is stipulated in Banco de Portugal Instruction No. 34/2018;
- It is verified that positions with automatic options are not material, as they are not treated differently from the other positions. These positions are considered material whenever they represent more than 1% of total assets or liabilities;
- Cash flows are distributed by time bands with at least the granularity stipulated in Instruction No. 34/2018 of the Banco de Portugal;
- Excluded from the calculation are trading book positions and non-interest rate sensitive positions, such as property and other tangible assets, intangible assets, equity securities, investment fund units, cash, current and deferred tax assets and liabilities, provisions and shareholder's equity;
- Cash flows related to recoveries on non-performing positions were calculated based on the recovery rates implicit in the LGD of the homogeneous populations impairment model;
- As for the behavioural maturity of deposits with no defined maturity, the distribution by maturity was assumed in accordance with the internal statistical model developed. The maximum review period for the rates on deposits without defined maturity assigned to the various maturities is six-monthly. On average this calculation is quarterly.

330. The risk measures disclosed make it possible to gauge the impact on economic value and earnings of a varied set of movements in the interest rate curve. The interest margin and economic value sensitivity measures are measures that complement each other and allow an overview of the structural interest rate risk that is more focused on the short and medium term in the case of the margin sensitivity and on the medium and long term in the case of the economic value. The profile of repricing gaps changed from the last report due to the inclusion of deposits without defined maturity, which motivated exposure to a decline in rates rather than a rise.

331. In addition to the impacts on economic value and results mentioned above, Banco Montepio regularly monitors the following metrics and associated limits on a monthly basis:

| **RAS Limit:** |
| --- |
| Economic Value at Risk - interest rate shock (M€) - RAS |
| **Gap risk** |
| Impact on net interest income of a 100 basis points change in the interest rate curve (parallel risk) |
| Impact on own funds of a 100 basis point change in the interest rate curve (parallel risk) |
| Impact on net interest income of a variation estimated through VaR on the interest rate curve (parallel risk) |

| |
|---|
| Impact on economic value of a variation estimated through VaR on the interest rate curve (parallel risk) |
| Impact on net interest income of a change estimated through VaR on the interest rate curve (non-parallel risk or yield curve risk) |
| Impact on economic value of a change estimated through VaR on the interest rate curve (non-parallel risk or yield curve risk) |
| **Basis risk**: |
| Impact on net interest income of a change estimated through VaR on the interest rate curve by indexer |
| Impact on economic value of a variation estimated through VaR on the interest rate curve by indexer |
| **Option risk**: |
| Impact on net interest income against fixed rate credit prepayments as a result of a decline in the interest rate curve estimated through VaR |
| Impact on net interest income due to early withdrawals of callable term deposits and fixed rate deposits as a result of an increase in the interest rate curve estimated through VaR |

332. For further information on interest rate risk, see Note 50 on Risk Management, in the chapter on Interest Rate Risk of the Banking Book, in the notes attached to the financial statements on pages 532 to 533.

## 16. Liquidity and funding risk

333. 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.

334. 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.

335. 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 and NSFR, is prepared for the supervisory authority on a regular basis, The following tables present information on the average quarterly value of the LCR, the annual value of the NSFR and the main components of both, in accordance with the EBA guidelines (EBA/GL/2020/04)

336. The BM Group defines a liquidity risk strategy, which is approved by the Board of Directors, which incorporates the liquidity risk appetite, as an integral part of the RAS. In addition to the strategic risk appetite limits, whose governance is laid down in specific regulations, other operating limits may be established (for example, funding concentration, depositor concentration, etc.), in accordance with the Liquidity Risk Management Policy in force, which also defines the governance procedures in the event of breaches of the defined limits. The liquidity strategy should serve as a guideline for the BM Group's investment policy, and which should take into account concentration limits for the liquidity buffer.

337. The Board of Directors must discuss and approve the strategic initiatives to improve the liquidity risk management processes, mitigating the risk to which it is exposed and establishing the main objectives to be met in the coming years and demonstrating that the Bank is committed to the future development of its structure in managing this materially relevant risk.

338. The various components that make up ILAAP must provide the Board of Directors and the supervisory body with an adequate outlook on the evolution of the Group's liquidity and financing risk profile, as well as its current global exposure to risk, providing information on the available sources of liquidity and the Group's liquidity adequacy. ILAAP interlinks with the risk appetite process to define or adjust liquidity and funding risk management metrics, as well as providing valuable information for the planning process to achieve business, capital and funding objectives.

339. Liquidity risks, including the main sources identified in the materiality risk assessment process, set the basis for the ILAAP and ICAAP processes and should adequately reflect the specific position of the BM Group resulting from its business strategy. Thus, vulnerabilities and the main sources of liquidity risk must be addressed when defining internal limits and stress scenarios.

340. Thus, within the established risk appetite of the BM Group (Risk Appetite Statement - RAS), limits and strategic objectives are defined for key indicators, with liquidity risk being one of the risks considered materially relevant, namely in the subcomponents of Liquidity Risk and Funding.

341. Therefore, based on the defined limits, the evolution of the risk profile of the BM Group in relation to the risk appetite, including liquidity and funding risk, is regularly monitored and reported to the bank's management and supervisory bodies.

342. In addition, liquidity risk management also includes carrying out scenario analyses, stress tests and reverse stress tests on liquidity risk indicators, as well as drawing up a Liquidity Contingency Plan and monthly monitoring of the Survival Period (time until occurrence of liquidity difficulties if corrective measures are not implemented beforehand), as defined in the bank's internal regulations. For the purpose of day-to-day monitoring and management of liquidity risk, the development of univariate or multivariate stress tests and reverse stress tests is ensured, as well as their calibration, with a view to reporting them both to the ALCO and to the management and supervisory bodies.

