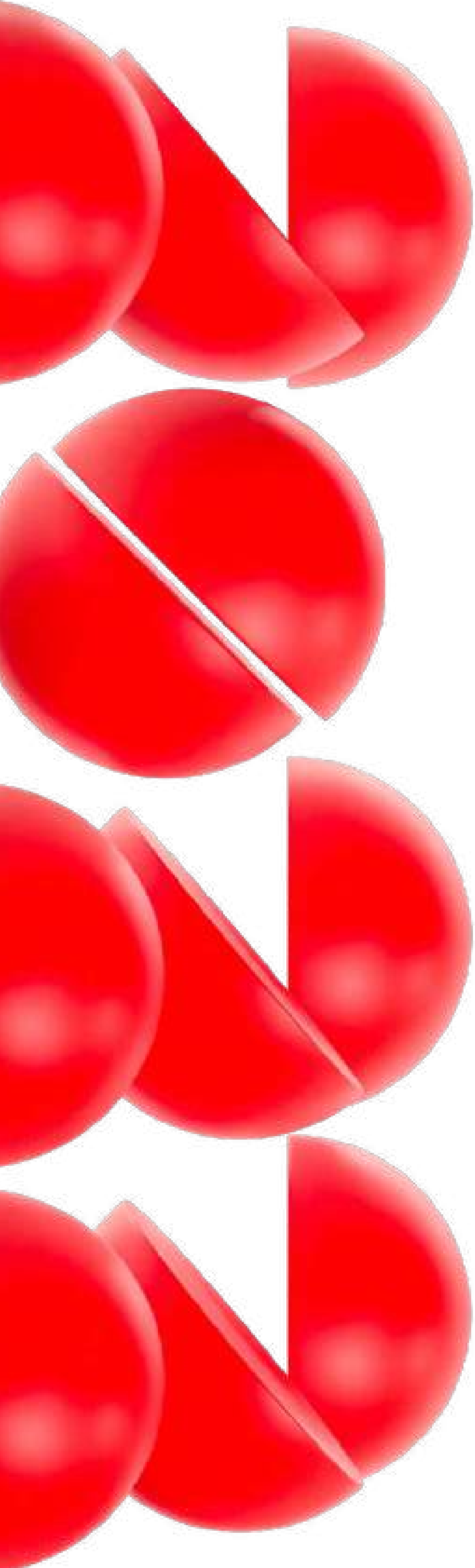

Annual Report 2022

bancoctt

Banco CTT, S.A.

Registered Office: Praça Duque de Saldanha, n.º 1, Edifício Atrium Saldanha, piso 3, 1050-094 Lisboa
Sole registration and taxpayer number at the Commercial Registry Office: 513 412 417
Share capitall: € 296.400.000,00
Tel.: +351 210 471 786
Fax: +351 210 471 777

bancoctt.pt

(hereinafter "Bank", "Banco CTT" or "Company")

Relations with[the] future

We dedicate ourselves daily to ensuring that the Customer remains at the centre of everything we do.

We want to deepen relationships with our customers, engage closely, and be their primary bank.

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Management Report

Chairman's Statement

14 March 2023

The Board of Directors of Banco CTT took office in September 2019, which I chaired up to December 2022. I would like to start with a note of special gratitude to the Board's non-executive independent members: Prof João Loureiro (Chairman of the Audit Committee), Prof Clementina Barroso (Member of the Audit Committee), Dr Susana Gomez Smith (Member of the Audit Committee) and Dr António Correia de Oliveira. Our collaboration throughout the term of office was extremely close. And, it was always with the greatest diligence, care and dedication that they pursued the mission to help Banco CTT to grow in a healthy, prudent and sustainable manner.

Throughout this term of office, the Board of Directors and Audit Committee worked arduously in the evolution and strengthening of the Bank's internal control system, reviewing policies and regulations in detail, in order to best adapt them to the growing challenges progressively faced by the Bank. During this term of office, the Board closely followed the work of its newly appointed Chief Risk Officer and of the new risk directors for compliance and data protection, who contributed enormously to increase the reliability of their areas of action. The internal audit function benefited from the omnipresent and collaborative dedication of these Board members.

The shareholder's representatives also contributed to the quality of the discussions within the Board. This Board performed a crucial role in the definition and monitoring of the Bank's strategy which gained new focus during this stage of its development. During this term of office, the Bank experienced new partnerships of great importance, having redesigned the existing partnerships, left its mark in the saving products market, where it was innovative, strengthened its presence in motor vehicle credit, enhanced its digital capacity and decided on a potential public listing. It was in this three-year period that break-even was achieved, with the Bank having entered into a sustainable phase of growing positive results.

It was also in this term of office that the Bank tested its resilience during a period of acute crisis arising from the Covid-19 outbreak, a test surpassed with distinction thanks to the capacity of implementation, dedication and swift action of the Executive Committee of Banco CTT. A collaborative and stimulating relationship was established with the executive team which was essential in the pursuit of this Board of Directors' term of office.

I would also like to highlight the quality of the relationship that Banco CTT upheld with Banco de Portugal during this three-year period, the quality of the Bank's employees and their ability to adapt to new circumstances, as was the case of the introduction of remote work.

I thank our customers for their ongoing trust in the Bank. Their numbers are growing, having increased progressively throughout this three-year period. Our customers progressively interact more with the Bank, in which they show increasingly higher trust.

The Board of Directors ended its term of office with enormous pride in the work carried out during that period and with greater trust that, in the following three-year period, Banco CTT will accomplish the enormous potential growth which is already being shown. It is my desire that, thanks to the focus of the Executive Committee and of all the employees, Banco CTT will continue to offers its customers more competitive and transparent services which clearly differentiate it from the rest of the Portuguese financial market.

João Moreira Rato
Chairman of the Board of Directors

CEO's Statement

14 March 2023

"A Bank for all occasions"

In less than 7 years of life, Banco CTT experienced the most accommodative monetary context in history, an unprecedented pandemic crisis, the greatest inflationary upsurge in the last 30 years, the most serious armed conflict in European territory since the Second World War, and, now, the fasted rise in interest rates in living memory.

If permacrisis is the "new normal", it can definitely be said that this Bank has already proved that it "can deal with all occasions". We are very proud of our trajectory.

We started in 2016 with zero customers. We arrived at the end of 2022 with more than 600,000 opened accounts and more than 800,000 customers with relations with the Banco CTT Group. We have a young customer base, with high use of our digital channels, but who value the Bank's presence in more than 100 municipalities, spread throughout all the country's districts.

We are the most recommended Bank for account opening in Portugal. And 85% of the customer base state being "very satisfied" with the service we provided on a daily basis. This is how we measure our success: we like our customers and they like us.

2022 is once again a strong year concerning results: 15 million euros of net income, with 110 million euros of operating income. We surpassed 3.1 billion euros of balance sheet assets, 1.7 billion euros of loans granted and 3.1 billion euros of deposits from customers, of which more than 800 million euros are off-balance sheet.

The year was also marked by a special occasion in the Bank's history: public listing for the entry of a new shareholder.While still requiring the necessary authorisations from the supervision authorities, Generali, one of the world's largest insurance companies, will soon be a shareholder of Banco CTT, as well as the exclusive partner in insurance distribution.

The credibility and support of our founder, the CTT Group, is now further enhanced by the experience and size of yet another company with an ancient history, in this case almost 200 hundred years, with a significant presence in Portugal, bringing in greater strength to our project.

Focus on the customer, with full delivery

Over the new few years, we will continue to place the customer at the centre of everything we do.
We want to intensify the relations that have been created, increase engagement, make Banco CTT the "main bank" of our customers.

To this end, we will continue to invest in our technological capacities, in particular for the digital sale and service channel.

We will also reinvest in our Retail Network, in partnership with CTT, ensuring progressively more experienced and specialised customer care, holding firm to the principles of capillarity and availability.

We can now rely on Generali on the bancassurance front. We will make this business area a distinctive priority of Banco CTT, boosting our natural for long-term saving, as well as offering other insurance.

We will continue to support families in their credit needs, in particular for mortgage loans and motor vehicle credit.

During 2023, we will phase-out our partnership with Sonae-Universo. In a monetary context which is currently more favourable, we will have greater freedom to develop the loan business, both in the consumer and mortgage area.

For the next few years, we also aim to continue our "ESG agenda" (Environment, Social and Governance), an intrinsic priority in Banco CTT's design, visible in our work culture, product offer and organisational model.

In sum, 3 major business priorities: more engagement, more bancassurance, more loans.

I conclude by reiterating my gratitude to our employees for their dedication. The informal but rigorous culture, which is results-driven, agile and focused on the customer, would not have been possible without this exceptional group of people.
I also extend my acknowledgement to our shareholder CTT, to the Bank's Corporate Bodies, to all our business partners, as well as to the Supervision Authorities, in particular to Banco de Portugal.

Banco CTT is currently a proven enabler of the transformation underway in the CTT Group. Over the next few years, we will consolidate our position as a to the successful evolution of this historic Group. **Focus on the customer, with full delivery.**

Luís Pereira Coutinho
Chairman of the Executive Committee

Information on the Banco CTT Group

History

August 2013	On 5 August 2013, CTT submitted request to Banco de Portugal to grant a concession for creation of the postal bank.
November 2013	On 27 November 2013, Banco de Portugal issued authorisation for the creation of the Postal Bank.
February 2015	CTT's constitution of CTT Serviços, S.A. for purposes of development of the preparatory work as necessary and/or convenient for the constitution of the Bank.
August 2015	On 24 August 2015, after authorisation of Banco de Portugal, CTT Serviços was transformed into Banco CTT, with share capital of 34 million euros.
November 2015	On 18 November 2015, Banco CTT presented its corporate identity, with Proximity, Simplicity and Transparency being its main attributes. Banco CTT started to operate on 27 November 2015, under the soft opening model available only for employees of CTT and Banco CTT.
March 2016	Banco CTT opened to the public on 18 March, with 52 branches simultaneously, spread over the 18 districts of Portugal and present in digital channels.
May 2016	Share capital increase of 26 million euros, to 60 million euros.
July 2016	Banco CTT opened its one hundredth branch on 22 July.
October 2016	Share capital increase of 25 million euros, to 85 million euros.
December 2016	Banco CTT achieves a presence of 202 branches.
January 2017	With 9 months of activity, Banco CTT reached 100 thousand customers. Banco CTT launched Mortgage Lending, presenting a simple and low-cost solution for those wishing to purchase a house or move, maintaining the values associated to its launch: that of an accessible, comprehensive and useful offer.
April 2017	Banco CTT received authorisation from ASF (Portuguese Insurance and Pension Funds Supervisory Authority) to present insurance products to its customers, enabling the offer of Life Insurance, Housing and Health Multi-Risk Insurance. Share capital increase of 25 million euros, to 125 million euros.
January 2018	Incorporation of Payshop (Portugal), S.A. in the consolidation perimeter of Banco CTT, through a share capital increase in kind of 6.4 million euros, fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., elevating the share capital to 131.4 million euros.

March 2018	Share capital increase of 25 million euros, to 156.4 million euros.
July 2018	Banco CTT agreed to purchase 321 Crédito, a specialised consumer credit institution (used motor vehicles), which expanded the business portfolio of the Banco CTT Group.
October 2018	Introduction of off-balance sheet saving products with the launch of the offer of PPR (Retirement Savings Plans).
April 2019	Share capital increase of 110 million euros, to 266.4 million euros.
May 2019	On 2 May, Banco CTT completed the acquisition of the entirety of the share capital of 321 Crédito, a company granting loans for used motor vehicles to individuals. Banco CTT reached 1,000 million euros of customer deposits.
December 2019	Share capital increase of 20 million euros, to 286.4 million euros.
December 2020	Banco CTT achieves breakeven in its 5th full year of existence, with a consolidated net income of 233 thousand euros.
January 2021	Share capital increase of 10 million euros, to 296.4 million euros.
April 2021	Banco CTT and Sonae Financial Services start a new partnership in consumer credit with Banco CTT as the entity responsible for the Universo card credit financing and respective credit risk management.
September 2021	The Banco CTT Group, through its subsidiary 321 Crédito, securitised and placed on the market a motor vehicle loan portfolio in the amount of 250 million euros (Ulisses Finance No.2)
June 2022	The Banco CTT Group, through its subsidiary 321 Crédito, securitised and placed on the market a motor vehicle loan portfolio in the amount of 200 million euros (Ulisses Finance No.3)
November 2022	A strategic partnership between the Banco CTT Group and Generali Seguros, S.A. was announced, which includes: • A long-term agreement for the distribution of Tranquilidade/Generali Seguros life and non-life insurance products, with exclusivity period renewable every 5 years. • Subscription by Tranquilidade/Generali Seguros of a reserved share capital increase of 25 million euros in Banco CTT in exchange for a shareholding of approximately 8.71%. The transaction is subject to suspensive conditions, including approvals of banking and insurance regulatory authorities, which are expected to be concluded before the end of 2023.
December 2022	Banco CTT and Universo, IME, SA ("Universo") reviewed the terms of the Partnership Agreement in the area of financial services with a view to ending the partnership by December 2023.

Corporate Governance

Banco CTT endorses the Anglo-Saxon governance model, with the members of its corporate bodies in office on the present date having been appointed by unanimous resolution taken in writing by the single shareholder on 5 December 2022 for the term of office corresponding to the three-year period 2022/ 2024.

This model is based on a Board of Directors, an Audit Committee (composed of Non-Executive Directors, but especially appointed by the single shareholder) and a Statutory Auditor (permanent and alternate).

There is also a Selection and Remuneration Committee, elected by the single shareholder, with powers related to the selection and assessment of the adequacy of the members of the corporate bodies and holders of key positions, pursuant to the Policy on Selection and Assessment of the Adequacy of the Members of the Management and Supervisory Bodies and the Holders of Key Positions (available on the Bank's website at www.bancoctt.pt) and with powers to establish the remuneration of the members of the Board of the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor.

In turn, the Board of Directors delegated day-to-day management powers to the Bank's Executive Committee, pursuant to Article 407 of the Portuguese Companies Code.

This governance structure also includes a Remuneration Committee created within the Board of Directors.

Thus, the Bank's Board of Directors, in office as at 31 December 2022, was composed of 12 Directors, with 7 Non-Executive Directors (including the Chairman of The Board of Directors and 4 independent Members) and 5 Executive Directors (including the Chairman of the Executive Committee), having the following management organisation:

[1] João de Almada Moreira Rato, Luís Maria França de Castro Pereira Coutinho, João Maria de Magalhães Barros de Mello Franco, Pedro Rui Fontela Coimbra, Nuno Carlos Dias dos Santos Fórneas, Luís Jorge de Sousa Uva Patrício Paúl, João Manuel de Matos Loureiro, António Domingues, Ana Maria Machado Fernandes, António Pedro Ferreira Vaz da Silva, Guy Patrick Guimarães de Goyri Pacheco, Maria Rita Mégre de Sousa Coutinho.

For further details on the composition of the corporate bodies and on the governance model and practices of Banco CTT see the Corporate Governance Report.

Since it is part of the CTT Group and because CTT - Correios de Portugal, S.A. ("CTT"), as an issuer of shared admitted to trading on regulated markets, has adopted a significant series of recommendations in the Corporate Governance Code issued by the Portuguese Corporate Governance Institute (IPCG), Banco CTT also benefits from the best governance practices of the CTT Group established over various years. This has also contributed to the improvement of these practices within the CTT Group, in particular the Code of Conduct of CTT and Subsidiaries, which reiterates its Mission, Vision and Values and endorses best practices in line with the financial sector's benchmarking.

Pursuant to Article 17 of the General Regime of Credit Institutions and Financial Companies ("RGICSF") and the provisions of Banco de Portugal Notice 3/2020, Banco CTT has robust corporate governance mechanisms, complete and proportional to the nature, level and complexity of the institution, which include:

- A clear organisational structure, with well defined, transparent and coherent lines of responsibility;
- Effective processes for identification, management, control and communication of the risks to which it is or may be exposed in the future; and
- Adequate internal control mechanisms, including solid administrative and accounting procedures, as well as remuneration policies and practices that promote and are coherent with healthy and prudent risk management.

The governance practices and principles indicated above were thus associated to a solid organisational structure where the Bank's control functions should be highlighted, and, in the case of Banco CTT, enable achieving the following goals:

- Promote an integrated risk culture that covers all areas of activity of the institution and ensures the identification, assessment, monitoring and control of the risks to which the Bank is or may be exposed;
- Assure the Bank's operational capacity based on adequately dimensioned human, material and technical resources;
- Assure the provision of bank services to customers based on multi-employer staff in CTT's Retail Network and, more recently, through the Bank's hiring of employees to perform duties in Specialised Branches, after completing a rigorous training programme and with the follow-up and support of the Bank's employees with previous banking experience;
- Articulate non-core functions (especially in terms of shared services) with CTT's structure; and
- Create a "control environment" appropriate to the specificities of Banco CTT and an organisational culture based on high ethical standards, supported by the institution's Code of Conduct, internal control and risk management policies and procedures, as well as an internal organisation based on the three lines of defence model.

Corporate Bodies and Internal Committees [1]

Board of the General Meeting

Chairman
Rui Afonso Galvão Mexia de Almeida Fernandes

Board of Directors

Chairman
João de Almada Moreira Rato

Members
Luís Maria França de Castro Pereira Coutinho
João Maria de Magalhães Barros de Mello Franco
Pedro Rui Fontela Coimbra
Nuno Carlos Dias dos Santos Fórneas
Luís Jorge de Sousa Uva Patrício Paúl
João Manuel de Matos Loureiro
António Domingues
Ana Maria Machado Fernandes
António Pedro Ferreira Vaz da Silva
Guy Patrick Guimarães de Goyri Pacheco
Maria Rita Mégre de Sousa Coutinho

Executive Committee

Chairman
Luís Maria França de Castro Pereira Coutinho (CEO)

Members
João Maria de Magalhães Barros de Mello Franco (CCO)
Pedro Rui Fontela Coimbra (CFO)
Nuno Carlos Dias dos Santos Fórneas (CIO)
Luís Jorge de Sousa Uva Patrício Paúl (CRO)

Audit Committee

Chairman
João Manuel de Matos Loureiro

Members
António Domingues
Ana Maria Machado Fernandes

[1] The members of the corporate bodies and internal committees in office on the present date and as at 31 December 2022 are indicated herein.