343. The stress tests carried out for the purposes of day-to-day monitoring and management of liquidity risk shall consider at least one idiosyncratic risk factor consisting in an outflow of deposits and one systemic risk factor consisting in a downgrade of the rating of assets eligible for funding operations with the ECB. The reporting of these stress tests should include the impacts on the liquidity reserve, the 1-month, 3-month, 6-month and 12-month cumulative liquidity gaps and the survival period, on a consolidated basis.

## Table 52 | Template EU LIQ1: Quantitative information on liquidity coverage ratio (LCR)

(thousands of euros)

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Total non-weighted value (average) | | | | Total weighted value (average) | | | |
| EU 1a | Quarter ending on (DD Month YYYY) | 31/Dec/2021 | 30/Sep/2021 | 30/Jun/2021 | 31/Mar/2021 | 31/Dec/2021 | 30/Sep/2021 | 30/Jun/2021 | 31/Mar/2021 |
| EU 1b | Number of data points used in the calculation of averages | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| HIGH-QUALITY LIQUID ASSETS | | | | | | | | | |
| 1 | Total high-quality liquid assets (HQLA) | | | | | 3,869,114 | 3,408,022 | 3,022,188 | 2,617,422 |
| CASH - OUTFLOWS | | | | | | | | | |
| 2 | **Retail deposits and deposits from small business customers, of which:** | **10,469,424** | **10,533,094** | **10,460,898** | **10,318,804** | **377,123** | **370,473** | **355,359** | **343,393** |
| *3* | *Stable deposits* | 4,530,405 | 4,511,206 | 4,335,017 | 4,187,086 | 226,520 | 225,560 | 216,751 | 209,354 |
| *4* | *Less stable deposits* | 1,447,998 | 1,396,221 | 1,331,805 | 1,285,597 | 150,603 | 144,913 | 138,608 | 134,038 |
| **5** | **Unsecured wholesale funding** | **2,303,057** | **2,193,090** | **1,996,499** | **1,996,348** | **956,717** | **901,745** | **851,251** | **888,010** |
| *6* | *Operational deposits (all counterparties) and deposits in networks of cooperative banks* | 616,454 | 542,435 | 512,845 | 482,006 | 154,113 | 135,609 | 128,211 | 120,501 |
| *7* | *Non-operational deposits (all counterparties)* | 1,686,603 | 1,650,655 | 1,483,384 | 1,512,911 | 802,603 | 766,137 | 722,769 | 766,077 |
| *8* | *Unsecured debt* | 0 | 0 | 271 | 1,432 | 0 | 0 | 271 | 1,432 |
| **9** | **Secured wholesale funding** | | | | | **0** | **0** | **0** | **0** |
| **10** | **Additional requirements** | **2,005,067** | **2,015,946** | **2,025,029** | **2,034,296** | **187,441** | **185,781** | **185,381** | **182,920** |
| *11* | *Outflows related to derivative exposures and other collateral requirements* | 32,472 | 29,676 | 28,724 | 17,369 | 32,472 | 29,676 | 28,724 | 17,369 |
| *12* | *Outflows related to loss of funding on debt products* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *13* | *Credit and liquidity facilities* | 1,972,595 | 1,986,270 | 1,996,305 | 2,016,928 | 154,969 | 156,105 | 156,657 | 165,551 |
| **14** | **Other contractual funding obligations** | **61,821** | **63,611** | **70,793** | **80,163** | **42,911** | **44,919** | **53,399** | **61,046** |
| **15** | **Other contingent funding obligations** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **16** | **TOTAL CASH OUTFLOWS** | | | | | **1,564,192** | **1,502,919** | **1,445,389** | **1,475,368** |
| CASH - INFLOWS | | | | | | | | | |
| 17 | Secured lending (e.g. reverse repos) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 | Inflows from fully performing exposures | 257,260 | 252,648 | 241,217 | 218,764 | 188,052 | 187,568 | 182,215 | 160,840 |
| 19 | Other cash inflows | 18,114 | 16,214 | 21,222 | 24,181 | 18,114 | 16,214 | 21,222 | 24,181 |
| EU-19a | (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 |
| EU-19b | (Excess inflows from a related specialised credit institution) | | | | | 0 | 0 | 0 | 0 |
| **20** | **TOTAL CASH INFLOWS** | **275,374** | **268,862** | **262,438** | **242,945** | **206,166** | **203,783** | **203,437** | **185,021** |
| ***EU-20a*** | ***Fully exempt inflows*** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***EU-20b*** | ***Inflows subject to 90% cap*** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ***EU-20c*** | ***Inflows subject to 75% cap*** | 275,374 | 268,862 | 262,438 | 242,945 | 206,166 | 203,783 | 203,437 | 185,021 |
| TOTAL ADJUSTED VALUE | | | | | | | | | |
| EU-21 | LIQUIDITY BUFFER | | | | | 3,869,114 | 3,408,022 | 3,022,188 | 2,617,422 |
| 22 | TOTAL NET CASH OUTFLOWS | | | | | 1,358,026 | 1,299,137 | 1,241,952 | 1,290,347 |
| 23 | LIQUIDITY COVERAGE RATIO | | | | | 285% | 262% | 243% | 203% |

344. 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.