Selection and Remuneration Committee

Chairman
Raúl Catarino Galamba de Oliveira

Members
João Afonso Ramalho Sopas Pereira Bento
Maria da Graça Farinha de Carvalho

Remuneration Committee

Chairman
João de Almada Moreira Rato

Members
António Pedro Ferreira Vaz da Silva
Maria Rita Mégre de Sousa Coutinho

Statutory Auditor

Statutory Auditor (ROC)
Ernst & Young Audit & Associados – SROC, S.A., represented b Sílvia Maria Teixeira da Silva

Alternate Statutory Auditor
Ana Rosa Ribeiro Salcedas Montes Pinto

Company Secretary

Permament
Catarina Morais Bastos Gonçalves de Oliveira

Alternate
Maria Filipa Rebelo Pereira de Matos Alves Torgo

Luís Pereira Coutinho
CEO

Pedro Coimbra
CFO

João Mello Franco
CCO

Nuno Fórneas
CIO

Luís Paúl
CRO

Main Highlights of the Year

In 2022, Banco CTT once again recorded strong business growth, in particular 5% growth in the number of bank accounts to 602 thousand accounts, 13% growth of turnover (loans and deposits from customers) to close to 5 billion euros, with record production of motor vehicle credit which reached 263 million euros. It was also a record year for revenues, with operating income having surpassed the threshold of 100 million euros.

There was important progress in terms of profitability, with net income standing at 14.7 million euros, amounting to more than 30 million euros in the last 2 years. The level of Return on Tangible Equity (ROTE), without specific items, reached 5.5% (2.2% in 2021), reflecting a result without specific items of 8.9 million euros in 2022 (3.2 million euros in 2022).

Banco CTT maintains comfortable solidity levels, with a total capital ratio of 15.6%, reflecting the strong business and capacity to generate capital during the year, and very solid liquidity levels with liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) indicators greatly higher than the regulatory requirements.

In the context of the corporate reorganisation in progress in the Group, on 8 July 2022, the Board of Directors of Banco CTT approved the sale of Payshop, and its terms, to CTT – Correios de Portugal, S.A., with its accomplishment still being dependent on the regulator's non-objection, which is expected to occur during 2023.

A strategic partnership between the Banco CTT Group and Generali Seguros, S.A. was announced in November 2022, which includes: i) a long-term agreement for the distribution of Tranquilidade/Generali Seguros life and non-life insurance products, with exclusivity period renewable every 5 years; and ii) the subscription by Tranquilidade/Generali Seguros of a reserved share capital increase of 25 million euros in Banco CTT in exchange for a shareholding of approximately 8.71%. The transaction is subject to suspensive conditions, including approvals of banking and insurance regulatory authorities, which are expected to be concluded before the end of 2023.

In December 2022, Banco CTT and Universo, IME, SA ("Universo") reviewed the terms of the Partnership Agreement in the area of financial services, disclosed to the market on 1 April 2021. In this context, Banco CTT and Universo agreed on the terms for the termination of the Agreement with a view to ending the partnership by December 2023. Universo will progressively take up the responsibilities for the financing and credit risk activities throughout 2023. Thus, it is expected that Banco CTT's net exposure to Universo credit cards should decrease gradually during 2023 and that, by the end of 2023, Universo will assure the purchase of the existing exposures at that time.

Main Highlights

April 2022

Banco CTT launches Sustainable Mortgage Loans

Banco CTT took yet another step on the path towards sustainability with the launch of Sustainable Mortgage Loans, a campaign prioritising the purchase of energy efficient houses, offering special conditions for mortgage loans for houses with certified energy efficiency (A+, A, B and B-).

June 2022

The Banco CTT Group, through its subsidiary 321 Crédito, securitised and placed on the market a motor vehicle loan portfolio in the amount of 200 million euros (Ulisses Finance No.3).

With a view to funding the growth of Banco CTT's activity, optimising its capital and diversifying its liquidity sources, the securitisation of 200 million euros of motor vehicle credit enables reducing the volume of risk-weighted assets, and its collateralised tranches had an average implicit spread of 1.62% plus the 1 month Euribor.

October 2022

Change of Registered Office to Praça Duque de Saldanha, n.º 1, Edifício Atrium Saldanha, piso 3, 1050-094 Lisboa.

November 2022

A strategic partnership between the Banco CTT Group and Generali Seguros, S.A. was announced, which includes:

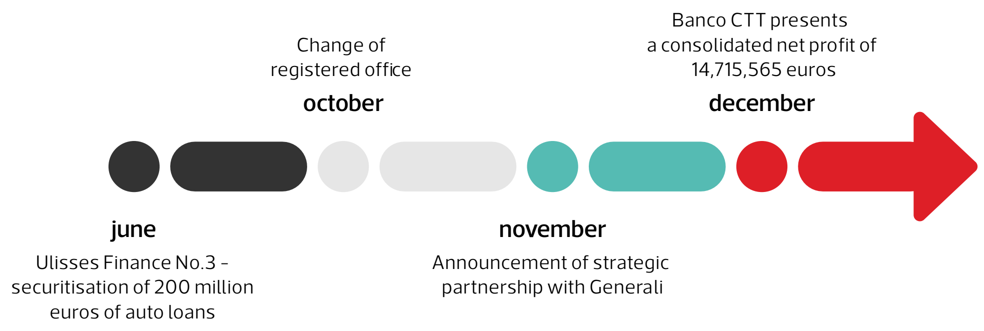
- A long-term agreement for the distribution of Tranquilidade/Generali Seguros life and non-life insurance products, with exclusivity period renewable every 5 years.
- Subscription by Tranquilidade/Generali Seguros of a reserved share capital increase of 25 million euros in Banco CTT in exchange for a shareholding of approximately 8.71%.

The transaction is subject to suspensive conditions, including approvals of banking and insurance regulatory authorities, which are expected to be concluded before the end of 2023.

December 2022

The new Board of Directors took office for the term of office of 2022/24 by unanimous resolution taken in writing by the sole shareholder on 5 December 2022.

Banco CTT and Universo, IME, SA ("Universo") reviewed the terms of the Partnership Agreement in the area of financial services, disclosed to the market on 1 April 2021, with a view to ending the partnership by 31 December 2023.



Key Figures

(amounts in thousand euros)

	2022	2021	Δ Abs.	Δ %
Results				
Net Interest Income	74,393	55,718	18,675	34%
Operating Income	110,278	93,092	17,186	18%
Operating Costs	(66,570)	(61,080)	(5,490)	9%
Impairments and Provisions	(24,919)	(13,361)	(11,558)	87%
Taxes	(5,828)	(4,552)	(1,276)	28%
Net Income	14,716	16,148	(1,432)	-9%
Result without specific items	8,897	3,186	5,711	179%
Balance Sheet				
Total Assets	3,104,914	2,703,986	400,928	15%
Deposits and Investments at Credit Institutions	519,329	48,023	471,306	981%
Investment in securities	564,260	365,255	199,005	54%
Loans and Advances to Customers	1,777,565	1,541,908	235,657	15%
Total Liabilities	2,851,922	2,466,156	385,766	16%
Deposits from Customers	2,280,392	2,121,511	158,881	7%
Total Equity	252,992	237,830	15,162	6%
Loan-to-Deposit Ratio	78%	73%	5 p.p.	7%
Retail Banking for Individuals				
Number of Branches opened	212	212	-	0%
Number of Accounts	602,165	573,201	28,964	5%
Mortgage Loan Production	145,576	130,744	14,832	11%
Mortgage Loan Stock (gross)	659,541	595,420	64,121	11%
Credit Card Stock (gross)	373,812	298,717	75,095	25%
Stock of savings products (mediation)	891,727	708,609	183,118	26%
Personal Credit Production (intermediation)	48,038	41,695	6,343	15%
Deposits from Customers (*pro forma*)*	3,172,119	2,550,310	621,809	24%
Consumer Credit				
No. of agents (Auto Loans)	1,473	1,450	23	2%
Auto Loans Productions	262,383	213,785	48,598	23%
Auto Loans Stock (gross)	792,870	670,594	122,276	18%
Profitability and Efficiency				
Return on Assets (ROA)	0.5%	0.6%	-0.1 p.p.	-21%
Management Return on Tangible Equity (ROTE)	5.5%	2.2%	3.3 p.p.	148%
Return on Tangible Equity (ROTE)	9.2%	11.4%	-2.1 p.p.	-19%
Return on Equity (ROE)	5.9%	6.9%	-1.0 p.p.	-14%
Cost-to-Income**	65.6%	80.8%	-15.2 p.p.	-19%
Capital and Liquidity				
Own Funds***	184,876	167,519	17,357	10%
Risk-Weighted Assets (RWA)	1,182,594	1,043,231	139,363	13%
Common Equity Tier 1 Ratio (transitional)***	15.6%	16.1%	-0.4 p.p.	-3%
Leverage ratio (transitional)	7.0%	6.3%	0.7 p.p.	12%
Liquidity Coverage Ratio (LCR)	601.2%	881.0%	-279.8 p.p.	-32%
Net Stable Funding Ratio (NSFR)	168.2%	153.8%	14.4 p.p.	9%

* Includes deposits from customer and deposits from customer captured via mediation of savings products.
** Excluding specific items.
*** It includes the net income for 2022 and 2021.

bancoctt · Annual Report 2022

Vision, Mission, Principles and Values of the Bank

Vision

Banco CTT aims to be acknowledged as a reference credit institution in terms of quality, efficiency and creation of value for its customers, employees and society.

Mission

Banco CTT's mission is to offer the customer financial products that are simple and competitive but also accessible, based on quality of service and innovation, while maintaining sustainable relations with all stakeholders.

Principles

Banco CTT's performance strategy is governed by the following Principles:

- **Customer Orientation**
  Your success is our success. To that end, we will work proactively on meeting your interests as well as your needs.

- **Enthusiasm**
  We will work with passion and commitment, relying on a team of dedicated and qualified professionals.

- **Trust**
  Always comply. We will be an upstanding, responsible and reliable partner that guarantees the commitments undertaken on a day-to-day basis.

- **Excellence**
  Always do better. Guarantee a service of excellence, with quality and efficiency.

- **Inovation**
  Create future. We will continuously explore new ideas, processes and solutions.

Values to uphold

- Simplicity
- Efficiency
- Proximity
- Trust
- Solidity

Business Model

Retail Banking for Individuals

Offer

Banco CTT provides a simple and accessible offer of financial products and services, directed at the main needs of Individual Customers in Portugal. In addition to the solutions for daily life, which include Demand Deposit Accounts, Debit and Credit Cards and Digital Channels, the Bank offers extensive Saving and Financing solutions for acquisition of Housing or for Consumption directed at different personal projects. Alongside these solutions, Banco CTT also provides a broad offer of Protection Insurance, in particular Motor Insurance, Health Schemes and Personal Accident Insurance.

During 2022, the Bank introduced new products in its offer in order to continue offering relevant products suited to the Customers' concerns, especially in a scenario of inflation and widespread increase of Household costs and expenses. In this context, Banco CTT launched the fixed rate option for Mortgage Loans, which enables establishing the value of the monthly instalment for the entire duration of the contract. Moreover, taking in to account the need to ensure greater flexibility in the current management of household budgets, the Prompt Salary solution was launched, which enables access to an authorised overdraft up to the limit of the salary domiciled in the Banco CTT account.

Concerning Saving Solutions, and in order to meet the expectations of the different profiles of Customers in saving and investment matters, Fixed Income Financial Insurance and the Unit Linked Europe Income series of products were launched.

Face-to-face Channel

Banco CTT has a network of 212 branches, present in all the districts of Portugal since its opening. The Bank's branches operate during extended working hours, from 9:00 to 18:00, sharing the physical space with the postal attendance operation, but maintaining segregated attendance, ensuring greater specialisation in financial services. Proximity, based on human relations and on a capillary network of branches, is also one of the founding principles of Banco CTT.

The Bank maintains a continuous investment in improving its processes, aimed at providing a quality, swift and efficient service to its Customers. The evolution of the branch systems essentially involves two pillars.

The first refers to the ongoing optimisation and dematerialisation of processes, enabling the completion of servicing requests in a very fast manner and without using paper. At the end of 2022, 90% of customer servicing requests were already possible to meet through fully "dematerialised" processes.

The second refers to the new Branch Platform, whose roll-out was completed in May 2022. With this platform, the branches are now able to achieve a better integration of systems, both of its own and those of partners. In this way, we have simplified the work of the employees at the branch and developed access to an integrated vision of all the customers' relevant information (360º vision), thus contributing to a higher quality service.

During 2022, Banco CTT also launched the concept of "Specialised Branches", which operate in the locations that already have a larger customer base as well as higher potential growth. At these branches, the Bank seeks to offer an enhanced capacity for customer care and commercial accomplishment. To this end, these branches have a differentiated organisational structure, with a strengthening of the skills of their human resources. By the end of 2022, the Bank already had 22 Specialised Branches, and will attain 30 by the end of 2023, ensuring an important coverage of the national territory.

Digital Channels

Desde Since its opening, the Bank has always provided its customers with digital channels for carrying out operations such as consulting account information, account movements, servicing and constitution of products. Digital channels, which are one of the essential elements of Banco CTT's service proposition, consist of its mobile app (available at iOS, Android and Huawei stores) and Home Banking, optimised for personal computers and tablets. Banco CTT Customers also have access to the MBWay service.

The use of these channels at Banco CTT has evolved progressively and already represents very impressive figures: 75% of customers are subscribers and more than half regularly use digital channels. Special reference is made to the mobile banking channel, which accounts for more than 90% of accesses and is used very intensively, with an average of almost a daily login per user.

The Bank continues to progressively extend the functional range provided to its Customers, and to progressively improve the user's experience. For such, the Bank has made the most of its recent technological architecture, which enables developments that are faster and with interfaces, and high-quality user experience. New functionalities have consistently been provided, in particular more recently the subscription of the Prompt Salary solution, personal credit entirely online and, in terms of consulting account information and servicing, the integrated position of all wealth products and loans contracted through the Bank, including those of partners. The Bank maintains an ambitious roadmap of expansion and improvement of its functionalities.

Specialised Credit

Auto Loans

321 Crédito has progressively constructed a significant position in the motor vehicle credit market and is currently a reference institution at a national level, and one of the major players in specialised financing for the purchase of used or semi-new vehicles.

The business model is based on an approach that values proximity, simplicity and agility, with the distribution strategy supported by partnerships with more than 1,100 credit intermediaries, on an accessory or tied basis, which guarantee a network of points of sale with wide coverage of the national territory.

The year of 2022 brought in additional challenges to the motor vehicle industry and market as a whole, with a considerable degree of uncertainty on the horizon, after the year of 2021 having been particularly challenging and impacting for the sector, with visible reflections in the used vehicle financing market.

There were four major factors affecting the motor vehicle industry in 2021, whose impacts persisted in 2022: (i) profound scarcity of semiconductors during the Covid-19 pandemic; (ii) scarcity of raw materials, such as aluminium; (iii) disruption in supply chains; (iv) increased electricity prices with exacerbation of the global energy crisis. These factors conditioned the evolution of vehicle production activity and supply in 2022 giving rise, on the one hand, to constraints in the production and supply of new vehicles, reflected in increased demand for used vehicles and, on the other hand, a gradual reduction of the stock of used vehicles, causing additional pressure on vehicle prices and increased the demand for financing solutions.

This scenario was further exacerbated by the strong rise of the rate of inflation during 2022 and increased market interest rates.

It was in this challenging context that 321 Crédito reached a production volume of around 262 million euros in vehicle financing, corresponding to an increase of 22% compared to 2021, a new record for the company.

This performance gave rise to a reinforcement of market share to approximately 12.3% in the credit segment for used vehicles with reservation of ownership (source: Banco de Portugal), compared with 11.3% in 2021.

The year of 2022 was also marked by a third public securitisation operation under the "Ulisses programme", named Ulisses Finance No.3, once again demonstrating the market's good acceptance of the quality of the assets originated by 321 Crédito.

Finally, progress was made in the business process digitalisation programme, aimed at enhanced efficiency and improved quality of service provided to End Customers and Business Partners.

Banco CTT Awards 2022

In 2022, Banco CTT was distinguished for the 2nd consecutive year with the Five Star Award, which once again recognised the excellence of our Customer Service.

2022 Five Stars Award for Customer Service

Banco CTT's Customer Service was considered by consumers as Five Stars, having obtained an overall satisfaction of 74.40% among the five evaluated banks. The attribution of the 2022 Five Stars Award was based on the criteria of Satisfaction-Experimentation, Brand Trust, Innovation and in particular, the Intention to Recommend.

Brand evaluation tests are carried out by regular consumers, and only the best brands are awarded the Five Stars distinction.

Award given in 2022 in the Banking - Customer Service category by Five Stars Consulting. This award is the sole responsibility of the entity that awarded it.

Sustainability at Banco CTT

Strategic Axes of Action

In view of the major challenges and trends of the agenda for Sustainability, at Banco CTT we act towards collaborating and contributing to the Sustainable Development Goals (SDG). In the context of our activity, we actively strive to accomplish these goals, based on three strategic pillars incorporating a series of initiatives that the Bank aims to implement and achieve.

Pillars of the Environment, Social and Governance (ESG) strategy of Banco CTT for the next few years:

- **ENERGY TRANSITION:** minimise the negative impact on the environment due to the development of the Bank's operations and help our Customers in the transition to a less carbon-intense economic model;
- **SOCIAL AND FINANCIAL WELLBEING:** maximise the Bank's positive impact on Society, prioritising the focus on our Employees and Partners.
- **RESPONSIBLE BANKING:** acting within a robust governance model, with transparency and ethics, promoting a corporate culture of equity and equality in the Bank's teams.

PILLARS	ESG INITIATIVES / COMMITMENTS
Energy Transition	• Replace debit cards with cards produced with 100% recycled plastic; • Provide green financing products (Mortgage Loans for properties with A/B energy certification, Electric Motor Vehicle Credit, Loans for Renewable Energy); • Reduce paper consumption through the dematerialisation of internal processes and promotion of communication by e-mail with Customers; • Eliminate consumption of non-recyclable materials in the Bank's operations, meetings and events.
Social and Financial Wellbeing	• Establish a product offer that encourages the adoption of regular saving habits, boosted through investment in increasing the Customers' financial literacy by providing clear information accessible to everyone; • Develop and implement a people management model centred on improving the Employee's experience, in particular in the adoption of a hybrid work arrangement; • Obtain Family Responsible Entity certification and promote the continuous progression of qualification in this indicator.
Responsible Banking	• Take measures to enable the integration of people with special needs and that promote the adaptation of workplaces, whenever necessary; • Promote the fundamental principles that are required in the conduct of each and every Employee in performing daily tasks and in relations with the Bank's different stakeholders; • Ensure a more balanced gender representation in the Corporate Bodies; • Implement procedures and measurements that enable ensuring and monitoring compliance with the principle of gender neutrality in matters of remunerative nature.

Socially Responsible Bank

Aware of the importance of and need to contribute, as players, towards a more balanced and sustainable society at the Environmental, Social and Governance (ESG) level, and in response to the challenge posed by the United Nations for the implementation of the Sustainable Development Goals (SDG) deemed priority in the 2030 Agenda for Sustainable Development, Banco CTT aims to acknowledge sustainability practices, define targets and monitor sustainability indicators in its corporate management strategy.

Thus, and with a view to promoting and reflecting with our customers, employees and the community, over the past few years we have imprinted a culture focused on sustainability topics in the organisation by developing an offer of financial products, establishing protocols, and launching actions and initiatives aligned with the ESG principles, aimed at contributing to a greener, more balanced and sustainable world.

In order to identify and highlight the various initiatives launched and the products designed under the sustainability brand, a "Banco CTT for Sustainability" identity has been developed.

In 2022, Banco CTT's dedication to sustainability was reinforced with the development of several initiatives. In the context of credit products, the Sustainable Mortgage Loan product was launched, which gave continuity to the extension of the offer of sustainable financial products. This solution prioritises the purchase of more energy efficient houses, through special conditions in the interest rate associated with the loan, thus enabling the customers to make savings in the loan instalment, as well as in the energy bills of the houses.

With the scenario of the war in Ukraine, the Bank took measures to support the Ukrainian citizens who arrived in Portugal in an emergency situation, by simplifying the account opening process, exemption from account maintenance costs and the provision of a debit card for a period of one year.

Banco CTT's support, as a pioneer member, of the Deserve Movement bore its first fruit, with the contribution of our more than 670 thousand customers, we collected and recycled close to 31 thousand bank cards, equivalent to 190kg of plastic, ensuring the planting of 600 trees and offsetting 15 thousand kg of CO_2 in favour of the environment. For the planting of some of the trees, the Bank organised two initiatives internally with employees who participated in the planting of trees in Sintra-Cascais Natural Park.

The support to the Bio Vegetable Garden Project in the Eco-Schools, in partnership with Zurich, enabled continuing the encouragement of biological vegetable gardens in schools included in the Eco-School Programme, and supporting 15 schools in the creation of new biological vegetable gardens. 2022 was also the year in which we started the process of certification of Banco CTT as a "Family Responsible Company" (EFR), promoting reconciliation and balance between professional, personal and family life.

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pela sustentabilidade

People

Developing the skills of Banco CTT Group employees

In an increasingly global world under constant evolution, for Banco CTT, People, the work developed and the Employee's experience are placed in the centre of the concerns of the Organisation and its Leaders.

The year of 2022 was marked by major changes in terms of Organisational Culture, arising from various initiatives, in particular the implementation of a new work arrangement. The Mixed Work Arrangement was defined and implemented with a view to providing greater time and spatial flexibility, contributing to greater balance between the professional, family and personal life of the Employees. This model is based on the enhanced flexibility and accountability assigned to each Team. The organisation of the days of face-to-face work compared to remote is always defined in articulation with the respective hierarchy, where has been established that the Employees can perform their tasks at the Group's premises under a mixed arrangement, adjusted to the requirements of each Team and each Employee. Note should also be made of how this new arrangement was notified, at a "Back Together" face-to-face event, in which all the Employees collaborated with one another, demonstrating the importance and benefits of teams working together, face-to-face.

The Mixed Work Arrangement is currently a reality at the Banco CTT Group; however, we aspire to go beyond the conventional. In a context of change of premises, the choice of the space for the new registered office of Banco CTT was idealised with the Employees in mind. The philosophy of work we desire to instil aims to offer flexibility. Based on ties of trust between the Bank and each of its Employees, this concept enables improving our performance and productivity and, consequently, boost the quality of life of our Employees through a more effective management of time and work. This means meeting the needs of each Employee and of the Bank. Accordingly, the new premises will provide a variety of spaces adapted to the different moments marking daily work routines: areas for individual work, areas suitable for collaborative work and areas in which socialising is the watchword.

The 321 Crédito team in Lisbon, which had its own space up to then, has joined the Banco CTT team, and began to share the same space in 2022.

Finally, we highlight the initiative carried out to obtain certification as a family responsible company (EFR) by the Másfamilia Association. The Banco CTT Group's people management strategy aims to improve the Employees' experience, their satisfaction level, their involvement in the organisation, the sense of belonging and pride in the brand, in order to increase everyone's commitment, making each employee an ambassador of the Bank CTT brand, and consequently improving customer experience.

In pursuing this strategy and, based on the belief that reconciliation between professional, personal and family life is fundamental for the balance of each Employee and of the organisation, the Banco CTT Group proposed obtaining EFR certification in this context. The certification process began at the beginning of the second half of 2022, with the certification having been achieved in the first quarter of 2023.

This project not only involves listening to the employees and senior management about all the topics of reconciliation, but also measuring and assessing the current panorama in terms of reconciliation practices. It also enables creating a commitment for the future in terms of goals and indicators.

Respect for all the Employees and promotion of Diversity

One of the principles governing the activity of the Banco CTT Group and its Employees is respect for all the Employees and the promotion of diversity, in particular through:

1. Equality of opportunities and non-discrimination:
   - Respect for the principle of gender equality, embodied in equal opportunities and assessment of its Employees' performance based on actually demonstrated individual professional merit, according to previously disclosed objective and measurable parameters, aimed at enhancing the valorisation of their careers;
   - Rejection of any form of reprehensible discrimination, namely in relation to age, sex, sexual orientation, marital status, family situation, economic situation, schooling, social origin or condition, genetic heritage, nationality or citizenship, ethnic origin, territory of origin, language, religion, political or ideological beliefs and union membership, which could potentially threaten or trigger the occurrence of unequal opportunities or discrimination.

2. Prohibition of the practice of harassment:
   - Repudiation of all and any conduct that could correspond to the practice of harassment, in any of its forms (work-related or sexual), by any Employees;
   - Rejection of the practice of any acts that could, even remotely, be perceived as the practice of harassment pursuant to the law and the "Code of conduct for prevention and combat of harassment at work";
   - The members of the corporate bodies, directors and line managers are bound to a special duty of conduct, being responsible for weighing up the possible effects of their behaviour, even if unintentional.

Concerning gender discrimination, the Banco CTT Group started a project for analysis of the Gender Wage Gap with the consultants AON, under which an analysis has already been made of the internal equity at Banco CTT and 321 Crédito, as well as an analysis of the wage differences between women and men in these two institutions.

Assess and Recognise

The Banco CTT Group's growth ambition is based on a Performance Management methodology that seeks to extract the best and most effective performance from its Employees.

Thus, the Banco CTT Group maintains and annually improves a policy of recognition of the merit and individual commitment of each Employee, in particular through variable remuneration based on the performance assessment model.

In 2022, we highlight the computerisation of the performance assessment process in the Banco CTT Group, with Banco CTT and 321 Crédito using the same platform, which enabled this year's performance assessment cycle to have been supported by this tool, with all the inherent advantages.

Also in 2022, 321 Crédito carried out the Upward Feedback process (assessment of the line managers by the employees directly under them/reporting to them).

Good Health and Well-Being

Aware of the importance of health protection, Banco CTT provides all the Employees with free Health Insurance, which can be extended to their families. In the case of 321 Crédito, Employees have a complementary medical assistance system - SAMS (Medical-Social Assistance Services), which can be extended to their families, as provided for in the Company Agreement.

Prevention and promotion of occupational health, as a combined effort of the Company and Employees are unquestionably drivers of the Company's development and sustained growth. Accordingly, a successful organisation must be based on healthy employees and a healthy work environment. In this perspective, improving the wellbeing and health of the employees and adopting an effective policy of prevention and promotion of health at the workplace will contribute to:

- strengthen motivation;
- increase productivity;
- easier recruitment;
- a positive and motivating work environment.

Hence, the Banco CTT Group aims to go far beyond mere compliance with the legal requirements on the matter and implemented the Living programme, with the following objectives:

- Concerning health prevention, acting in advance and preventing work accidents and situations of illness;
- Concerning health promotion, concentrating actions on improvement of wellbeing and quality of life of the Employees.

Various initiatives were launched under this programme in 2022, such as provision of sessions of physical activity (e.g., stretching) or mindfulness, sending of information about health topics (e.g., how to prevent cancer, about medical tests, health benefits of physical activity or the importance of hydration).

In 2022, 321 Crédito also launched an Employee Support (321 EAP). This programme aims to help the employees to deal with personal and/or professional difficulties that may be negatively affecting their performance at work, as well as their good health and well-being. It thus provides counselling and various reference services, free of charge, to the employees and members of their household.

Benefits

The topics of reconciliation of professional, personal and family life have always been on the Banco CTT Group's agenda, where there is a concern to foster an environment that enables balance between these different aspects. With the commencement of the Family Responsible Company certification project, these topics were formalised and disclosed in this context, involving continuous work to improve and develop the benefits offered to the employees.

In 2022, the Banco CTT Group started to give the employees the possibility to join a programme to stop smoking, in which the company offers the time to participate in the programme and funds it.

Also aimed at providing greater balance between the personal and professional spheres, Banco CTT launched the "Flexible Holidays" benefit which enables the employees to access up to an additional 5 days of holiday or the reduction of up to 2 days of holiday according to their personal needs.

Training

The Banco CTT Group always fosters the promotion of the Employees' professional enhancement, motivation, engagement, participation and accountability, namely via personal and socio-professional training, qualification and development processes.

We encourage the Employees in their ongoing search for the upgrading and updating of their knowledge, skills and qualifications, with a view to the maintenance, development and improvement of their personal and technical skills and professional performance, compliance with the legal standards, regulations and internal rules, and provision of the best service to the customers, with competence and diligence.

We promote participation, with diligence and commitment, in the training courses indicated to the Employees by the Bank and its branches, aimed at endowing them with the technical skills and knowledge of ethics and conduct that are indispensable for the performance of their duties.

The normative training that is compulsory to all the Employees was of significant weight in 2022, in particular training on the "General Data Protection Regulation", "Code of Conduct", "Code of Good Conduct and Combating Harassment", "Anti-Money Laundering and Countering the Financing of Terrorism", "Ethics and Fraud Awareness ", "Information Security Awareness", "Mortgage Credit Marketing", "Health and Safety at Work", as well as training for "People Directly Involved in Insurance Agent Activity", among others.

With regard to technical/functional and behavioural training, the format was almost 100% online, with remote sessions being predominant. In terms of technical training, in addition to training on different topics relevant to the functions in question, carried out with the support of several suppliers, the training provided through the Udemy platform was maintained, which has been widely accepted by employees who value the flexibility and comprehensiveness of the training on this platform. Also noteworthy are the "Excel" and "Power BI" trainings, which are part of a technical component transversal to most of the functions of the Banco CTT Group. Special reference is also made to the focus on the more operative duties, with various training actions having been organised by SIBS and the Banking Training Institute. Regarding Payshop, the Payshop Way Programme, for creation and improvement of a specific methodology of product development based on Agile and Design Thinking methods, continued throughout 2022.

Investment continued in high-differentiation training such as post-graduations and advanced certifications, upholding Banco CTT's concern with the Employees' development by investment in their growth and contributing to retain the Employees.

Note should also be made of the Leadership Trust training, a Leadership Programme directed at the Middle Management of Banco CTT and 321 Crédito. This programme, with duration of about 1 year, seeks to debate topics related to Leadership and equip Leaders with tools to help them make a difference within their teams and the Organisation.

Refresher and development of leadership training was also designed for Banco CTT's commercial team: BIT GROW. The first stage of this training took place in 2017 in which materials such as DiSC, indirect leadership, organisation, definition of strategy and on-the-job monitoring were addressed. Five years later and with all the changes undergone by the business and market, it was felt that it was necessary to strengthen the knowledge acquired in the past, and now reinforce direct Leadership skills through off-site means, workshops, sharing and once again on-the-job monitoring of teams.

At 321 Crédito the focus on ongoing training, valorisation and motivation of human resources continued during 2022, through various training actions, both specific and general, namely concerning ESG, Cybersecurity, Insurance, Health and Safety at Work, Risk Management, certifications in Credit Intermediation, Consumer Credit Marketing, Mortgage Loan Marketing and Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT).

A self-management internal training platform was also launched in 2022, which permanently provides the employees with contents of diverse areas (technical and behavioural).

Regarding training for CTT Retail Network Employees, the Banco CTT team maintained intense collaboration, designing and delivering the various initial training actions to Employees who are part of the Network and its banking activity, and which focus on Banco CTT products and systems, as well as General Banking concepts.

Banco CTT Group Employees recorded 19,731.5 training hours (10,320 for Banco CTT, 8,938.5 for 321 Crédito and 473 for Payshop), 44% more than in 2021.

Internal Recruitment and Mobility

Talent attracting and retention is a topic currently on the agenda of the entire labour market, and the Banco CTT Group is no exception. This topic has always been extremely important; however, with the changes ushered in by the pandemic, companies have been forced to reinvent themselves in order to maintain their high attractiveness, as they no longer compete for talent only with Portuguese companies but now also compete with companies all over the world.

In this context, the Banco CTT Group implemented a new internal tool which enables a more agile and centralised management of all the information related to recruitment processes underway, through a database fed by various sources. This platform also led to the publication of all the available opportunities at Banco CTT on its institutional website, enabling those seeking to work at the Bank to find all the available vacancies in a single place.

Internal mobility continued to be one of the main sources of recruitment, simultaneously being an effective strategy to retain and develop talent. In 2022, 30 employees changed their duties in the context of internal mobility, within the actual company or moving to another Group company.

In this regard, aimed at contributing to increasing transparency and the way that employees learn about the other jobs in the organisation, a project was implemented for publication of job descriptions, named Job Guidelines, on the Banco CTT Group's intranet page.

Community Support

Banco CTT maintained the protocol with Crevide - Creche Popular, a non-profit association. In this context, the following initiatives were carried out with Crevide which involved Employees of Banco CTT and Payshop:

- Support in the distribution of food baskets with the creation of a pool of volunteers – Crevide is responsible for coordinating the distribution of the food baskets in Loures, which takes place 4 days per month. Banco CTT created a pool of volunteers to support Crevide on the food basket delivery dates;
- Painting of a space inside the Crevide premises. This initiative aimed to restore the space and give more colour to a room that is used on a daily basis by various users;
- Donation arising from the sale of computer equipment, that is no longer necessary in the new premises, to Banco CTT Employees;
- Finally, the well-known initiative, the offer of food baskets during the Christmas season to families supported by Crevide, stands out. The Bank maintained its contribution, also offering a basket for each basket offered by Banco CTT Employees. This year, it was possible to support about 60 people.

321 Crédito established a partnership with Associação Salvador, joining its mission to promote the inclusion of persons with motor disabilities in society and improve their quality of life, by enhancing their talents and raising awareness on equal opportunities. Throughout the year, 321 Crédito carried out several awareness-raising initiatives on this topic and in September, the team joined an activity promoted by Associação Salvador – Walkathon – which took place in Porto and Lisbon.

Under the social inclusion project started in 2021 with the Vila com Vida association, an institution geared towards revealing talents of persons with intellectual disabilities through an innovative and inclusive training model, boosting employability, Banco CTT created a job position adapted to performance by someone with special needs, and in that context, hired a professional trainee.

Culture / Internal Communication

The Banco CTT Group's culture has progressively been strengthened through various initiatives, some of which are new and others that, due to their relevance and appreciation shown by the Employees, have been maintained.

The Back Together event, referred to above, was held in 2022, which was the first face-to-face event following Covid, in which the new Mixed Work Arrangement was presented. We also launched "Back Together Breakfasts", an initiative which seeks to foster socialising and informal interaction among the employees in a breakfast catering offered to the employees on Fridays between 8h30 and 9h30, in the lounge.

Among the initiatives that we maintained, Beat New stands out, being an internal weekly newsletter with sharing of testimonials, projects, reading suggestions, recipes, etc. of Banco CTT Group Employees.

The Crossed Conversation Afternoon Tea, where the CEO holds monthly meetings with the Employees of different areas of the Group's 3 companies, also continues to be conducted in the Group. This initiative emerged as an alternative to the previous face-to-face lunches, in which Employees informally share professional experiences and ask the CEO questions. This sharing of ideas, in an informal context, facilitates communication and gives visibility to everyone within the organisation.

The Banco CTT Group's General Meeting, an annual meeting, was held once again on 18 March (the Bank's anniversary) in digital format, broadcast with live streaming, in which the Board of Directors shared the Group's key figures, conquests and projects. In September, upon arrival back after the summer holiday, Banco CTT brought its Employees together in an outdoor face-to-face event, providing the opportunity for the Employees to meet up again and for many who had joined in the last few months, the chance to get to know their colleagues on a personal basis.

Throughout the year, several face-to-face team-building activities were also carried out, which reinforced team spirit and provided interaction between colleagues in an informal environment without the daily pressure of work.

321 Crédito celebrated its 7th Anniversary on 16 July with a team-building action, which brought together a large part of the team in a face-to-face event, on a day of celebration and reunion of colleagues from different geographical locations.

The company also brought the Employees together at the 321 Crédito Christmas Dinner, which had a very significant participation. The children were not forgotten during this season, with a Kids Day having been held, aimed at fostering family-work interaction. 321 Crédito also opened its door to the employees' children, who were given the opportunity to see their parents' workplace as well as the presentation of a children's book, followed by an autograph session. Also throughout the year, there were several moments of celebration of results and celebration of thematic dates, such as São Martinho. Small gestures that made for great moments with the Employees.

At Christmas, Banco CTT organised an afternoon tea at the premises, and after the Merry Christmas message of the Executive Committee's Chairman, the Bank delivered the donation cheque to Associação Crevide.

It is believed that through the various initiatives all employees were able to become involved in the reality of the Banco CTT Group, reinforcing their spirit of belonging.

Staff[1]

As at 31 December 2022, the staff comprised 499 Employees (293 at Banco CTT, 156 at 321 Crédito and 58 at Payshop), 12% more than in the previous year. This increase was not only due to the hiring of new Employees for different areas, maintaining high standards of qualification, different levels of seniority and expertise, but primarily due to the integration of employees under the Specialised Branch project.

Number of employees	2022	2021
Employees*	499	444

* not considering employees with a multiple employer arrangement.

Gender	2022	2021
Female	54%	52%
Male	46%	48%

In terms of age, 62% of employees in the Banco CTT Group are under 45 years of age.