## Table 53 | Template EU LIQB: Qualitative information on LCR, which complements template EU LIQ1

| Row No. | Qualitative Information | Comments |
|---|---|---|
| a) | Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time | LCR results stem from BM's very comfortable liquidity position. Additionally, BM saw its liquidity buffer reinforced through ECB funding, taking advantage of the favourable conditions of the TLTRO III line.<br>LCR's calculation has maintained the same criteria and interpretation of the legislation in force over time. |
| b) | Explanations of the changes in the LCR over time | The average 12-month LCR was 285% in December 2021, a positive evolution from 203% in March 2021. This positive evolution results from the increase in HQLA assets during 2021, which benefited from the increase in ECB resources in the amount of 1.5 billion euros, through the TLTRO III funding line, and from the entry of portfolios of credit rights eligible for the Bank of Portugal discount pool. This indicator also benefited from the completion of the Pelican Finance 2 securitisation, as well as the divestment of non-core assets that took place during the year. |
| c) | Explanations on the actual concentration of funding sources | BM's financing structure is essentially based on customer resources (about 70% of assets), on recourse to ECB facilities (about 16% of assets) and on a reduced level of funding from capital and money markets. |
| d) | High-level description of the composition of the institution's liquidity buffer. | At the end of December 2021, BM held a liquidity buffer made up essentially of 98% by deposits in central banks and HQLA level 1 assets. The remaining 2% is derived almost entirely from cash values deducted from the cash equivalents associated with the Bank of Portugal's reserves. |
| e) | Derivative exposures and potential collateral calls | BM considers the known payments and receipts arising from expected derivative transactions over 30 days. It also considers an additional outflow for derivative operations subject to CSA, calculated in accordance with the legislation in force. |
| f) | Currency mismatch in the LCR | There are no currency inconsistencies in the LCR. |
| g) | Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile | The items relevant for the calculation of the LCR, are provided in the template for the LCR disclosure. |

345. 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).

346. The NSFR is a structural ratio that aims to assess the liquidity profile over the medium term. The regulator has set a minimum ratio of 100%, requiring banks to provide a stable amount of funding (dependent on their capital, type and terms of liabilities) that is sufficient to meet their stable funding needs (arising from the liquidity characteristics of their assets and potential commitments).

347. The prudentially required minimum ratio of 100% implies that the amount of available stable funding must be greater than the amount of stable funding required.

## Table 54 | Template EU LIQ2: Net Stable Funding Ratio

(thousands of euros)

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | Unweighted value by residual maturity | | | | Total weighted value |
| | | No maturity | < 6 months | 6 months to < 1 year | ≥ 1 year | |
| | **Available stable funding (ASF) Items** | | | | | |
| 1 | **Capital items and instruments** | **1,114,516** | **0** | **0** | **206,522** | **1,321,038** |
| 2 | *Own funds* | 1,114,516 | 0 | 0 | 206,522 | 1,321,038 |
| 3 | *Other capital instruments* | | 0 | 0 | 0 | 0 |
| 4 | **Retail deposits** | | **5,916,756** | **1,017,337** | **2,339,132** | **8,917,142** |
| 5 | *Stable deposits* | | 5,749,344 | 997,174 | 2,314,436 | 8,723,628 |
| 6 | *Less stable deposits* | | 167,413 | 20,163 | 24,696 | 193,514 |
| 7 | **Wholesale funding** | | **3,263,516** | **430,903** | **3,246,100** | **4,854,880** |
| 8 | *Operational deposits* | | 0 | 0 | 0 | 0 |
| 9 | *Other wholesale funding* | | 3,263,516 | 430,903 | 3,246,100 | 4,854,880 |
| 10 | **Interdependent liabilities** | | | | | |
| 11 | **Other liabilities** | | | | | |
| 12 | *NSFR derivative liabilities* | 7,805 | | | | 0 |
| 13 | *All other liabilities and capital instruments not included in the above categories* | | 588,602 | 782,430 | 799,542 | 1,190,757 |
| 14 | **Total available stable funding (ASF)** | | | | | **16,283,816** |
| | **Required Stable Funding (RSF) Items** | | | | | |
| 15 | **Total high-quality liquid assets (HQLA)** | | | | | **1,683,670** |
| EU-15a | **Assets encumbered for a residual maturity of one year or more in a cover pool** | | **39,733** | **41,782** | **1,757,360** | **1,563,044** |
| 16 | **Deposits held at other financial institutions for operational purposes** | | **67,403** | **0** | **167,260** | **200,961** |
| 17 | **Performing loans and securities:** | | **749,465** | **363,263** | **8,296,969** | **7,076,246** |
| 18 | *Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut* | | 0 | 0 | 0 | 0 |
| 19 | *Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions* | | 108,489 | 1,353 | 42,190 | 53,716 |
| 20 | *Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:* | | 640,975 | 361,910 | 8,239,192 | 7,009,245 |
| 21 | *With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk* | | 170,452 | 142,563 | 4,308,632 | 3,173,069 |
| 22 | *Performing residential mortgages, of which:* | | 0 | 0 | 0 | 0 |
| 23 | *With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk* | | 0 | 0 | 0 | 0 |
| 24 | *Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products* | | 0 | 0 | 15,586 | 13,285 |
| 25 | **Interdependent assets** | | | | | |
| 26 | **Other assets:** | | | | | |
| 27 | *Physical traded commodities* | | | | 0 | 0 |
| 28 | *Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs* | | | | 0 | 0 |
| 29 | *NSFR derivative assets* | | | | 0 | 0 |
| 30 | *NSFR derivative liabilities before deduction of variation margin posted* | | | | 0 | 0 |
| 31 | *All other assets not included in the above categories* | | 115,155 | 0 | 2,300,479 | 2,300,479 |
| 32 | **Off-balance sheet items** | | | **0** | **2,019,913** | **173,344** |
| 33 | **Total Stable Funding Required (RSF)** | | | | | 12,997,744 |
| 34 | **Net Stable Funding Ratio (%)** | | | | | **125%** |

348. In 2021, 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 securitisation of Pelican Finance 2.

349. In 2021 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

350. As part of the instructions on reporting templates for asset encumbrance reporting of the Commission Implementing Regulation (EU) No. 680/2014 and taking into consideration the recommendation made by the European Systemic Risk Board, we

present the following information, with reference to 31 December 2021, regarding assets and collateral:

## Table 55 | Template EU AE1: Encumbered and unencumbered assets

| | | Carrying amount of encumbered assets | | Fair value of encumbered assets | | Carrying amount of unencumbered assets | | Fair value of unencumbered assets | |
|---|---|---|---|---|---|---|---|---|---|
| | | | of which notionally eligible EHQLA and HQLA | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA | | of which EHQLA and HQLA |
| | | 010 | 030 | 040 | 050 | 060 | 080 | 090 | 100 |
| 010 | Assets of the disclosing institution | 6,005,589 | 1,926,782 | | | 13,707,571 | 876,687 | | |
| 030 | Equity instruments | 0 | 0 | 0 | 0 | 215,870 | 0 | 215,870 | 0 |
| 040 | Debt securities | 2,122,218 | 1,926,782 | 1,900,039 | 1,899,796 | 1,496,387 | 876,687 | 1,169,494 | 854,331 |
| 050 | of which: covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *060* | *of which: securitisations* | *1,313* | *1,070* | *1,313* | *1,070* | *0* | *0* | *0* | *0* |
| *070* | *of which: issued by general governments* | *2,120,905* | *1,925,712* | *1,898,726* | *1,898,726* | *941,415* | *860,544* | *1,127,876* | *854,331* |
| *080* | *of which: issued by financial corporations* | *1,313* | *1,070* | *1,313* | *1,070* | *8,788* | *0* | *1,331* | *0* |
| *090* | *of which: issued by non-financial corporations* | *0* | *0* | *0* | *0* | *546,183* | *16,143* | *40,286* | *0* |
| 120 | Other assets | 3,883,371 | 0 | | | 11,995,315 | 0 | | |

## Table 56 | Template EU AE2: Collateral received and own debt securities issued

| | | Fair value of encumbered collateral received or own debt securities issued | | Unencumbered | |
|---|---|---|---|---|---|
| | | | | Fair value of encumbered collateral received or own debt securities issued | |
| | | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA |
| | | 010 | 030 | 040 | 060 |
| 130 | Collateral received by the disclosing institution | - | - | - | - |
| 140 | Loans on demand | - | - | - | - |
| 150 | Equity instruments | - | - | - | - |
| 160 | Debt securities | - | - | - | - |
| *170* | *of which: covered bonds* | - | - | - | - |
| *180* | *of which: securitisations* | - | - | - | - |
| *190* | *of which: issued by general governments* | - | - | - | - |
| *200* | *of which: issued by financial corporations* | - | - | - | - |
| *210* | *of which: issued by non-financial corporations* | - | - | - | - |
| 220 | Loans and advances other than loans on demand | - | - | - | - |
| 230 | Other collateral received | - | - | - | - |
| 240 | Own debt securities issued other than own covered bonds or securitisations | - | - | - | - |
| 241 | Own covered bonds and securitisations issued and not yet pledged | | | - | - |
| 250 | TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED | 6,005,589 | 1,926,782 | | |

## Table 57 | Template EU AE3: Sources of encumbrance

| | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered |
|---|---|---|---|
| | | 010 | 030 |
| 010 | Carrying amount of selected financial liabilities | 3,209,480 | 5,977,700 |

351. The encumbered assets are, by and large, related to financing operations, namely of the ECB, 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.

352. Further information can be consulted in note 50 on Risk Management, in the notes attached to the financial statements on pages 537 to 538.

## 18. Remuneration policy

353. With regards to information regarding the remuneration policy and practices applicable to those categories of staff whose professional activities have a significant impact on the respective risk profile, and in accordance with Article 450 of the CRR, the following is reported:

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(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(c) of the Articles of Association of Banco 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)(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 BoD from among its non-executive members, the majority of which, including the Chairman, must have an independent status, During 2021, the Remunerations, Nominations and Assessment Committee held 35 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 661 to 665 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, Appointments and Assessments Committee stipulated in Article 11(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 Remuneration Policy for Management and Supervisory Members in force in 2021 was approved at the General Meeting on 29/06/2021, and was subject to the annual review by the CRNA in 2021, as provided for in the policy, a review which was subsequently approved by the General Meeting on 29/04/2022.[8] Within the scope of these matters, during 2021, CRNA was supported by the consulting services of an external entity (Amrop) and technical advice from a specialised professional, under a service contract. The Policy applies to all Members of the Management and Supervisory Bodies of any company in the Banco Montepio Group subject to supervision on a consolidated basis and must be approved by the respective General Meetings.

The main changes made to the policy in 2021 and in the current year are highlighted:

- Updated the regulatory framework taking into account the Banco de Portugal Notice no. 3/2020, the European Banking Authority Guidelines on sound remuneration policies (EBA GL/2021/04) and those on internal governance (EBA GL/2021/05).
- Changed the period associated to the multi-year performance evaluation to 4 years, which will allow for individual and collective ex post re-evaluation

[8] The Remuneration Policy for Management and Supervisory Members is disclosed on Banco Montepio's website, available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/politica-remuneracoes-membros-orgaos-administracao-fiscalizacao.pdf

considering the assumption of risks and the dilution of possible effects arising from extraordinary non-recurring results.

- Attributed to the Board of Directors the competence for the definition, for each year, of the quantitative and qualitative performance indicators, on a proposal from CRNA.
- Defined the relative weight of each of the three components relevant to determining the value of variable remuneration: (i) individual performance assessment of each executive director, (ii) collective performance of the Executive Committee and (iii) the institution's overall performance and results.

The Remuneration Policy for Relevant Employees[9] is approved by the Board of Directors observing the specific rules of the Legal Framework of Credit Institutions and Financial Companies (RGICSF) on the matter, namely its articles 115 - A to 115 - I, as well as the European Banking Authority Guidelines on sound remuneration policies and the Guidelines on internal governance. The principles of the policy apply, with the necessary adaptations, to all persons who are employed by any company in the Banco Montepio Group subject to supervision on a consolidated basis and must be approved by the respective management bodies.