Age group	2022	2021
< 30 years	10%	10%
30 – 34 years	14%	11%
35 – 44 years	38%	42%
>= 45 years	38%	37%

More than 50% of Employees have an academic degree or higher.

Level of Qualification	2022	2021
Elementary Education	2%	2%
Secondary Education	31%	30%
Bachelors	4%	3%
Licentiate Degree	45%	48%
Postgraduation/Masters	18%	18%

[1] Not considering employees with a multiple-employer arrangement

Outlook for 2023

In the future, Banco CTT will continue focused on a combination of growth and profitability, especially involving 3 business development topics:

- **Deepening customer relations**, promoting greater engagement with the Bank's customers, more frequent use of accounts and contracting of a greater number of products;
- **Excellence in bancassurance**, boosting the CTT Group's natural vocation for savings, also operating as a platform for distribution of "real insurance", now with a renovated offer through the partnership to be implemented with Generali;
- **Growth in loans to households**, establishing Banco CTT also as a franchise of credit solutions, both for consumption and housing, in partnership with the network of intermediaries that has been developed.

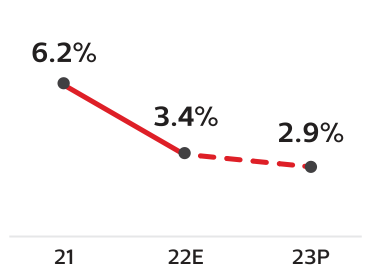
Financial Information

Macroeconomic Environment

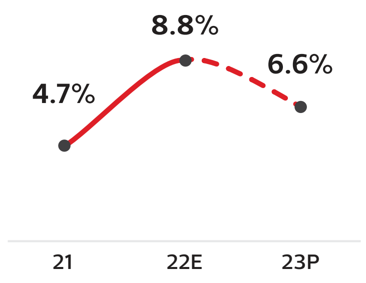
International Economy

Global economic activity slowed down more than had been expected in 2022, with inflation reaching peak levels of various decades in the majority of the world's economic blocks, surpassing two-digit figures in some cases. The increased cost of living, stricter financial conditions, Russia's invasion of Ukraine as well as some lingering effects of Covid-19 (in particular, the zero-infections policy implemented in China), dampened economic activity. According to the International Monetary Fund[1], world economic growth slowed down from 6.2% in 2021 to 3.4% in 2022, and inflation soared from 4.7% recorded in 2021 to 8.8% in 2022. The significant increase of inflationary pressures triggered a more accelerated than anticipated normalisation of global monetary policy, creating more restrictive financing conditions at a worldwide level.

World GPD



Global Inflation



Source: International Monetary Fund • January 2023

The eurozone economy has been particularly affected by the conflict in Ukraine, both due to the geopolitical uncertainty and the impact on energy commodities. Economic growth in the eurozone for 2022 is forecast to stand at 3.4%[2], compared to the 5.3% of 2021.

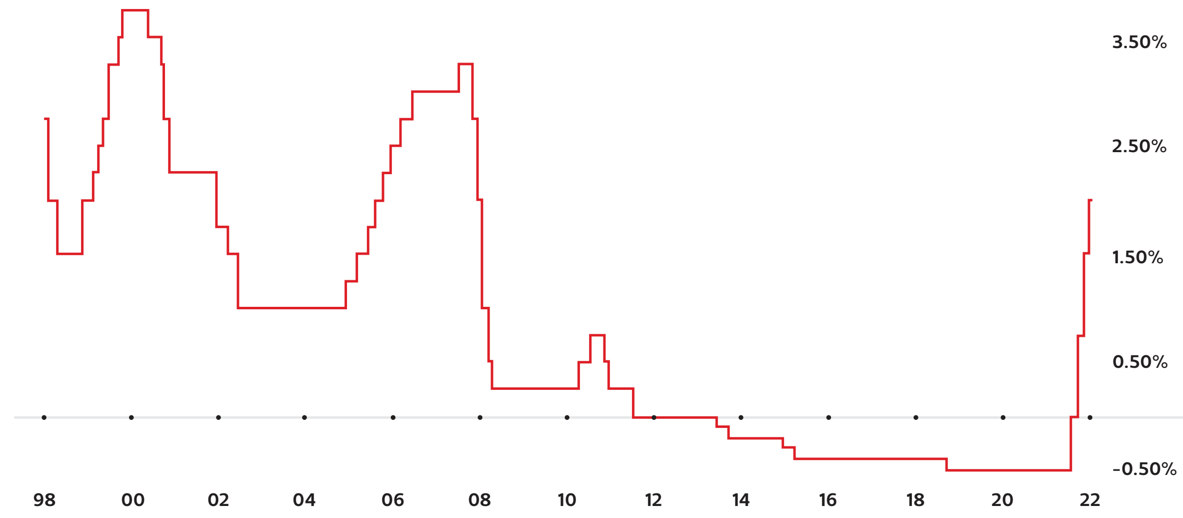
The consumer price index in the eurozone reached a record high of 8.4% for the year of 2022 as a whole, having shown a growing evolution throughout the year and attained 10.6% in the month of October.

The labour market remained robust, with the unemployment rate continuing its down ward trend, with renewed record low points.

The European Central Bank (ECB) began to reverse its expansionary monetary policy of the last few years in order to halt inflation levels. In July, the ECB elevated the deposit rate from -0.5% to 0%, followed by strong rises during its remaining meetings of the year until reaching 2% in December. The net purchases of the asset purchase programme of approximately 20 billion euros per month ended in June, and at the end of the year the ECB announced that at the beginning of March 2023 it would reduce the asset purchase programme's portfolio by approximately 15 billion euros per month up to the second quarter of 2023.

[1] World Economic Outlook – Update, International Monetary Fund | January 2023
[2] ECB Economic Bulletin, Issue 8 / 2022

ECB Deposit Rate



Source: Bloomberg

National Economy

The Portuguese economy grew by 6.7%[1] in 2022, maintaining the trend of post-pandemic recovery of 5.5% of 2021. It should be noted that from the second half of 2022 there was a slowdown in economic activity compared to the previous year, conditioned by the geopolitical uncertainty triggered by the war in Ukraine and the higher energy costs, which contributed to increase costs and prices and to the deterioration of the confidence of economic agents.

Inflation was surprisingly high during 2022, reaching the highest figures of the last 30 years, greatly influenced by the evolution of the international prices of energy and food products. The variation of the harmonised index of consumer prices reached 8.1%, accumulated as a whole for the year of 2022, being a remarkable figure compared to the 0.9% of 2021. Excluding energy products, consumer prices increased by 6.7% in 2022 (0.4% in 2021).

Private consumption remained resilient, having grown by 5.9%[2], underpinned by a favourable scenario of employment levels, public measures to support families and the use of savings accumulated during the pandemic, despite the context of high inflation and stagnation of household real disposable income. Nominal private consumption increased by 12.8% in 2022, greatly above the variation of disposable income which increased by 6.4%, with the household saving rate having fallen to 4.4%, 8 percentage points below that recorded at the end of 2021, but even so 7.5 percentage points above that recorded at the end of 2019. Economic activity was also positively influenced by exports having grown by 17.7%, with strong recovery of the service component, in particular tourism, which grew by practically 80%, moving close to the pre-pandemic figures. Imports grew by 11.1%.

The labour market remained buoyant, with 2.3% growth of employment in 2022. The unemployment rate reached the historically low level of 5.9%, a figure close to full employment, at a time when the percentage of companies reporting recruitment difficulties is historically very high.

The European Commission estimates that in 2022 the budget deficit fell to 1.9% of GDP, standing below the eurozone average, contributing to maintain the downward trajectory of public debt as a percentage of GDP, which is estimated to have reached 114.7% at the end of 2022.

[1] Quarterly National Accounts (Base 2016) – 30 days Flash Estimate 4th Quarter 2022 and Year of 2022 - INE
[2] Economic Bulletin | December 2022 – Banco de Portugal

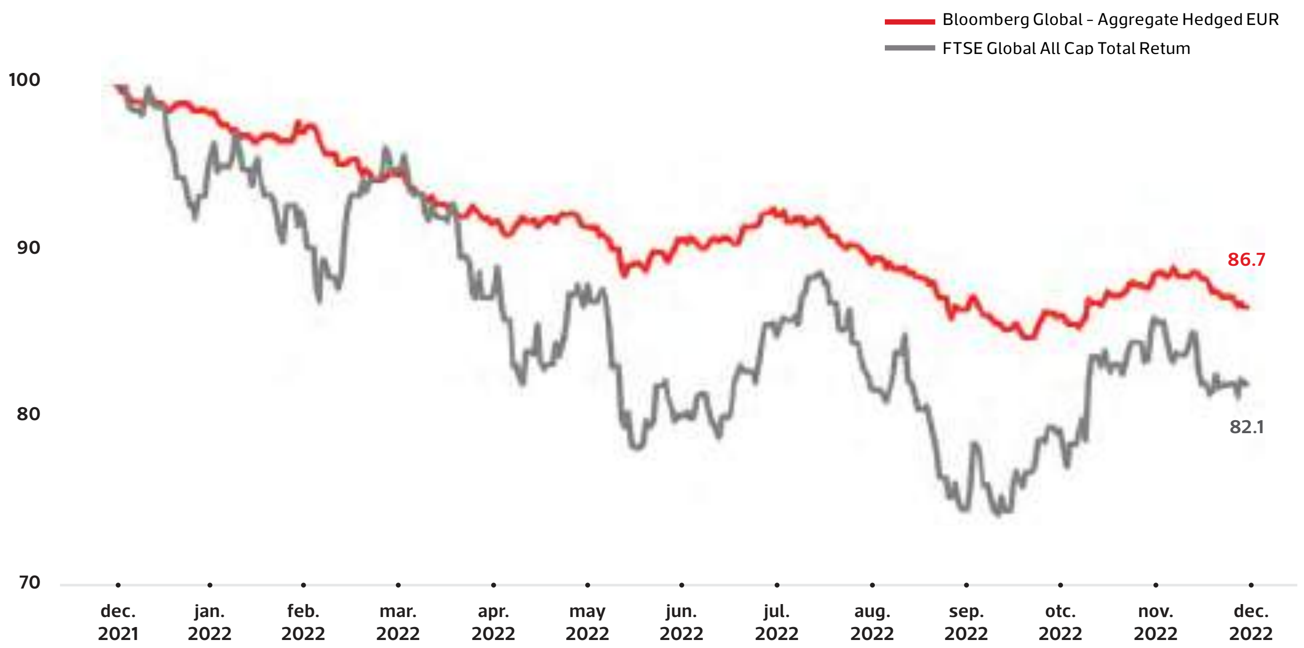
Financial Markets [1]

The year of 2022 was marked by heavy devaluation in the financial markets, with the global stock market measured in euros having recorded the largest annual devaluation since the crisis of 2008. The bond market also recorded its worst year since the beginning of the series in 1990 with a devaluation of 13.3% [2].

The parallel devaluations of the stock and bond markets, which is rather unusual, reflect the uncertainty experienced during the year, with the geopolitical tensions having lowered risk appetite and the significant increase in inflation having forced various central banks worldwide to increase interest rates, causing a revaluation of the different asset classes.

Concerning commodities, the effects of the War in Ukraine brought in additional volatility in prices, but also in expectations of stocks available for delivery.

The stock market, when evaluated by the FTSE Global All Cap Total Return Index, which encompasses developed and emerging markets, devalued by 17.9% in 2022. Within the stock market, the technological sector recorded the greatest devaluations. European banking devalued by merely 4.6%, supported by the prospects that the increased interest rates would improve their future earnings.



Source: Bloomberg

The increase of the 10-year public debt interest rate in Germany was very significant. After ending 2021 at -0.18%, by the end of 2022 it stood at 2.57%, the highest annual increase, at least since 1990. In the United States, 10 Year Treasury rate rose from 1.51% to 3.87%, the highest rise, at least since the 1970s.

The rise in interest rates of long-terms issues reflects the significant change in the outlook on monetary policy throughout 2022 in order to combat inflation. At the end of 2021, the outlook was that the increased prices that were being experienced would be transitory, but that outlook did not actually materialise during 2022. At the end of 2021, the estimate in the forwards market of the ECB deposit interest rate at the end of 2022 was -0.39%; but the interest rate at the end of the year was actually 2%. A similar situation occurred with the change of outlook on Federal Reserve interest rates.

The credit spread of 10-year Portuguese sovereign debt in relation to the German widened, having reached an average value of 97 basis points (bp) in 2022, compared to the average spread of 60 bp during 2021. The credit spread of Spanish and Italian sovereign debt also widened, with average values of 103 bp and 192 bp during 2022 (compared to 67 bp and 109 bp in the previous year).

[1] Source: Bloomberg
[2] Source: Bloomberg

The credit spreads of companies also showed a volatile performance. The 5-year CDS Markit iTraxx Europe Senior index reached 79 bp at the end of 2022 compared to 48 recorded at the end of 2021. In September, it reached the peak of 138 bp, the same value recorded at the peak of the pandemic in 2020.

The evolution of commodity prices throughout 2022 was of major volatility. The price of the barrel of Brent oil stayed on an upward trajectory during 2021, having reached a peak of USD 128 per barrel in March as a consequence of the war. In Europe in particular, the price of natural gas had an erratic behaviour, with the TTF future contract for delivery in the following month having reached a peak of 311euros/MWh, an unimaginable figure in the past (the average price in 2019 was 14 euros/MWh), reflecting the logistical challenges of delivering gas in Europe at a time when the supply of the important Nord Stream pipeline with natural gas of Russian origin was still closed.

In the foreign exchange market, the US Dollar appreciated in comparison to the main currencies of the world. The Euro depreciated by 5.9% in relation to the US Dollar in 2022, having broken the psychological barrier of 1:1 parity at the end of the summer. However, when compared with the 19 currencies of the eurozone's main business partners, the actual rate remained practically unchanged (+0.4%).

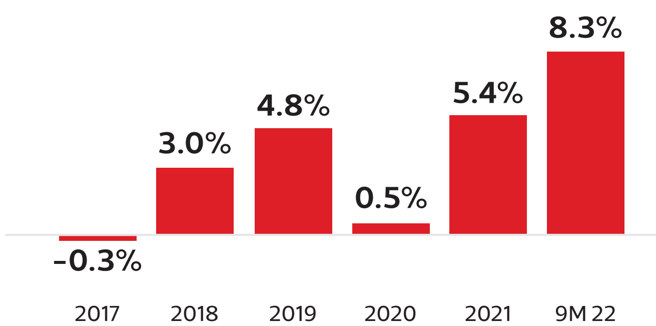
Portuguese Banking System [1]

Analysis of the data for the first 9 months of 2022 of the Portuguese banking system disclosed by Bank of Portugal (Portuguese Banking System: recent developments – 3rd quarter 2022) shows an aggregate balance sheet structure with a 3.8% increase in total assets (compared to 2021) to 429 billion euros. Deposits from customers remained at high values, reaching 320 billion euros, corresponding to 15 billion euros more than at the end of 2021. The loan-to-deposit ratio continued on a downward trend, having fallen to 79% in September 2021.

Asset quality maintained its improvement trend that started in 2016, with the gross non-performing loans ratio reaching 3.2% (1.5% when considered net of impairments).

The profitability of the system in the first 9 months of 2022 maintained the trend of improvement, with return on assets reaching 0.66% and return on equity standing at 8.3%. The increased profitability was the result of the reduction of credit impairments, with the cost of risk reaching 0.16%, and net interest income having increased to 1.5%. The *cost-to-income* ratio also maintained its downward trend, reaching 49.9% at the end of the period.

Return on Equity



Concerning solvency, for the system as a whole the ratio of total own funds reached 17.1% and the ratio of common equity tier 1 stood at 14.6%, compared to 18.0% and 15.5% respectively at the end of 2021.

[1] Portuguese Banking System: recent developments 3rd Quarter 2021– Banco de Portugal

Results and Balance

Consolidated Results

Net Income

In 2022, Banco CTT achieved a consolidated net income of 14,716 thousand euros, which compares with a positive net profit of 16,148 thousand euros in the same period of the previous year, representing a negative variation of 1,432 thousand euros.

The net income for 2022 includes the positive net impact of 5,819 thousand euros of a series of specific items, namely the net gains/(losses) of derivative financial instruments used by the Group to hedge against interest rate risk in outstanding securitisation operations.

The net income for 2021 includes the positive net impact of 12,962 thousand euros from a set of specific items, namely capital gains from sales in the securities portfolio, in a gross total of 17,777 thousand euros.

Excluding the effect of the specific items, Banco CTT's net income for 2022 stood at 8,897 thousand euros (2021: 3,186 thousand euros), which represents an increase of 5,711 thousand euros in relation to 2021 (+ 179%).

(amounts in thousand euros)

	2022	2021	Δ Abs.	Δ %
Net Interest Income	74,393	55,718	18,675	34%
Net Commissions	22,459	17,841	4,618	26%
Other Results	3,760	674	3,086	458%
Operating Income	**100,612**	**74,233**	**26,379**	**36%**
Staff costs	(24,714)	(23,034)	(1,680)	7%
General Administrative Expenses	(34,113)	(29,944)	(4,169)	14%
Amortisation and Depreciation for the year	(7,176)	(7,011)	(165)	2%
Operating Costs	**(66,003)**	**(59,989)**	**(6,014)**	**10%**
Impairment and Provisions	(24,919)	(11,997)	(12,922)	108%
Profit / (loss) before taxes	**9,690**	**2,247**	**7,443**	**331%**
Taxes	(2,547)	(1,110)	(1,437)	129%
Net Income from continuing operations (without specific items)	**7,142**	**1,137**	**6,005**	**528%**
Discontinued operations	1,755	2,049	(294)	-14%
Net Income (no specific items)	**8,897**	**3,186**	**5,711**	**179%**
Net Specific Items	5,819	12,962	(7,143)	-55%
Net Income	**14,716**	**16,148**	**(1,432)**	**-9%**

Explanations for the most relevant variations are presented as follows:

Net Interest Income

A Net Interest Income reached 74,393 thousand euros (2021: 55,718 thousand euros), with net interest income of 2.5% (2021: 2.4%), which represents an increase of 18,675 thousand euros (+ 34%).

- **Interest on auto loans** amounted to 45,143 thousand euros (2021: 37,627 thousand euros), representing an increase of 7,516 thousand euros (+20%), primarily due to the growth of the portfolio.
- **Interest on credit cards** amounted to 21,635 thousand euros (2021: 10,166 thousand euros), representing an increase of 11,469 thousand euros (+113%), driven by the increase in average volume. This interest results from the portfolio acquired under the partnership with Universo IME, S.A., started at the beginning of the second quarter of 2021.
- **Interest on mortgage loans** reached 5,605 thousand euros (2021: 3,824 thousand euros), representing an increase of 1,781 thousand euros (+47%). The increase was due to the greater volume of the portfolio and the increase of the 12 month Euribor indexer (2022 daily average: 1.10%; 2021 daily average: -0.49%).
- **Interest on cash and deposits at the Central Bank** amounted to 755 thousand euros (2021: -1,000 thousand euros), representing a positive variation in net interest income of 1,755 thousand euros. The European Central Bank (ECB) reversed its expansionary monetary policy of the last few years in order to halt inflation levels. In July, the ECB elevated the deposit rate from -0.5% to 0%, followed by strong rises during its remaining meetings of the year until reaching 2.0%.
- **Interest on securities issued** reached 4,877 thousand euros (2021: 528 thousand euros), representing an increase of 4,349 thousand euros (824%) which reflects the increased cost of funding during 2022, as well as the increased volume of securities issued. As at 31 December, there are 3 outstanding issues (Ulisses Finance No. 1, 2 and 3) with a book value of 445,578 thousand euros (2021: 277,796 thousand euros).

Commissions

The net fees and commissions income amounted to 22,459 thousand euros (2021: 17,841 thousand euros), which represents an increase of 4,618 thousand euros (+9%).

This increase is mainly explained by:

- Commissions received from insurance mediation services reached 7,673 thousand euros (2021: 5,969 thousand euros), with the increase of 1.704 thousand euros (+29%) being mainly explained by the increase in the commissioning of off-balance savings products related to the Retirement Savings Plan and Life Financial Insurance offer.
- Commissions received from debit card issuance and management reached 5,651 thousand euros (2021: 4,872 thousand euros), representing an increase of 779 thousand euros (+16%) which essentially reflects the price list changes occurred during 2022 and the increased total number of active cards.
- Commissions received from credit intermediation services reached 2,741 thousand euros (2021: 1,766 thousand euros), representing an increase of 975 thousand euros (+55%).
- Increase of interbank net fees of approximately 760 thousand euros, explained by the gradual increase of customer involvement with Banco CTT and, consequently, the greater use of the Banco CTT account for day-to-day management.

Other Results

Other Results amounted to 3,760 thousand euros (2021: 674 thousand euros), representing an increase of 3,086 thousand euros (+458%), primarily due to:

- Appreciation of the heading of Real-estate Investment Funds, recorded at fair value through profit or loss, amounting to 1,479 thousand euros.
- Recognition of 1,930 thousand euros under other operating income/(expenses), essentially reflecting the recording of the compensation receivable, payable by Universo, IME, S.A., under the Universo partnership termination agreement, to be settled upon the end of the partnership.

Operating Costs

Operating costs amounted to 66,003 thousand euros (2021: 59,989 thousand euros), resulting in an adjusted cost-to-income (excluding specific items) of 66%, which compares with 81% in 2021.

Staff Costs

- Staff costs reached 24,714 thousand euros (2021: 23,034 thousand euros), representing an increase of 1,680 thousand euros (+ 7%), explained by the increased number of employees in 2022 in relation to the previous year (from 438 to 447) and by salary updates.

General Administrative Expenses

- General administrative expenses reached 34,113 thousand euros (2021: 29,944 thousand euros), representing an increase of 4,169 thousand euros (+ 14%).
- The increase is explained by the increased expenses incurred due to the use of the CTT retail network, related to the banking and transactional operative, the servicing of banking operations and the use of payments networks.
- The cost of using the physical and technical resources of the CTT Post Office Network amounted to 4,697 thousand euros (2021: 3,713 thousand euros), representing an increase of 984 thousand euros (+ 27%).

Amortisation and depreciation for the year

- Amortisation of intangible assets for the period came to 5,482 thousand euros (2021: 5,364 thousand euros).
- Depreciation of other tangible assets for the period amounted to 1,694 thousand euros (2021: 1,647 thousand euros).

Impairments and Provisions

Impairments and Credit Provisions

- The net charge for impairments and credit provisions came to 24,529 thousand euros in 2022 (2021: 12,914 thousand euros), representing an increase of 11,615 thousand euros (+ 90%).
- This variation is explained by::
  - ◊ Credit Cards:
    - Net charge of impairment of 13,379 thousand euros (2021: 5,254 thousand euros), representing an increase of 8,126 thousand euros (+ 155%).
    - This increase is explained by the growth of the portfolio and updating of risk parameters.
    - As at 31 December 2022, the ratio of coverage of this portfolio stood at 5.3% (2021: 2.2%).
  - ◊ Auto Loans
    - Net charge of impairment of 11,075 thousand euros (2021: 6,839 thousand euros), representing an increase of 4,236 thousand euros (+ 62%).
    - This increase is explained by the growth of the portfolio and updating of risk parameters.
    - As at 31 December 2022, the ratio of coverage of this portfolio stood at 4.1% (2021: 3.3%).
  - ◊ Auto Loans
    - Net charge of impairment of 317 thousand euros (2021: 98 thousand euros), representing an increase of 220 thousand euros (+ 225%).
    - This increase arises from the growth of the portfolio, as the coverage ratio of 0.1% is unchanged in relation to 2021.

Other Impairments

- In impairments of other financial assets there was a net charge of 6 thousand euros (2021: net reversal of 91 thousand euros).
- In impairments to other assets there was a net reversal of 113 thousand euros (2021: net reversal of 833 thousand euros).

Other Provisions

- Net charge of 497 thousand euros (2021: net reversal of 827 thousand euros), giving rise to a negative annual variation in the profit and loss account amounting to 1,324 thousand euros.

Discontinued operations

In the context of the corporate reorganisation in progress in the Group, on 8 July 2022, the Board of Directors of Banco CTT approved the sale of Payshop, and its terms, to CTT – Correios de Portugal, S.A., with its accomplishment still being dependent on the regulator's non-objection, which is expected to occur during 2023.

As at 30 June 2022, the assets and liabilities of Payshop (Portugal), S.A. were reclassified to Discontinued Assets and Liabilities due to a process of sale of the company being underway and due to considering that it embodied a major line of business within the Group, due to, among other factors, its contribution to the profit and loss account.

The net income attributable to the subsidiary Payshop (Portugal), S.A. for 2022 stood at 1,755 thousand euros (2021: 2,049 thousand euros), representing a decrease of 294 thousand (-14%) euros. Despite the commissioning of the payments activity having increased, this was not sufficient to absorb the incremental expenses related to the operative of the new payments platform and, especially, the net allocation of provisions occurred in 2022 amounting to 415 thousand euros (excluding the effect of the provisions, the variation would have been positive).

Specific items

Due to their materiality and nature, the after-tax effects of significant items considered specific in 2022 and 2021 are described below in order to facilitate year-on-year comparability of performance:

2022

1) Net gains arising from trading activity:

a. Gross gain of 9.666 thousand euros due to the net appreciation of derivative financial instruments contracted for economic hedging against interest rate risk in financing operations through securitisations.

2) Operating costs: 410 thousand euros of costs related to specific projects, including the project for the strategic partnership between the Banco CTT Group and Generali Seguros, S.A.

2021

1) Net gains arising from trading activity:

a. During 2021, Banco CTT made sales of securities at amortised cost, which resulted in a gross gain of 17,777 thousand euros. These sales of securities resulted from the Group's balance sheet management in the context of the entry into a new business segment (credit cards) arising from the partnership with Universo, IME, S.A..

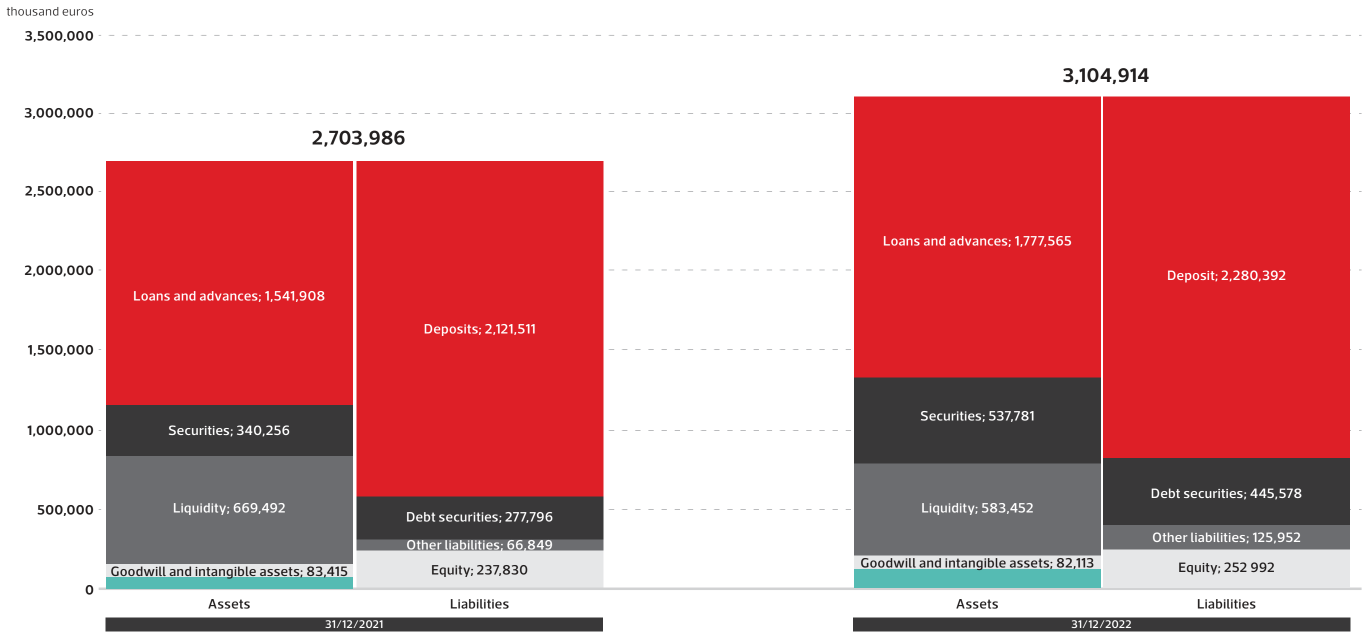
b. Gross gain of 1,083 thousand euros from the valuation of the derivative contracted by the Ulisses Finance No.2 operation.

2) Credit impairments: 1,364 thousand euros related to Day 1 impairment, attributable to the initial acquisition of a credit card portfolio of around 104 million euros.

3) Operating costs: 1,091 thousand euros of costs related to specific projects, including the partnership with Universo, IME, S.A.

Consolidated Balance Sheet

Consolidated Balance Sheet



As at 31 December 2022, the Bank's assets amounted to 3,104,914 thousand euros (2021: 2,703,986 thousand euros), with 252,992 thousand euros funded by equity (2021: 237,830 thousand euros) and 2,851,922 thousand euros by borrowed capital (2021: 2,466,156 thousand euros).

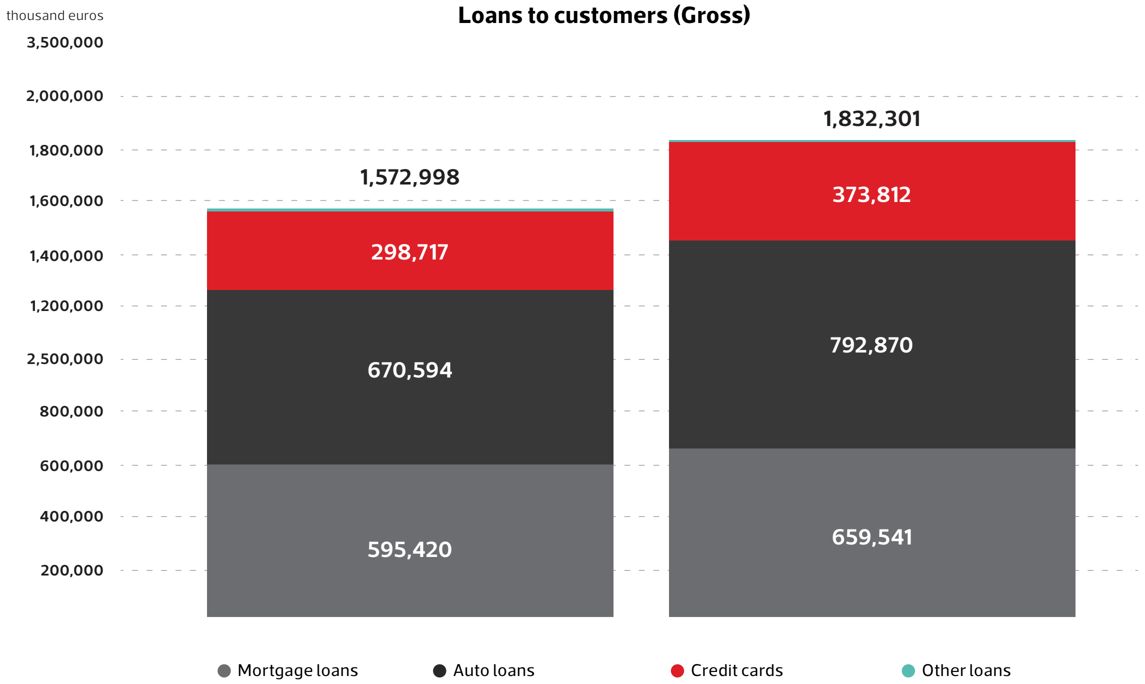
Loans and advances to customers

Loans and advances to customers (gross) stood at 1,832,301 thousand euros as at 31 December 2022 (2021: 1,572,998 thousand euros), representing an increase of 259,303 thousand euros (+16%), of which 64,121 thousand euros are from mortgage loans, 122.276 thousand euros from auto loans and 75,085 thousand euros from credit cards.

The loan-to-deposit ratio continued its upward trajectory, having evolved from 65% in 2020, to 73% in 2021 and 78% in 2022.

The portfolio impairment ratio as at 31 December 2022 was 2.99% (2021: 1.98%; 2020: 1.50%).

Loans to customers (Gross)



Investment in securities

The portfolio of investment in securities had a gross value of 564,392 thousand euros as at 31 December 2022 (2021: 365,376 thousand euros), of which around 95% are sovereign debt securities of the eurozone (2021: 92%).

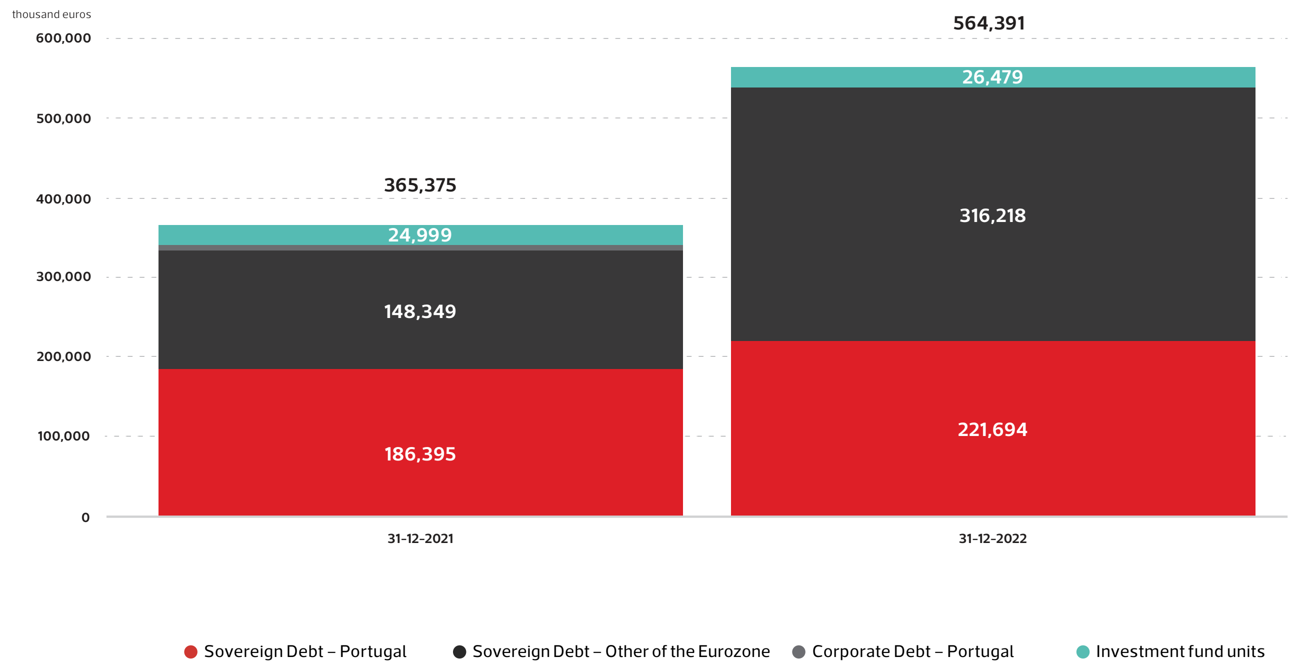
Almost all (95%) of the Bank's securities investment portfolio is recorded at amortised cost, with the remaining being recorded at fair value through profit or loss.

The securities investment portfolio had, as at 31 December 2021, a fair value of 379,576 thousand euros (a positive difference of 14 million euros compared to its book value).

The securities investment portfolio had, as at 31 December 2022, a fair value of 525,026 thousand euros (a negative difference of 39 million euros compared to its book value).

The difference between the book value and the fair value of these assets is explained by the very significant rise in interest rates. The 5 year German interest rate evolved from -0.45% as at 31 December 2021 to 2.58% at the end of 2022.