The main changes made to the policy in 2021 were as follows:

- Updated the regulatory framework, taking into account Banco de Portugal Notice no. 3/2020.
- Expand the measures and procedures with a view to avoiding situations of conflict of interest.
- Multi-year evaluation introduced that will allow individual and collective ex-post reassessment in risk-taking and the dilution of possible effects arising from one-off extraordinary results.

Both Policies are applicable to all of the Group's entities, regardless of where they are located, considering the specificities that may arise from the location of each operation and from local legislation.

It is the responsibility of the Board of Directors to approve and review the nominative list with the categories of staff whose professional activities have a significant impact on the risk profile of the institution based on the quantitative and qualitative criteria defined in Delegated Regulation (EU) No. 604/2014 of the European Commission.

The process aimed at identifying these categories of staff is provided for in the Remuneration Policy for Relevant Employees and is based on a set of criteria laid down in the Policy, which include, namely:

a) Employees who perform senior management functions or who report directly to the Executive Committee or the Board of Directors;

b) Employees qualified as Key Function Holders;

[9] The Remuneration Policy for Relevant Employees is disclosed on Banco Montepio's website, available at: https://www.bancomontepio.pt/resources/SiteMontepio/documentos/institucional/informacao-financeira/politica-remuneracao-colaboradores-relevantes.pdf

c) Employees whose total remuneration places them in the remuneration bracket of senior management and members of the Board of Directors, in their management and supervisory role, provided their activity has a material impact on Banco Montepio's risk profile.

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:

i. A fixed component paid on a monthly basis;

ii. 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 BoD 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 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 2021 financial year, a decision was made not to award variable remuneration to the executive Directors, nor was there any award of this remuneration to 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 Legal 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 6.2.10. 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 BoD 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 BoD 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 BoD, 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 BoD 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 BoD, 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 2021, the attribution of a variable remuneration to the executive directors was not deliberated.

xiv) Information on compensation paid or owed to former executive directors relating to the termination of their duties during the year can be found in the notes to the consolidated financial statements, namely in note 10, pages 214 and 215 of 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, in accordance with Article 450(1)(g) of Regulation (EU) 575/2013:

## Table 58 | Template EU REM1: Remuneration awarded for the financial year

| | | | a | b | c | d |
|---|---|---|---|---|---|---|
| | | | MB Supervisory function | MB Management function | Other senior management | Other identified staff |
| 1 | Fixed remuneration | **Number of identified staff** | - | 16 | 55 | - |
| 2 | | Total fixed remuneration | - | 3,379,965 | 4,934,413 | - |
| 3 | | Of which: cash-based | - | 3,379,965 | 4,934,413 | - |
| 4 | | (Not applicable in the EU) | - | - | - | - |
| EU-4a | | Of which: shares or equivalent ownership interests | - | - | - | - |
| 5 | | Of which: share-linked instruments or equivalent non-cash instruments | - | - | - | - |
| EU-5x | | Of which: other instruments | - | - | - | - |
| 6 | | (Not applicable in the UE) | - | - | - | - |
| 7 | | Of which: other forms | - | - | - | - |
| 8 | | (Not applicable in the EU) | - | - | - | - |
| 9 | Variable remuneration: | Number of identified staff | - | - | - | - |
| 10 | | Total variable remuneration | - | - | - | - |
| 11 | | Of which: cash-based | - | - | - | - |
| 12 | | Of which: deferred | - | - | - | - |
| EU-13a | | Of which: shares or equivalent ownership interests | - | - | - | - |
| EU-14 a | | Of which: deferred | - | - | - | - |
| EU-13b | | Of which: share-linked instruments or equivalent non-cash instruments | - | - | - | - |
| EU-14b | | Of which: deferred | - | - | - | - |
| EU-14x | | Of which: other instruments | - | - | - | - |
| EU-14y | | Of which: deferred | - | - | - | - |
| 15 | | Of which: other forms | - | - | - | - |
| 16 | | Of which: deferred | - | - | - | - |
| 17 | | **Total remuneration (2 + 10)** | - | 3,379,965 | 4,934,413 | - |

## Table 59 | Template EU REM2: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

| | a | b | c | d |
|---|---|---|---|---|
| | MB Supervisory function | MB Management function | Other senior management | Other identified staff |
| **Guaranteed variable remuneration awards** | | | | |
| 1 Guaranteed variable remuneration awards - Number of identified staff | - | - | - | - |
| 2 Guaranteed variable remuneration awards -Total amount | - | - | - | - |
| 3 Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap | - | - | - | - |
| **Severance payments awarded in previous periods, that have been paid out during the financial year** | | | | |
| 4 Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff | - | - | - | - |
| 5 Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount | - | - | - | - |
| **Severance payments awarded during the financial year** | | | | |
| 6 Severance payments awarded during the financial year - Number of identified staff | - | - | - | - |
| 7 Severance payments awarded during the financial year - Total amount | - | - | - | - |
| 8 Of which paid during the financial year | - | - | - | - |
| 9 Of which deferred | - | - | - | - |
| 10 Of which severance payments paid during the financial year, that are not taken into account in the bonus cap | - | - | - | - |
| 11 Of which highest payment that has been awarded to a single person | - | - | - | - |

The tables below, in accordance with Article 450(1)(h) of the CCR, present the information on the remuneration of staff whose activity has a significant impact on the Banco Montepio Group's risk profile and deferred remuneration (if it occurred during 2021).

## Table 60 | Template EU REM5: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

| | | a | b | c | d | e | f | g | h | i | j |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Management body remuneration | | | Business areas | | | | | | Total |
| | | MB Supervisory function | MB Management function | Total MB | Investment banking | Retail banking | Asset management | Corporate functions | Independent internal control functions | All other | |
| 1 | **Total number of identified staff** | 0 | 16 | 16 | 0 | 13 | 0 | 0 | 13 | 29 | 71 |
| 2 | *Of which: members of the MB* | *0* | *16* | *16* | *0* | *0* | *0* | *0* | *0* | *0* | ***16*** |
| 3 | *Of which: other senior management* | *0* | *0* | *0* | *0* | *4* | *0* | *0* | *3* | *25* | ***32*** |
| 4 | *Of which: other identified staff* | *0* | *0* | *0* | *0* | *9* | *0* | *0* | *10* | *4* | ***23*** |
| 5 | **Total remuneration of identified staff** | 0 | 3,379,965 | 3,379,965 | 0 | 1,251,289 | 0 | 0 | 931,160 | 2,751,965 | 8,314,378 |
| 6 | *Of which: variable remuneration* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | ***0*** |
| 7 | *Of which: fixed remuneration* | *0* | *3,379,965* | *3,379,965* | *0* | *1,251,289* | *0* | *0* | *931,160* | *2,751,965* | ***8,314,378*** |

## Table 61 | Template EU REM3: Deferred compensation

| | | a | b | c | d | e | f | EU - g | EU - h |
|---|---|---|---|---|---|---|---|---|---|
| | Deferred and retained remuneration | Total amount of deferred remuneration awarded for previous performance periods | Of which due to vest in the financial year | Of which vesting in subsequent financial years | Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year | Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years | Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments) | Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year | Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods |
| 1 | MB Supervisory function | - | - | - | - | - | - | - | - |
| 2 | Cash-based | - | - | - | - | - | - | - | - |
| 3 | Shares or equivalent ownership interests | - | - | - | - | - | - | - | - |
| 4 | Share-linked instruments or equivalent non-cash instruments | - | - | - | - | - | - | - | - |
| 5 | Other instruments | - | - | - | - | - | - | - | - |
| 6 | Other forms | - | - | - | - | - | - | - | - |
| 7 | MB Management function | - | - | - | - | - | - | - | - |
| 8 | Cash-based | - | - | - | - | - | - | - | - |
| 9 | Shares or equivalent ownership interests | - | - | - | - | - | - | - | - |
| 10 | Share-linked instruments or equivalent non-cash instruments | - | - | - | - | - | - | - | - |
| 11 | Other instruments | - | - | - | - | - | - | - | - |
| 12 | Other forms | - | - | - | - | - | - | - | - |
| 13 | Other senior management | - | - | - | - | - | - | - | - |
| 14 | Cash-based | - | - | - | - | - | - | - | - |
| 15 | Shares or equivalent ownership interests | - | - | - | - | - | - | - | - |
| 16 | Share-linked instruments or equivalent non-cash instruments | - | - | - | - | - | - | - | - |
| 17 | Other instruments | - | - | - | - | - | - | - | - |
| 18 | Other forms | - | - | - | - | - | - | - | - |
| 19 | Other identified staff | - | - | - | - | - | - | - | - |
| 20 | Cash-based | - | - | - | - | - | - | - | - |
| 21 | Shares or equivalent ownership interests | - | - | - | - | - | - | - | - |
| 22 | Share-linked instruments or equivalent non-cash instruments | - | - | - | - | - | - | - | - |
| 23 | Other instruments | - | - | - | - | - | - | - | - |
| 24 | Other forms | - | - | - | - | - | - | - | - |
| 25 | Total amount | - | - | - | - | - | - | - | - |

During the year 2021, and according to Article 450(1)(i) of the CRR, the following table shows the number of individuals with remuneration equal to or greater than 1 million euros per financial year.

## Table 62 | Template EU REM4: Remuneration of 1 million euros or more per year

| | | a |
|---|---|---|
| | EUR | Identified staff that are high earners as set out in Article 450(i) of the CRR |
| 1 | 1 000 000 to below 1 500 000 | - |
| 2 | 1 500 000 to below 2 000 000 | - |
| 3 | 2 000 000 to below 2 500 000 | - |
| 4 | 2 500 000 to below 3 000 000 | - |
| 5 | 3 000 000 to below 3 500 000 | - |
| 6 | 3 500 000 to below 4 000 000 | - |
| 7 | 4 000 000 to below 4 500 000 | - |
| 8 | 4 500 000 to below 5 000 000 | - |
| 9 | 5 000 000 to below 6 000 000 | - |
| 10 | 6 000 000 to below 7 000 000 | - |
| 11 | 7 000 000 to below 8 000 000 | - |

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 663 and 664 of the Annual Report.

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

| Board of Directors | Functions | Total fixed remunerations paid in 2021 |
|---|---|---|
| Carlos Tavares | B.D. - Chairman | 401,457.29 |
| Manuel Ferreira Teixeira | B.D. - Non-executive | 159,600.00 |
| Amadeu Ferreira de Paiva | B.D. - Non-executive | 126,000.00 |
| Carlos Ferreira Alves | B.D. - Non-executive | 126,000.00 |
| José Nunes Pereira | B.D. - Non-executive | 126,000.00 |
| Pedro Gouveia Alves | B.D. - Non-executive | 84,000.00 |
| Rui Heitor | B.D. - Non-executive | 126,000.00 |
| Vítor do Carmo Martins | B.D. - Non-executive | 126,000.00 |
| **Executive Committee** | | |
| Pedro Leitão | B.D. - Chairman of th | 361,557.15 |
| Dulce Mota | B.D. - Vice-Chairman | 254,457.29 |
| Helena Soares Moura | B.D. - Executive Mem | 254,321.21 |
| Jorge Baião * | B.D. - Executive Mem | 217,044.85 |
| José Carlos Mateus | B.D. - Executive Mem | 254,203.66 |
| Leandro Graça Silva | B.D. - Executive Mem | 254,408.69 |
| Nuno Mota Pinto | B.D. - Executive Mem | 254,457.29 |
| Pedro Ventaneira | B.D. - Executive Mem | 254,457.29 |
| | | 3,379,964.72 |