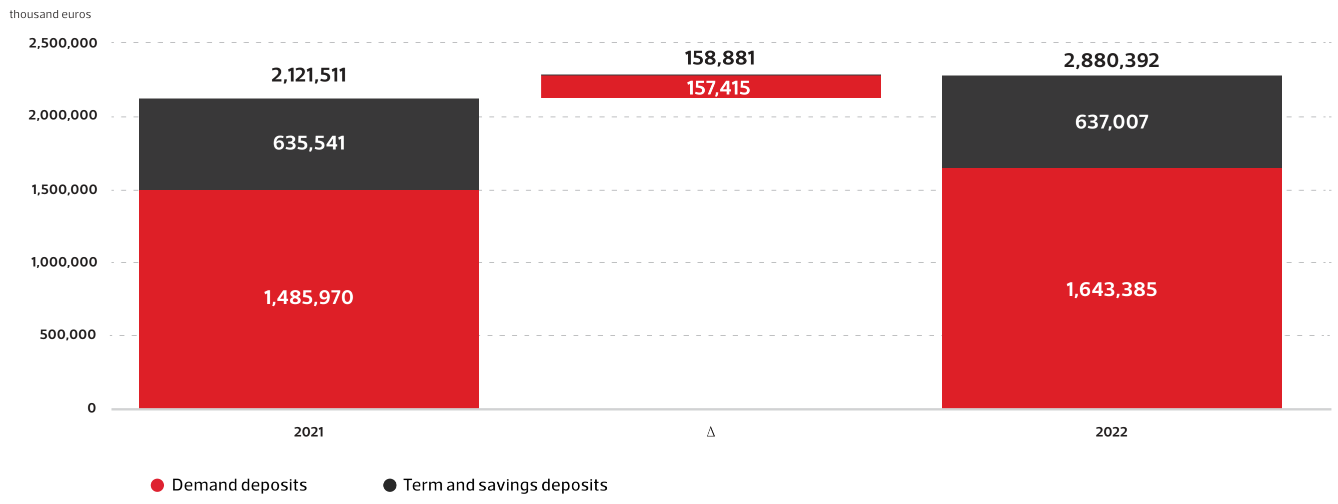
Investment in Securities



Deposits from customers

Deposits from customers reached, as at 31 December 2022, 2,280,392 thousand euros (2021: 2,121,511 thousand euros), reflecting an increase of 158,881 thousand euros (+7%) in relation to the previous year. The increase primarily occurred in demand deposits (+ 157,415 thousand euros), while term and saving deposits stabilised in relation to December 2021. The increase of demand deposits reflects the increase of the customer base and their involvement with Banco CTT, which is increasingly the first bank of its customers.

Deposits from Customers



Debt securities issued

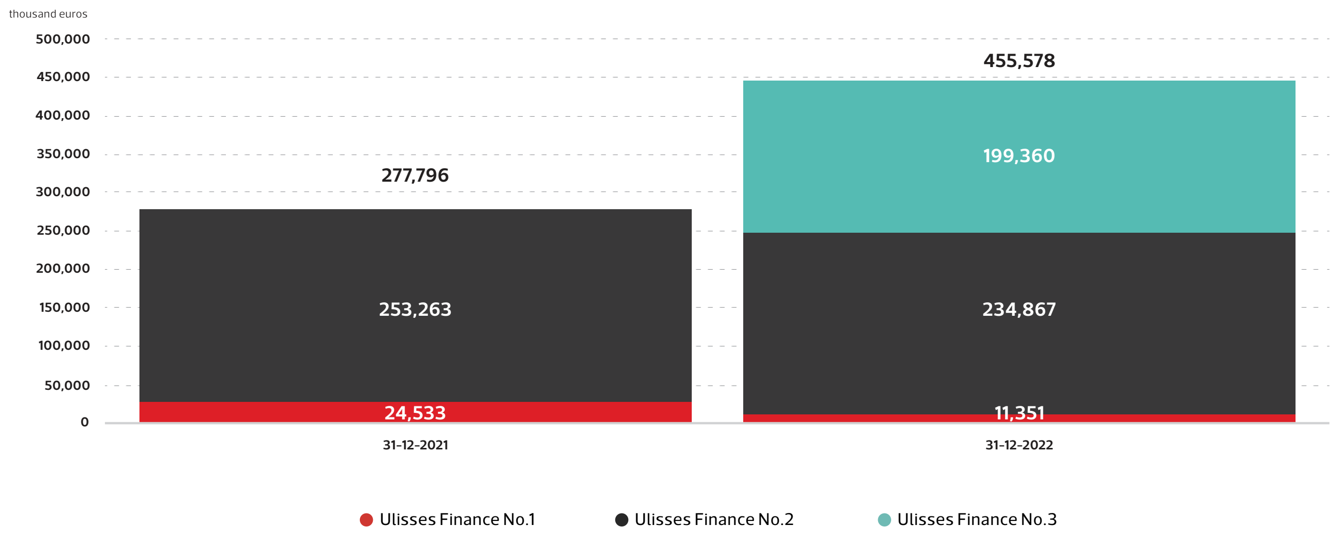
As at 31 December 2022, debt securities issued amounted to 455,578 thousand euros (2021: 277,796 thousand euros), reflecting an increase of 167,782 thousand euros (+60%) in relation to the previous year.

As at 31 December 2022 there are 3 active securitisation operations, placed on the market in institutional investors.

In June 2022, the Group securitised a portfolio of consumer credit originated by 321 Crédito, whose initial total value was 200,000 thousand euros (Ulisses Finance No.3).

With a view to funding the growth of Banco CTT's activity, optimising its capital and diversifying its liquidity sources, the securitisation operation enables reducing the volume of risk-weighted assets, and its collateralised tranches had an average implicit spread of 1.62% plus the 1 month Euribor.

Debt securities issued



Liquidity and Funding

One of the main components of liquidity management is the investment and financing policy, which prioritises diversification by country and sector.

Thus, as at 31 December 2022, the Group held a portfolio of assets eligible for the Eurosystem which amounted to approximately 537,912 thousand euros (2021: 334,744 thousand euros).

In addition, the Group had deposited 489 million euros (593 million euros in 2021) with Banco de Portugal, reflecting high liquidity and the ability to raise financing.

Thus, the consolidated liquidity indicator, Liquidity Coverage Ratio (LCR), registered a very comfortable value of 601% at the end of 2022 (881% at the end of 2021), significantly above the minimum regulatory requirements.

In the financing of its Assets, the Group gives preference to deposits from Customers. These amounted to around 2,280 million euros as at 31 December 2022 (2021: 2,122 million euros), which represented approximately 73% of total Assets.

Despite its surplus liquidity condition, the Bank occasionally performs tests for access to the line of financing established by the ECB and repos with other financial institutions.

The Group analyses residual maturities for different bank sheet assets and liabilities. The volumes of cash inflows and outflows are shown by timeframes according to the residual time period when they occurred and, based on this, the respective liquidity gaps are determined both for the period and the accrued.

Liquidity risk management is conducted considering:

- Short-term liquidity;
- Structural liquidity; and
- Contingency liquidity.

The Group monitors its short-term liquidity levels through daily mismatch reports, including eligible assets, liquidity buffers, the main cash inflows and outflows, the evolution of deposits, fixed asset investment and capital flows.

As regards structural liquidity, the Group draws up a monthly liquidity report that takes into account not only the effective maturity date of the different products, but also their behavioural maturity, through which structural mismatches are determined for each time bucket. Based on this report and in light of the stipulated budgetary targets, an annual plan for financing the activity is prepared, which is periodically reviewed.

The Group conducts liquidity stress tests aimed at identifying the main liquidity risk factors affecting its balance sheet and testing the Bank's resilience to liquidity crises.

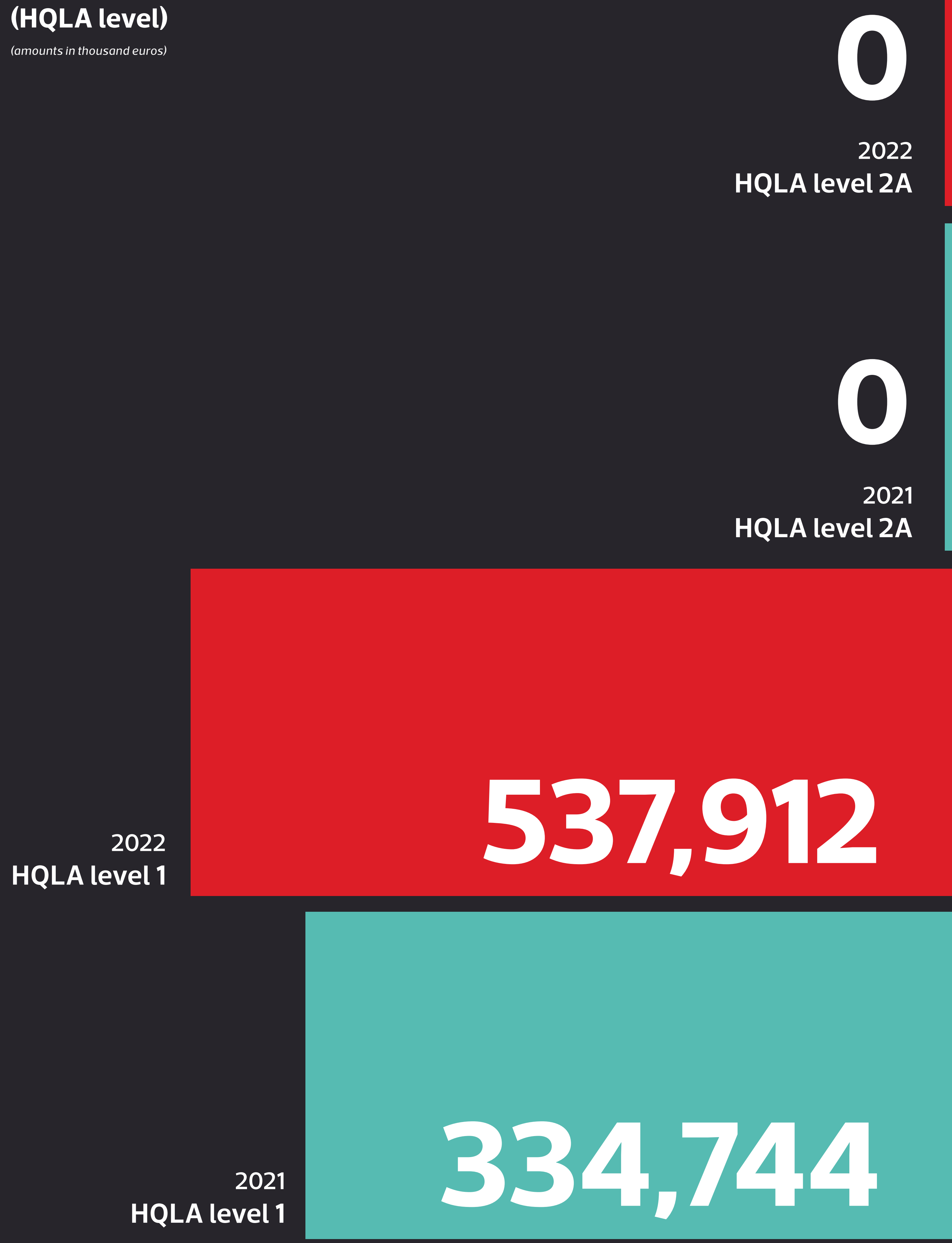
As a liquidity contingency plan, the Group has defined a series of measures that, when activated, will enable addressing and/or mitigating the effects of a liquidity crisis. These measures aim to respond to liquidity needs in stress scenarios.

Furthermore, the Group conducts Internal Liquidity Adequacy Assessment Process (ILAAP) analyses, thus complying with Banco de Portugal Instruction 2/2019 and the European Banking Authority (EBA) guidelines (EBL/GL/2016/10).

The Capital and Risk Committee, which held 14 meetings in 2022, analyses the Bank's liquidity position, namely, the evolution of the balance sheet, the analysis of gaps and key activity indicators (liquidity and commercial gaps, deposit and credit rates). In brief, a comprehensive assessment is carried out of liquidity risk and its evolution, with special focus on current liquidity buffers and the generation/maintenance of eligible assets.

Eurosystem eligible securities (HQLA level)

(amounts in thousand euros)



Securitisation Activities

The Banco CTT Group, in structuring securitisation operations, may have the following objectives:

- Diversify funding sources through:
  - A securitisation enables transforming illiquid assets into liquid assets and, in this way, obtain funding through the sale of these assets;
  - Withholding of securitisations to obtain liquidity, namely by using the more senior tranches as collateral in funding operations in the market and/or Eurosystem.
- Reduce the cost of financing, as the securitisation of assets allows liquidity to be obtained at a cost normally lower than would be incurred in non-collateralised senior debt operations.
- Manage capital and credit risk more appropriately through the diversification of assets in the Balance Sheet, considering that securitisation operations and the subsequent sale of securities on the market contribute to reduce/manage the credit risk that arises (naturally) from commercial activity.
- Manage concentration risk through the selective sale of assets so as to reduce the exposure to specific borrowers, as well as certain classes of assets (business lines, activity sectors, etc.).

Every year, upon preparing its liquidity plan, the Group, based on the available assets, may include, when considered appropriate, the use of securitisation operations.

Description of the Asset Securitisation Activities and Operations of the Banco CTT Group

As Investor

The Group does not hold, from a prudential point of view, significant positions in credit securitisation operations originated by third parties or in securities resulting from re-securitisation operations originated by third parties, nor is it part of its current investment policy to do so in the short term. The Next Funding No.1 securitisation operation is not considered a securitisation from a prudential point of view due to the absence of tranching. However, in order to comply with the provisions in Article 449(f) of the Capital Requirements Regulation (CRR), the Bank developed and implemented a risk management and control process which includes the monitoring of the credit risk and market risk of the securitisation positions held in its balance sheet. Furthermore, and in view of the low significance of the risks involved, pursuant to Article 449(g) of the CRR, there are no hedge operations or any other type of personal protection contracted for the purpose of reducing the risk in these positions.

As Originator

As at 31 December 2022, the Group had 5 asset securitisation operations originated by 321 Crédito in progress:

Ulisses Finance No.1

This securitisation operation was originated in July 2017 and issued by Sagres - Sociedade de Titularização de Créditos, S.A., and corresponds to a public programme of credit securitisation (Ulisses), with the Ulisses No.1 operation having been placed on the market. The assembly of the operation was carried out with the collaboration of Citibank and Deutsche Bank and included a Consumer Credit portfolio originated by 321 Crédito. The structure of the operation included five Tranches from A to E. The A to C Tranches are dispersed in the market while the D and E Tranches were withheld. This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, Tranches A, B and C.

This operation includes an optional early repayment clause which enables the issuer to redeem the notes of all the classes issued, when the residual value of the credit represents 10% or less than the value of the Credit Portfolio on the date of the assembly of the securitisation operation.

The operation incorporates an interest rate cap, which is a mechanism to mitigate interest rate risk for the operations and their investors, among which the Group is included, but that were not contracted directly by the Group, but rather by the issuer of the securitisation operations (Sagres – STC, S.A.).

The Group guarantees the debt service (servicer) of the traditional securitisation operations, undertaking the collection of the credit that has been granted and channelling the residual values, by making the respective deposit at the credit securitisation firm.

The assets underlying the Ulisses Finance No.1 operations were not derecognised from the Statement of Financial Position as the Group substantially kept the risks and benefits associated to holding them.

Chaves Funding No.8

This private securitisation operation was issued in November 2019 by Tagus, Sociedade de Titularização de Créditos, S.A., and included a Consumer Credit portfolio originated by 321. The assembly of the operation was carried out with the collaboration of the law firm PLMJ and Deutsche Bank. The structure of the operation includes a Tranche A and a Tranche B in the notes issued, both being entirely held by the Group.

This operation includes an optional early repayment clause which enables the issuer to redeem the notes of all the classes issued, when the residual value of the credit represents 10% or less than the value of the Credit Portfolio on the date of the assembly of the securitisation operation.

The assets underlying the Chaves Funding No.8 operation were not derecognised from the Statement of Financial Position as the Group substantially kept the risks and benefits associated to holding them.

Fénix 1

This operation started in December 2014, having been issued by Gamma – Sociedade de Titularização de Créditos, S.A., and securitised a significant part of the finance lease portfolio of 321 Crédito à data.

321 Crédito did not withhold any tranche, hence the securitised portfolio was derecognised from the balance sheet.

321 Crédito maintained the management of the securitised portfolio, having been remunerated for this provision of services by charging a servicer fee.

Ulisses Finance No.2

This securitisation operation was created in September 2021 and issued by Tagus - Sociedade de Securitização de Créditos, S.A. and corresponds to a public credit securitisation program (Ulysses) with the Ulisses Finance No.2 operation being placed on the market. The operation was set up with the collaboration of the PLMJ Law Firm and Deutsche Bank and included a consumer credit portfolio originated by 321 Crédito, whose initial total value was 250,000 thousand euros, to be maintained over the 12 months of the revolving period.

The structure of the operation includes six collateralised Tranches from A to F, in addition to tranches G and Z. All tranches are dispersed on the capital market with the exception of class Z, whose initial value was 1.5 million euros and which presents a value of 1,000 euros on 31 December 2022.

This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, i.e., Tranches A to G.

The Ulisses Finance No.2 operation embodies simple, transparent and standardised (STS) features.

For the purpose of calculating the capital ratio, due to the fact that the Ulysses Finance No.2 operation complies with Article 244.1 (b) of European Regulation 575/2013 (full capital deduction), the company decreased its risk-weighted assets concerning the contracts securitised under this operation.

The operation incorporates an interest rate cap, which is a mechanism to mitigate interest rate risk for the operations and their investors, among which the Group is included, but that were not contracted directly by the Group, but rather by the issuer of the securitisation operations (Tagus – STC, S.A.).

The assets underlying the Ulisses Finance No.2 operation were not derecognised from the Statement of Financial Position as the Group substantially kept the risks and benefits associated to holding them.

Ulisses Finance No.3

This securitisation operation was created in June 2022 and issued by Tagus - Sociedade de Securitização de Créditos, S.A. and corresponds to a public credit securitisation program (Ulysses) with the Ulisses Finance No.3 operation being placed on the market. The operation was set up with the collaboration of the law firm VdA, Vieira de Almeida and Deutsche Bank and included a consumer credit portfolio originated by 321 Crédito, whose initial total value was 200,000 thousand euros, to be maintained over the 12 months of the revolving period.

The structure of the operation includes six collateralised Tranches from A to F, in addition to tranches G and Z. All tranches are dispersed on the capital market with the exception of class Z, whose initial value was 1.8 million euros and which presents a value of 1,000 euros on 31 December 2022.

This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, i.e., Tranches A to G.

The Ulisses Finance No.3 operation embodies simple, transparent and standardised (STS) features.

For the purpose of calculating the capital ratio, due to the fact that the Ulysses Finance No.3 operation complies with Article 244.1 (b) of European Regulation 575/2013 (full capital deduction), the company decreased its risk-weighted assets concerning the contracts securitised under this operation.

The operation incorporates an interest rate swap, which is a mechanism to mitigate interest rate risk for the operations and their investors, among which the Group is included, but that were not contracted directly by the Group, but rather by the issuer of the securitisation operations (Tagus – STC, S.A.).

The assets underlying the Ulisses Finance No.3 operation were not derecognised from the Statement of Financial Position as the Group substantially kept the risks and benefits associated to holding them.

As at 31 December 2022, there are no credit portfolios pending securitisation

As Servicer

Through 321 Crédito, the Group ensures the management of the securitised portfolios, being remunerated for this provision of services by charging a servicer fee.

The tables below, with reference to 31 December 2022 and 2021, present a description of the key features of each asset securitisation operation originated by the Group, namely its level of involvement, the existence or not of a significant transfer of the credit risk, the values initially securitised and in debt, the start date, legal maturity and revolving.

(amounts in thousand euros)

2022					
	Chaves Funding No.8	**Ulisses Finance No.1**	**Ulisses Finance No.2**	**Ulisses Finance No.3**	**Fenix**
Securitisation Operation	**Chaves Funding No.8**	**Ulisses Finance No.1**	**Ulisses Finance No.2**	**Ulisses Finance No.3**	**Fenix**
Objective of the Securitisation Operation	Obtain Funding	Obtain Funding	Obtain Funding and reduce risk weighted assets	Obtain Funding and reduce risk weighted assets	Obtain Funding and transfer credit risk
Type of Securitisation Operation	Traditional securitisation	Traditional securitisation	Traditional securitisation	Traditional securitisation	Traditional securitisation
Sponsors	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank)	Sagres (Issuer) Citibank (Transaction Manager, Paying Agent and Transaction Accounts Bank) Law Debenture (Common Representative), Servdebt (Backup Servicer)	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank)	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank), Law Debenture (Common Representative), Servdebt (Backup Servicer)	Gamma (Issuer) Banco Efisa (Arranger, Transaction Manager and Paying Agent) Santander (Transaction Accounts Bank)
Information on the Securitisation:					
Start Date	28/11/2019	10/07/2017	28/09/2021	01/06/2022	12/12/2014
Legal Maturity	22/11/2034	20/03/2033	23/09/2038	23/06/2039	30/06/2037
Step-up Date					
Revolving Period (years)	2	1	1	1	–
Securitised Assets (initial)	310,500	141,300	250,000	200,000	75,052
Value in Debt (closing of 2022)	184,551	20,345	230,137	196,149	35,538
Value in Debt of the Securities					
Class A / Single Class	149,833	0	189,826	168,000	42,152
Class B	26,991	4,233	9,319	8,000	n.a
Class C	n.a	7,100	18,638	12,000	n.a
Class D	n.a	7,100	10,530	6,000	n.a
Class E	n.a	3,500	3,448	5,000	n.a
Class F	n.a	n.a	1,211	1,000	n.a
Class G	n.a	n.a	375	600	n.a
Class Z	n.a	n.a	1	1	n.a
Existence of situations of "implicit support" pursuant to Art. 449 (r) of the CRR	No	No	No	No	No
% securities placed on the market	0.0000%	51.6710%	99.9996%	99.9995%	100.0000%
Initial capital gain / Value of reacquired first-loss positions	16,025	3,500	1	1	0

(amounts in thousand euros)

2021	Chaves Funding No.8	Ulisses Finance No.1	Ulisses Finance No.2	Fenix
Securitisation operation	**Chaves Funding No.8**	**Ulisses Finance No.1**	**Ulisses Finance No.2**	**Fenix**
Objective of the Securitisation Operation	Obtain Funding	Obtain Funding	Obtain Funding and reduce risk weighted assets	Obtain Funding and transfer credit risk
Type of Securitisation Operation	Traditional securitisation	Traditional securitisation	Traditional securitisation	Traditional securitisation
Sponsors	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank)	Sagres (Issuer) Citibank (Transaction Manager, Paying Agent and Transaction Accounts Bank) Law Debenture (Common Representative), Servdebt (Backup Servicer)	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank), Law Debenture (Common Representative), Servdebt (Backup Servicer)	Gamma (Issuer) Banco Efisa (Arranger, Transaction Manager and Paying Agent) Santander (Transaction Accounts Bank)
Information on the Securitisation:				
Start Date	28-11-2019	10-07-2017	28-09-2021	12-12-2014
Legal Maturity	01-11-2034	20-03-2033	28-09-2038	30-06-2037
Step-up Date				
Revolving Period (years)	2	1	1	—
Securitised Assets (initial)	310,500	141,300	250,000	75,052
Value in Debt (closing of 2021)	297,462	33,081	244,698	37,567
Value in Debt of the Securities				
Class A / Single Class	270,526	10,421	203,700	37,567
Class B	27,096	7,000	10,000	n.a
Class C	n.a	7,100	20,000	n.a
Class D	n.a	7,100	11,300	n.a
Class E	n.a	3,500	3,700	n.a
Class F	n.a	n.a	1,300	n.a
Class G	n.a	n.a	1,275	n.a
Class Z	n.a	n.a	1	n.a
Existence of situations of "implicit support" pursuant to Art. 449 (r) of the CRR	No	No	No	No
% securities placed on the market	0.0000%	69.8186%	99.9996%	100.0000%
Initial capital gain / Value of reacquired first-loss positions	16,025	3,500	1	0

During 2022, the main events related to securitisation operations were as follows:

Ulisses Finance No.3

This securitisation operation was created in June 2022 and issued by Tagus - Sociedade de Securitização de Créditos, S.A. and corresponds to a public credit securitisation program (Ulysses) with the Ulisses Finance No.3 operation being placed on the market. The operation was set up with the collaboration of the law firm VdA, Vieira de Almeida and Deutsche Bank and included a consumer credit portfolio originated by 321 Crédito, whose initial total value was 200,000 thousand euros, to be maintained over the 12 months of the revolving period.

The structure of the operation includes six collateralised Tranches from A to F, in addition to tranches G and Z. All tranches are dispersed on the capital market with the exception of class Z, whose initial value was 1.8 million euros and which presents a value of 1,000 euros on 31 December 2022.

This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, i.e., Tranches A to G.

The Ulisses Finance No.3 operation embodies simple, transparent and standardised (STS) features.

For the purpose of calculating the capital ratio, due to the fact that the Ulysses Finance No.3 operation complies with Article 244.1 (b) of European Regulation 575/2013 (full capital deduction), the company decreased its risk-weighted assets concerning the contracts securitised under this operation.

The operation incorporates an interest rate swap, which is a mechanism to mitigate interest rate risk for the operations and their investors, among which the Group is included, but that were not contracted directly by the Group, but rather by the issuer of the securitisation operations (Tagus – STC, S.A.).

The assets underlying the Ulisses Finance No.3 operation were not derecognised from the Statement of Financial Position as the Group substantially kept the risks and benefits associated to holding them.

During 2021, the main events related to securitisation operations were as follows:

Ulisses Finance No.2

This securitisation operation was originated September 2021 and issued by Tagus - Sociedade de Titularização de Créditos, S.A., and corresponds to a public programme of credit securitisation (Ulisses), with the Ulisses No.2 operation having been placed on the market. The operation was set up with the collaboration of PLMJ Law Firm and Deutsche Bank and included a consumer credit portfolio originated by 321 Crédito, whose initial total value was 250 million euros, to be maintained over the 12-months revolving period.

The Operation structure includes six collateralised Tranches from A to F, in addition to tranches G and Z. All Tranches are dispersed on the capital market with the exception of class Z, whose initial value was 1.5 million euros and which presents a value of 1,000 euros on 31 December 2022.

This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, Tranches A and G.

The Ulisses 2 operation embodies simple, transparent and standardised (STS) features.

For accounting purposes, securitised claims and bonds issued (not retained) remain recorded in the company's balance sheet, as the company substantially retains the risks and benefits associated with the operation.

For capital ratio purposes, due to the fact that the operation Ulisses 2 complies with Article 244.1 (b) of European Regulation 575/2013 (full capital deduction), the company decreased its 'risk-weighted assets concerning the contracts securitised under this operation.

The assets underlying the Ulisses Finance No.2 operation were not derecognised from the balance sheet as the Group substantially kept the risks and benefits associated to holding them.

Management of the investments in securitisation operations and calculation of the capital requirements

The investments in debt instruments derived from the securitisation or re-securitisation operations comply with the investment policies in force at the Group at any given time, aligned with the policy on risk appetite, and respect the limits defined under risk management.

During 2022, the group did not act in securitisations, in compliance with the Capital Requirements Regulation (CRR), as an investor.

At the individual level, for the positions where the Bank acts as an investor in the securitisation operations originated by 321 Crédito, and since there is no external rating assigned, but given that the Bank has detailed knowledge of the underlying credit portfolio, the Bank performed the look-through, treating the positions in accordance with Article 253(1) of the CRR. As at 31 December 2022, these positions amounted to 445,578 thousand euros.

In the particular case of the Next Funding No.1 securitisation operation, set up under the Universe Partnership, the Bank applies the residual treatment and considers an RW of 100% for the entire exposure, since it does not comply with the formal securitisation requirements, within the meaning of the CRR.

For the Ulisses Finance No.2 and Ulisses Finance No. 3 securitisation operations, the Group applies the provisions of Article 244 -1 (b) of the CRR, opting for the deduction from own funds of the retained tranche and disregarding the exposures of the securitised claims.

Capital Management

Group Banco CTT strives for high financial solidity by maintaining a ratio of total own funds (ratio between own funds and risk-weighted assets), above the minimum established in Directive 2013/36/EU and Regulation (EU) 575/2013 ("CRR", Capital Requirements Regulation), approved on 26 June 2013 by the European Parliament and European Council. The definition of the strategy to be adopted in terms of capital management is the responsibility of the Board of Directors.

Types of Risk	Measurements
Strategic Risk	Internal Model
Operational Risk	
IT Risk*	Basic Indicator Approach
Compliance Risk	
Reputation Risk*	
Credit Risk	Internal Models
Market Risk	VaR Model
Interest Rate Risk	Instruction 34/2018
Exchange Rate Risk	n/a

* These risks are treated together with Operational Risk.

ICAAP

ICAAP (Internal Capital Adequacy Assessment Process) is a relevant process for managing the Group's risk aimed at identifying the capital the Bank requires to adequately cover the risks it runs in undertaking its current business strategy.

The Group carries out an annual self-assessment exercise to determine the adequate capital levels given the business model. This process, which is regulated by Banco de Portugal Instruction 3/2019 and the EBA guidelines, seeks to ensure that the risks to which institutions are exposed are correctly assessed and that their internal capital is adequate in relation to their risk profile.

ICAAP is a tool that enables the Board of Directors to test the Bank's capital adequacy, given the risks of its activity, the sustainability of the strategic plan of its budget in the medium-term and the respective framework of the risk limits defined in its Risk Appetite Statement. The ICAAP allows the Group to assess and quantify the main risks to which it may be exposed, thus also constituting an important management tool in decision-making regarding the levels of risk to be assumed and the activities to be undertaken.

The Group calculates internal capital by using the regulatory models, where its internal capital is composed up of its regulatory own funds.

The approaches to quantify economic capital are, for each of the risks, the following:

Regulatory Capital

The prudential solvency indicators are based on the applicable regulatory standards, namely the European Regulation on Prudential Requirements (CRR), as well as Banco de Portugal Notices 6/2013 and 10/2017 regulating the transitional regime provided for in the Regulation on own funds.

The CRR includes a series of transitional provisions enabling the phased application of the requirements, providing the possibility for credit institutions to gradually accommodate the new requirements both in terms of own funds and minimum capital ratios.

In calculating capital requirements, the Group used the standard approach for credit and counterparty risk, the basic indicator method for operational risk and the standard approach based on maturity for market risk.

The Group's Common Equity Tier 1 includes: (a) paid-up capital, retained and eligible reserves and earnings, (b) regulatory deductions related to intangible assets, goodwill and losses related to the current year, and (c) prudential filters. The Group does not have any additional tier 1 capital or tier 2 capital.

As at 31 December 2022 and 31 December 2021, own funds and consolidated capital ratios are as follows:

(amounts in thousand euros)

	2022		2021	
	CRR Phasing in	***CRR Fully Implemented***	***CRR Phasing in***	***CRR Fully Implemented***
Own Funds				
Share capital	**296,400**	**296,400**	**296,400**	**296,400**
Retained earnings	**(59,348)**	**(59,348)**	**(73,954)**	**(73,954)**
Legal reserve	**1,571**	**1,571**	**29**	**29**
Eligible Results [1]	**14,716**	**14,716**	**16,148**	**16,148**
Other Reserves	**347**	**347**	**(126)**	**(126)**
Prudential Filters	**—**	**—**	**21**	**21**
Fair value reserves [2]	—	—	27	27
Additional Valuation Adjustment (AVA) [3]	—	—	(6)	(6)
Deductions to common equity tier 1	**(68,810)**	**(76,172)**	**(71,406)**	**(79,117)**
Losses for the period	—	—	—	—
Intangible assets	(14,796)	(14,796)	(17,336)	(17,336)
Goodwill	(60,679)	(60,679)	(61,085)	(61,085)
Adoption of IFRS 9	6,667	(695)	7,016	(695)
Securitisation deduction (1250%)	(2)	(2)	(1)	(1)
Items not deducted from Equity pursuant to article 437 of the CRR	**1,732**	**1,732**	**1,817**	**1,817**
Deferred tax assets	1,732	1,732	1,817	1,817
Holdings in financial entities	—	—	—	—
Common Equity Tier 1	**184,876**	**177,514**	**167,112**	**159,401**
Tier 1 Capital	**184,876**	**177,514**	**167,112**	**159,401**
Total Own Funds	**184,876**	**177,514**	**167,112**	**159,401**
RWA	**1,182,594**	**1,176,298**	**1,043,231**	**1,036,419**
Credit Risk	1,000,303	1,000,303	918,727	918,727
Operational Risk	148,925	148,925	124,504	124,504
Market Risk	—	—	—	—
CVA	33,366	33,366	—	—
IFRS 9 adjustments	—	(6,296)	—	(6,812)
Capital Ratios				
Common Equity Tier 1	15.63%	15.09%	16,02%	15,38%
Tier 1 Ratio	15.63%	15.09%	16,02%	15,38%
Total Capital Ratio	15.63%	15.09%	16,02%	15,38%
Regulatory Minimum Ratios [4]				
Common Equity Tier 1	7.00%	7.00%	7.00%	7.00%
Tier 1 Ratio	8.50%	8.50%	8.50%	8.50%
Total Capital Ratio	10.50%	10.50%	10.50%	10.50%

[1] Includes net income for the year in 2021 and 2021.
[2] Fair value reserve relative to gains or losses of financial assets stated at fair value.
[3] Additional value adjustments required to adjust the assets and liabilities stated at fair value.
[4] The figures presented for Pillar 1 do not take into account the effects of quick-fix measures in the context of the Covid-19 pandemic.

With regard to common equity tier 1, reference is made to the incorporation of the net income for 2022 in the equity of 14,716 thousand euros (31 December 2021: 16,148 thousand euros). Regarding capital requirements, we highlight the increase of the value of the risk-weighted assets of exposures with credit risk of 81,576 thousand euros and incorporation of the Credit Value Adjustment (CVA), of 33,366 thousand euros associated with interest rate derivatives.

As at 31 December 2022, the risk-weighted assets amounted to 1,182,594 thousand euros (31 December 2021: 1,043,231 thousand euros) of which 1,000,303 thousand euros (31 December 2021: 918,727 thousand euros) refer to credit risk.

The following table shows the geographic distribution of the relevant exposures for calculating the countercyclical buffer. It is important to note that as at 31 December 2022, the Banco CTT Group has no relevant exposure to geographic regions whose countercyclical buffer is different from zero.

(amounts in thousand euros)

Exposures	2022	2021
Portugal	558,183	575,897

The breakdown of risk-weighted assets with regard to credit risk at the end of 2022 and 2021 was as follows:

(amounts in thousand euros)

2022				
Risk headings	**Original risk position**	**Risk-weighted assets [1]**	**Risk weight [2]**	**Capital Requirement [2]**
Central Authorities or Central Banks	1,026,699	-	0%	-
Regional governments or local authorities	-	-	n.a.	-
Other Credit Institutions	68,142	20,650	30%	1,652
Companies	382,583	373,409	98%	29,873
Retail customers	320,739	230,392	72%	18,431
Loans secured by immovable assets	671,537	239,762	36%	19,181
Non-performing loans	27,499	27,908	101%	2,233
Collective investment undertakings (CIUs)	31,962	31,617	99%	2,529
Shares	14,786	14,786	100%	1,183
Other items	84,669	61,781	73%	4,942
Total	**2,628,616**	**1,000,305**	**38%**	**80,024**

[1] Risk weight: Risk-weighted assets / Original risk position
[2] Pursuant to the CRR, article 438(c).

(amounts in thousand euros)

2021				
Risk headings	**Original risk position**	**Risk-weighted assets [1]**	**Risk weight [2]**	**Capital Requirement [2]**
Central Authorities or Central Banks	927,808	-	0%	-
Regional governments or local authorities	-	-	n.a.	-
Other Credit Institutions	39,521	11,335	29%	907
Companies	324,283	310,799	96%	24,864
Retail customers	628,818	278,689	44%	22,295
Loans secured by immovable assets	610,646	217,819	36%	17,426
Non-performing loans	32,226	32,880	102%	2,630
Collective investment undertakings (CIUs)	24,999	21,145	85%	1,692
Other items	71,645	46,061	64%	3,685
Total	**2,659,946**	**918,728**	**35%**	**73,499**

[1] Risk weight: Risk-weighted assets / Original risk position
[2] Pursuant to the CRR, article 438(c).

Use of External Ratings:

The Banco CTT Group uses the ratings of External Credit Assessment Institutions (ECAI), namely issued by Moody's, S&P, Fitch and DBRS, for exposures to credit institutions with a residual maturity greater than 3 months and for exposure to companies. The Bank thus uses the standard relationship published by the EBA between ECAIs and credit quality levels.

In the determination of the risk weight to be applied in the calculation of RWA, the allocation of the credit assessments of the issuer are as follows:

a) positions in debt securities receive the ratings attributed specifically to these issues;

b) If there are no specific risk ratings for the issues, as referred to in a), the risk ratings attributed to their issuers are considered, if they exist;

c) positions at risk of lending nature that are not represented by debt securities receive only, and when existing, the risk ratings of the issuers.

As at the reporting dates, the Bank had the following exposures:

(amounts in euros)

	2022				2021			
Degree of Credit Quality	Institutions, residual maturity >3m	Companies	Sovereign debt	Central Bank	Institutions, residual maturity >3m	Companies	Sovereign debt	Central Bank
1	-	-	-	-	-	-	-	-
2	5,239	-	206,334	-	11,424	5,632	75,176	-
3	4,701	-	331,578	-	2,350	-	259,568	-
4	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-
No rating	-	-	-	450,250	-	5,246	-	-

Leverage Ratio

The management of leverage risk falls within the adopted capital management strategy and is entrusted to the Board of Directors.