The total remunerations paid in 2021 to a set of relevant employees who hold senior positions and can affect the institution's risk profile are as follows:

| Categories | Fixed Remuneration | Variable Remuneration | No. members |
|---|---|---|---|
| **Senior management** | 3,943,556 | Not applicable | 41 |
| **Persons in charge of risk-taking** | 380,040 | Not applicable | 6 |
| **Persons in charge of the control functions** | 610,817 | Not applicable | 8 |
| **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.** | Not applicable | Not applicable | Not applicable |

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

Between July and November 2021, 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(2)(c) and (d) of the Legal Framework of Credit Institutions and Financial Companies (RGICSF), in addition to the applicable policies of Banco Montepio.

## Table 63 | List of Tables identified in the EBA Guidelines but not reported

| Model | Description | Motive |
|---|---|---|
| EU INS1 | Insurance participations | Not applicable in the case of Banco Montepio |
| EU INS2 | Financial conglomerates - information on own funds and capital adequacy ratio | Not applicable in the case of Banco Montepio |
| EU LI1 | Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk | Not applicable in the case of Banco Montepio |
| EU LI2 | Main sources of differences between regulatory exposure amounts and carrying values in financial statements | Not applicable in the case of Banco Montepio |
| PV1 | EU PV1 - Prudent Valuation Adjustments (PVA) | Not applicable in the case of Banco Montepio |
| EU CQ2 | Quality of forbearance | Not applicable in the case of Banco Montepio |
| CQ6 | Collateral valuation - loans and advances | Not applicable in the case of Banco Montepio |
| EU CQ8 | Collateral obtained by taking possession and execution processes – vintage breakdown. | Not applicable in the case of Banco Montepio |
| EU CRE | Qualitative disclosure requirements related to IRB Approach | Banco Montepio does not apply the IRB Approach |
| EU CR2-A | Changes in the stock of non-performing loans and advances and related net accumulated recoveries. | Not applicable in the case of Banco Montepio |
| EU CR6 | IRB Approach - Credit risk exposures by exposure class and PD range | Banco Montepio does not apply the IRB Approach |
| EU CR6-A | Scope of the use of IRB and SA approaches | Banco Montepio does not apply the IRB Approach |
| EU CR7 | IRB approach - Effect on the RWEAs of credit derivatives used as CRM techniques | Banco Montepio does not apply the IRB Approach |
| EU CR7-A | IRB Method - Disclosure of the extent of the use of CRM techniques | Banco Montepio does not apply the IRB Approach |
| EU CR8 | RWEA flow statements of credit risk exposures under the IRB approach | Banco Montepio does not apply the IRB Approach |
| EU CR9 | IRB Approach - Back/testing of PD per exposure class (fixed PD scale) | Banco Montepio does not apply the IRB Approach |
| EU CR9.1 | IRB Approach - Back-testing of PD per exposure class (only for PD estimates in accordance with Article 180(1)(f) of the CRR) | Banco Montepio does not apply the IRB Approach |
| EU CR10 | Specialised lending and equity exposure under the simple risk weight approach | Not applicable in the case of Banco Montepio |
| EU CCR4 | IRB Approach - CRR exposures by exposure class and PD range | Banco Montepio does not apply the IRB Approach |
| EU CCR6 | Credit derivatives exposures | Not applicable in the case of Banco Montepio |
| EU CCR7 | RWEA flow statements of CCR exposures under the IMM | Banco Montepio does not apply the IMM |
| EU CCR8 | CCP exposures | Banco Montepio has no positions with CCPs |
| EU MRB | Qualitative disclosure requirements for institutions using the internal market risk models | Banco Montepio does not apply the IMA |
| EU MR2-A | Market risk under the internal Model Approach (IMA) | Banco Montepio does not apply the IMA |
| EU MR2-B | RWEA flow statements of market risk exposures under the IMA | Banco Montepio does not apply the IMA |
| EU MR3 | IMA values for trading portfolios | Banco Montepio does not apply the IMA |
| EU MR4 | Comparison of VaR estimates with gains/losses | Banco Montepio does not apply the VaR method |
| EU-SEC2 | Securitisation exposures in the trading book | Not applicable in the case of Banco Montepio |
| EU-SEC3 | Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor or as sponsor. | Not applicable in the case of Banco Montepio |
| EU-SEC5 | Exposures securitised by the institution - Exposures in default and specific credit risk adjustments | Not applicable in the case of Banco Montepio |

## Table 64 | Mapping tables

**Tables corresponding to Templates of the EBA/GL/2020/04 Guidelines**

| Table | Model | Description | Section |
|---|---|---|---|
| Table 1 | Template EU LI3 | Specification of differences within the scope of consolidation | Chapter 2. Scope |
| Table 2 | Template EU LIA | Explanations of differences between accounting and regulatory exposure amounts Free text boxes for qualitative information disclosure | |
| Table 3 | Template EU KM1 | Template for baseline indicators | Chapter 3. Risk management in the Banco Montepio Group |
| Table 4 | Template EU CC2 | Reconciliation of regulatory own funds to balance sheet in the audited financial statements | Chapter 4.1 Own funds and capital ratios |
| Table 5 | Template EU CCA | Main features of regulatory own funds instruments and eligible liabilities instruments | |
| Table 7 | Template EU CC1 | Composition of regulatory own funds | |
| Table 9 | Template EU LIB | Other qualitative information on the scope | |
| Table 10 | Template EU OV1 | General view of the risk-weighted assets (RWAs) | Chapter 4.2. Capital requirements |
| Table 13 | Template EU CCyB1 | Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer | Chapter 4.4 Prudential reserves of own funds |
| Table 14 | Template EU CCyB2 | Amount of institution-specific countercyclical capital buffer | |
| Table 16 | Template EU LRA | Disclosure of LR qualitative information | Chapter 4.5. Leverage ratio |
| Table 17 | Template EU LR2 | LRSum: Summary reconciliation of accounting assets and leverage ratio exposures | |
| Table 18 | Template EU LR1 | LRCom: Leverage ratio common disclosure | |
| Table 19 | Template EU LR3 | LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) | |
| Table 20 | Template EU CCR1 | Analysis of CCR exposure by approach | Chapter 6. Counterparty credit risk |
| Table 21 | Template EU CCR2 | Transactions subject to own funds requirements for CVA risk | |
| Table 22 | Template EU CCR3 | Standardised Approach - CCR exposures by regulatory exposure class and risk weights | |
| Table 23 | Template EU CCR5 | Composition of collateral for CCR exposures | |
| Table 27 | Template EU CR1 | Performing and non-performing exposures and related provisions | Chapter 7.3 Performing and non-performing exposures and provisions |
| Table 28 | Template EU CQ7 | Bailments obtained by acquisition of possession and enforcement proceedings | |
| Table 29 | Template EU CQ1 | Credit quality of restructured exposures | |
| Table 30 | Template EU CQ3 | Credit quality of performing and non-performing exposures, by past due days | |
| Table 32 | Template EU CQ5 | Credit quality of loans and advances to non-financial corporations, by sector | |
| Table 34 | Template EU CQ4 | Quality of non-performing exposures, by geographic location | |
| Table 35 | Template EU CR2 | Changes in the stock of non-performing loans and advances | |
| Table 36 | Template EU CR1-a | Credit quality of exposures by exposure class and instrument | |
| Table 39 | Template EU CR3 | CRM techniques overview: Disclosure of the use of credit risk mitigation techniques | Chapter 8. Credit risk mitigation techniques |
| Table 40 | Template EU CR4 | Standardised approach - Credit risk exposure and CRM effects | |
| Table 41 | Template EU CR5 | Standardised Approach - Exposure by Risk Category | |
| Table 43 | Template EU SEC1 | Securitisation exposures in the non-trading book. | Chapter 10. Securitisation operations |
| Table 44 | Template EU SEC4 | Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor. | |
| Table 47 | Template EU MR1 | Market risk under the standardised approach | Chapter 12. Foreign exchange and commodity risks in the banking and trading books |
| Table 50 | Template EU OR1 | Operational risk own funds requirements and risk-weighted exposure amounts | Chapter 14. Operational risk |
| Table 52 | Template EU LIQ1 | Quantitative information on liquidity coverage ratio (LCR) | Chapter 16. Liquidity risk |
| Table 53 | Template EU LIQB | Qualitative information on LCR, which complements template EU LIQ1 model | |
| Table 54 | Template EU LIQ2 | Net Stable Funding Ratio | |
| Table 55 | Template EU AE1 | Encumbered and unencumbered assets | Chapter 17. Encumbered and unencumbered assets |
| Table 56 | Template EU AE2 | Collateral received and own debt securities issued | |
| Table 57 | Template EU AE3 | Sources of encumbrance | |
| Table 58 | Template EU REM1 | Remuneration awarded for the financial year | Chapter 18. Remuneration policy |
| Table 59 | Template EU REM2 | Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) | |
| Table 60 | Template EU REM5 | Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) | |
| Table 61 | Template EU REM3 | Deferred compensation | |
| Table 62 | Template EU REM4 | Remuneration of 1 million euros or more per year | |

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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 |
|---|---|---|
| | Capital ratios and summary of their main components | Declaration on the overall risk profile and its relation with the business strategy |
| | Risk Category and Subcategory/Risk Factor | Chapter 3.1 Risk management policy and governance |
| Table 6 | Full terms and conditions of own funds instruments | Chapter 4.1 Own funds and capital ratios |
| Table 8 | Uniform disclosure of the transitional regime to reduce the impact of IFRS 9 | |
| Table 11 | Capital requirements | Chapter 4.2. Capital requirements |
| Table 12 | Capital indicators | Chapter 4.3. Assessment and adequacy of own funds |
| Table 15 | Leverage ratio | Chapter 4.5. Leverage ratio |
| Table 24 | Total and average amount of net exposures | Chapter 7.2. Portfolio structure |
| Table 25 | Credit and counterparty risk capital requirements | |
| Table 25 | Credit and counterparty risk capital requirements | |
| Table 31 | Exposures by sector or type of counterparty | Chapter 7.3 Performing and non-performing exposures and provisions |
| Table 33 | Geographic breakdown of exposures | |
| Table 37 | Concentration rate | Chapter 7.4. Concentration risk |
| Table 38 | Concentration analysis – Personal and property credit protection | Chapter 8. Credit risk mitigation techniques |
| Table 42 | Securitisation operations | Chapter 10. Securitisation operations |
| Table 45 | Capital requirements - Trading book | Chapter 11. Position, credit, counterparty and settlement risks of the trading book |
| Table 46 | Capital requirements – Foreign exchange and commodities risks | Chapter 12. Foreign exchange and commodity risks in the banking and trading books |
| Table 48 | Exposures to banking book shares | Chapter 13. Exposures to banking book shares |
| Table 49 | Activity segments and activities list | Chapter 14. Operational risk |
| Table 51 | Interest rate risk | Chapter 15. Banking book interest rate risk |

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

ALMM – Additional Liquidity Monitoring Metrics
ECB - European Central Bank
BM - Banco Montepio
BoD - Board of Directors
ADC - Audit Committee
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
RC - Risk Committee
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
CVA - Credit Valuation Adjustment
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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