The Leverage Ratio was introduced by the CRR in order to monitor the level of leverage of institutions.

Banco CTT monitors this ratio regularly and ensures its total and continuous compliance in its strategic planning.

As at 31 December 2022, the leverage ratio was 7.0% (31 December 2021: 6.3%), significantly above the minimum benchmark set by the Basel Committee on Banking Supervision (3%), which has become a mandatory compliance requirement since 28 June 2021. The ratio is calculated using Tier 1 Capital.

The exposures used to calculate the leverage ratio, as at 31 December 2022 and 31 December 2021, are presented in the table below:

(amounts in thousand euros)

Summary of the reconciliation of the book value and the exposures of the leverage ratio	2022	2021
Total assets recorded in the financial statements	**3,104,914**	**2,703,986**
Intangible assets deducted from own funds	(75,477)	(77,857)
Adjustment for derivative financial instruments	(16,945)	-
Revaluation reserves	-	(27)
Adjustment for securities financing transactions (SFT)	-	-
Adjustment for off-balance sheet items	38,268	43,351
Other adjustments	6,296	6,812
Prudential adjustments	(428,441)	(16,319)
Total exposure to the leverage ratio - transitional	**2,628,615**	**2,659,946**

(amounts in thousand euros)

Leverage Ratio	2022	2021
Value of positions at risk		
Off-balance sheet exposures pursuant to Article 429(10) of the CRR	38,268	43,351
Other assets pursuant to Article 429(5) of the CRR	2,590,348	2,616,595
Value of the deducted assets - Tier 1 capital - full implemented	(6,296)	(6,812)
Total exposure to the leverage ratio - fully implemented	2,622,320	2,653,134
Total exposure to the leverage ratio - transitional	2,628,616	2,659,946
Capital and regulatory adjustments		
Tier 1 capital - fully phased-in definition	177,514	159,401
Tier 1 capital - transitional definition	184,876	167,112
Leverage ratio - fully implemented tier 1 capital	**6.8%**	**6.0%**
Leverage ratio - transitional tier 1 capital	**7.0%**	**6.3%**

In 2022, the transitional leverage ratio increased by 0.75 percentage points, explained by the variation of Tier 1 Capital from 167,112 thousand euros in 2021 to 184,876 thousand euros in 2022.

Internal Control and Risks

Regulatory Framework

Recognising the vital importance of correct risk management in the pursuit of its activity, the Banco CTT Group seeks to ensure ongoing adaptation to achieve the best compliance with national and international legislation, namely the European, but also with its own internal policies, focusing not only on prevention but also, when necessary, on risk mitigation and prevention of penalties.

The growing importance of banking compliance over the last few years is evident, as ensuring compliance is more than just a good governance practice, but rather a way of standing out in the market, safeguarding its reputation among stakeholders and customers, and shielding the Group's assets, projecting more sustainable growth and generating positive effects, for the Group, for the customers' interests and in preservation of the financial structure's stability as a whole.

Banco CTT's activity is regulated, in Portugal, by Banco de Portugal, the Insurance and Pension Fund Supervision Authority (ASF) and the Securities Market Commission (CMVM), always taking into account the guidelines issued by the international entities, namely the European Bank Authority (EBA) and European Central Bank (BCE).

Bearing these concepts in mind, the Banco CTT Group is especially attentive to the normative/regulatory production, with 2022 having been a year characterised by a challenging legislative environment which seeks to strengthen the transparency of the financial system, the stability of markets and the solidity of institutions, bringing in various national and international changes which are important to highlight.

National Legislation

Covid-19 pandemic – Easing of Measures

First and foremost, the progressive control of the Covid-19 pandemic throughout 2022 enabling the easing of various measures taken in this context, some directly affecting the Banco CTT Group's activity, namely account opening and maintenance. In this regard, we highlight Decree-Law 119-A/2021 of 22 December and Decree-Law 90/2022 of 30 December which, together, enabled extending the validity of various identification documents up to 31 December 2023, as well as Regulatory Decree 4/2022 of 30 September and Law 18/2022 of 25 August, which made changes to the legal system for entrance, permanence, leaving and removal of foreign citizens from national territory, with a view to implementing the Mobility Agreement between the Member States of the Community of Portuguese Language Countries (CPLP).

In turn, Decree-Law 66-A/2022 of 30 September repealed various decrees approved in the context of the Covid-19 pandemic, effective from 1 October 2022, when the state of alert had ended, as well as most of the labour-related measures, with Covid-19 shifting to being treated in a manner similar to that of most other diseases. This was, likewise, done by Council of Ministers Resolution 96/2022 of 24 October concerning its Resolutions approved during the Covid-19 pandemic period.

Family support measures

In the panorama of family support measures, still arising from the inevitable contingencies lingering in the wake of the pandemic, naturally exacerbated by the conflict in Ukraine, we highlight Law 19/2022 of 21 October which, among other matters, establishes an exceptional arrangement, up to 31 December 2023, of redemption of saving plans, without tax penalisation, up to the monthly limit of the value of the Social Support Indexer (IAS) and determines the unseizability of family support.

In the same spirit, reference is made to the publication of Decree-Law 80-A/2022 of 25 November, which implements measures aimed at mitigating the effects of the increase of the index reference rates of loan contracts for acquisition or construction of the borrower's permanent own residence, up to 31 December 2023, in particular the temporary suspension of the requirement of an early repayment fee and the tasking of institutions to ascertain and propose, to customers showing a deterioration of their financial standing, appropriate measure to mitigate the impact of that deterioration, which may include proposing an extension of the loan contract's repayment period with the option of take-back of the contractualised period before that extension.

Measures related to equal access of disabled persons

Seeking to harmonise the requirements applicable to certain products and services, and giving voice to Directive (EU) 2019/882, Decree-Law 82/2022 was published on 6 December, for the core purpose of assuring that appropriate measures will be taken to ensure that disabled persons have access, under conditions of equality with all the others, to the physical environment, to transport, information and communications, including technologies and information and communication systems, and to other facilities and services open or provided to the public, both in urban and rural areas, making products (namely payment terminals (EFTPOS) and automatic teller machines (ATM)) and services (namely banking services for consumers) more accessible to companies, disabled persons and persons with functional impairment.

Banking Operative

Particularly important in banking operative is the publication and entry into force of the awaited Law 23-A/2022 of 9 December, which transposes Directive (EU) 2019/878, regarding access to banking activity and prudential supervision (known as CRD V) and Directive (EU) 2019/879, regarding the loss-absorbing and recapitalisation capacity of credit institutions and investment firms (known as BRRD II), amending the General Regime of Credit Institutions and Financial Companies (RGICSF), the Securities Code (CVM) and related legislation. This legislation entails important changes in the banking sector.

Concerning the approval of the State Budget for 2023, by Law 24-D/2022 of 30 December, special reference is made to the innovative creation of a new arrangement for taxation of crypto assets, affecting both individual investors and institutions; the forecast voluntary reduction of withholdings at source for holders of mortgage loans; and the simplified granting and renewal of residence permits. All these matters, once again, follow the evolution of reality, reflecting the economic and financial circumstances currently being experienced.

Banco de Portugal and EBA – European Central Bank

Banking Operative

It is important to realise that, under its macroprudential and regulatory policy, Banco de Portugal promoted the provision of digital mechanisms, manifest in and illustrated by Circular Letter 2022/24 on the use of BPnet in the communications exchanged concerning the supervision of entities providing credit intermediation and consulting services related to loan contracts.

At the geopolitical moment that is current being experienced, in which cybersecurity is increasingly important, on a daily basis, for any organisational structure underpinned by digital interaction, Circular Letter 2022/4 should be highlighted due to its recommendations issued on cybersecurity and operational resilience, with a view to ensuring appropriate operational risk management by financial institutions on matters of cybersecurity, stressing the need for all supervised institutions to have solid internal governance structures and adequate monitoring processes for the risks to which they are exposed, or may be exposed in the future, including cybernetic, and listing a series of requirements that institutions should meet in order to ensure operational resilience.

Reviewing the regulatory framework applicable to money laundering and the financing of terrorism, and after public consultation, Banco de Portugal Notice 1/2022 of 6 June (repealing and replacing Notice 2/2018 of 26 September and Instruction 2/2021 of 26 February and regulating Law 83/2017 of 18 August and Law 97/2017 of 23 August), determined the necessary aspects to ensure compliance with the preventive duties on money laundering and the financing of terrorism, in the context of the activities of financial entities subject to supervision by Banco de Portugal.

In the drive towards anti-money laundering and countering the financing of terrorism, it is crucial to highlight the Guidelines in EBA/GL/2022/05 of 14 June, applicable from 1 December 2022, on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer under Article 8 and Chapter VI of Directive (EU) 2015/849.

In 2022, there was also the significant number of 12 public consultations raised by the sector's regulator, Banco de Portugal, in a clear manifestation of its involvement and interest in Portuguese banking regulation, among which the following, that were closely followed: Public consultation 1/2022 (Notice on anti-money laundering and countering the financing of terrorism); Public consultation 5/2022 (Draft Instruction on the Regulatory Framework applicable to Payment Institutions and Electronic Currency Institutions); Public consultation 6/2022 (Draft Instruction on Information Disclosure regarding loan contracts); and Public consultation 7/2022 (Draft notice on matters of anti-money laundering and countering the financing of terrorism, applicable to entities pursuing activities with virtual assets).

Insurance and Pension Fund Supervision Authority (ASF)

Insurance Activity

On 7 June, the Insurance and Pension Fund Supervision Authority (ASF) issued Regulatory Standard 6/2022-R on Security and governance of information and communication technologies and outsourcing to providers of services through cloud computing.

Internal Control System

Objectives

The Group's Internal Control System (ICS) is based on the set of strategies, policies, processes, systems and procedures whose associated controls aim to ensure the sustainability of the Bank and its subsidiaries in the medium and long term, as well as the prudent exercise of their activity, through the objectives illustrated in the following figure:

Objectives

Performance and Operational

- Fulfilment of the objectives defined in the strategic plan;
- Efficient execution of operations;
- Efficient use of resources;
- Safeguarding of assets;
- Identification, assessment, monitoring and control of the risks.

Information and Reporting

- Existence of complete, pertinent, reliable and timely **financial** and **non-financial** information;
- Adoption of solid accounting procedures.

Compliance

- Observance of the legal and regulatory provisions and guidelines applicable to the activity;
- Compliance with the internal regulations;
- Observance of the professional and deontological standards and practices, Code of Conduct and other customer relationship rules.

Governance Model

The composition of the governance model of the Group's Internal Control System is summarized in the following figure:

Board of Directors		Ensures the independence and autonomy of the internal control functions (Risk, Compliance and Audit) and that they have the necessary status to significantly influence the Group's analytical and decision-making process.
Audit Committee		Direct reporting lines with the internal control functions so as to ensure regular access to the information required for performance of their supervisory responsibilities.
Remuneration Commitee		Monitors the evolution of the detected internal control flaws, ensuring follow-up of the evolution of the defined Action Plans.
Internal Control Committee		Monitors the evolution of the detected internal control flaws, ensuring follow-up of the evolution of the defined Action Plans.
Internal Audit	3rd line of defence	Ensures that all the other functions within the institution operate as expected. Should perform its duties in an fully independent manner.
Risk and Compliance	2nd line of defence	Develop the policies and methods for risk management. Should have a significant intervention in analysis and decision-making on risk-taking and in the definition of the institution's risk profile. Carry out actions to assess the efficacy of the 1st line controls.
Other Areas Process Owners	1st line of defence	The business lines expose the Bank to a series of risks on a daily basis, where the process owners are entrusted with defending the institution from unintended risk-taking, implementing the defined controls and procedures, and reporting any detected failures to the 2nd line of defence.

The **Board of Directors** is primarily responsible for the Group's internal control system and for ensuring its implementation, robustness and efficacy, in compliance with internal and external regulations on the matter. The Board of Directors is also responsible for monitoring the management information regarding Internal Control shortcomings, analysing the internal control system's assessment report and issuing an overall opinion on the adequacy and effectiveness of the internal control system.

The **Audit Committee** is responsible for the monitoring and constructive critique of the Group's strategy, and should appraise and constructively influence the control functions, namely with respect to its annual activities plan, assuring the Board of Directors that the persons responsible for the internal control functions have the necessary conditions to act with independence, by providing an appropriate endowment of human and material resources for them to be able to perform their duties in an effective manner.

The **Remuneration Committee** has responsibilities for assessing and supervising the remuneration policies and practices of all employees, including members of the Corporate Bodies, as detailed in chapter D - 'Remuneration' of the Corporate Governance Report.

The Bank´s **Internal Control Committee**, composed of all members of the Bank's Executive Committee, is the body responsible for defining the criteria and implementation of the non-financial risk management instruments and for the monitoring and continuous assessment of the efficacy of the internal control system, namely by following-up on any detected flaws. The Committee held 10 meetings in 2022.

On the other hand, the governance model of the Group's internal control system is based on a three line of defence approach, which comprises:

A **first line of defence**, entrusted with risk and control management, composed of the Retail Network — with front office duties responsible for carrying out level one controls — and the Operations Department (with back-office duties responsible for a second check ("4-eyes check") of most processes that are essentially initiated by the Retail Network.

A **second line of defence**, entrusted with monitoring risk, advising and supporting the first line of defence in identifying risks and controls. The second line of defence consists of Compliance and Risk, responsible for the monitoring process, carrying out periodic tests on the effectiveness of the first-line controls, as well as the areas of Planning and Control, Security and Data Protection, Legal Services and Human Resources.

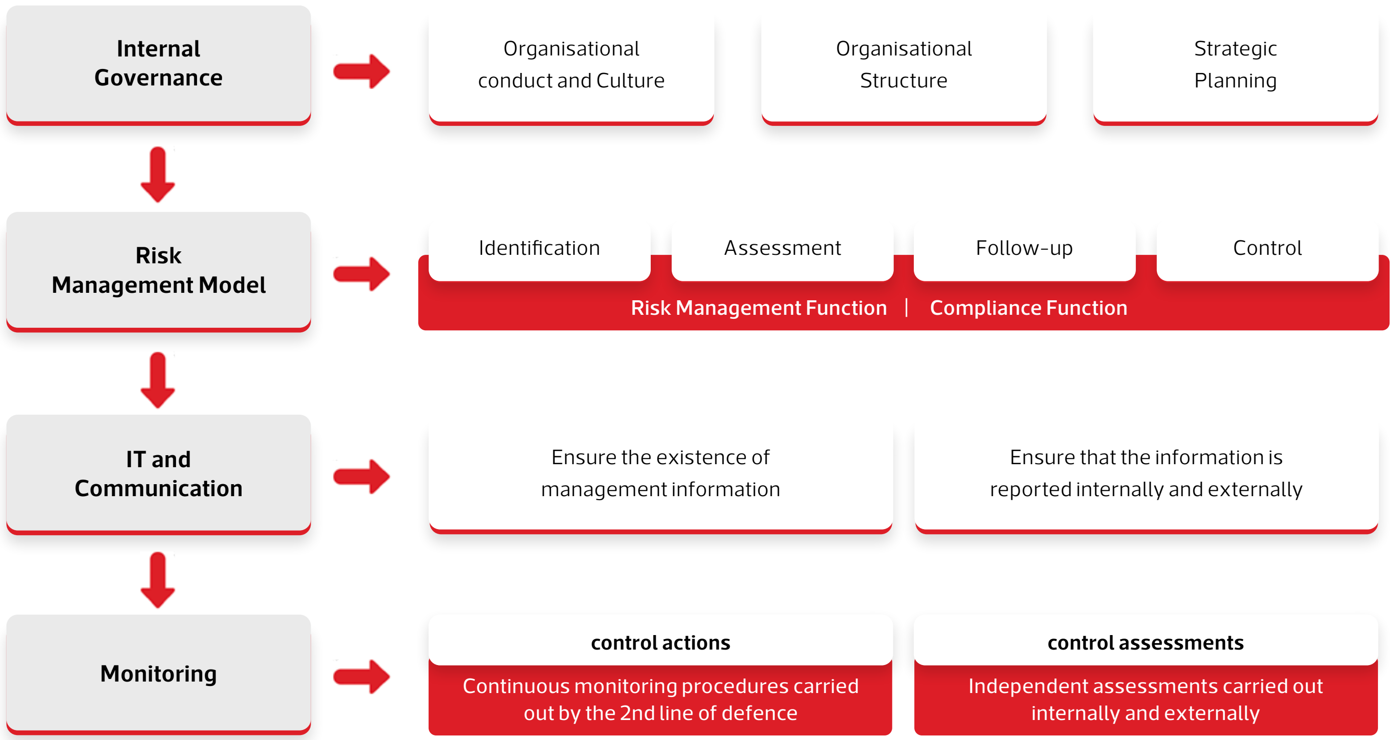
A **third line of defence**, ensured by Internal Audit, which is responsible for independently examining and assessing the adequacy and effectiveness of policies, processes and procedures that support the internal control system, namely by carrying out effectiveness tests on implemented controls.

Framework

The Group's internal control framework is based on four main components:

- Internal Governance
- Risk Management System
- Information and Communication System
- Monitoring

The following figure summarises these components of the internal control system adopted by the Group, which are described in greater detail below:



Internal Governance

In the development of its organisational culture, the Group implements clear risk management and internal control methodologies that aim, among others, to ensure a robust control environment involving and holding all employees accountable. The Management and Supervisory Bodies have a fundamental role in creating the conditions for the development of an effective control environment that allows the Group to achieve its objectives, essentially through the commitment to integrity and ethical values reflected in the Code of Conduct, and their behaviour should serve as an example for all employees ("lead by example") and the exercise of supervision, accountability and authority in the management and monitoring of risk management and internal control, formalised in the strategy, objectives, policies, processes and day-to-day action and deliberation.

On the other hand, the Group's Organisational Structure, which is defined in an integrated, objective, transparent and perceptible manner in the organisation and structure manual, supports the development of the Group's activity and the

implementation of its internal control system, ensuring that the management and control of operations are carried out in a prudent manner.

The Group's organisational structure is based on a coherent, clear and objective definition of the lines of reporting and authority, of the powers and responsibilities of each body, structure unit and function, as well as the degree and scope of cooperation between them and includes an adequate segregation of duties, ensuring that any situations of potential conflict of interest are identified in advance, minimised and subject to careful and independent monitoring and is based on a sufficient number of members of the top management and middle management, as well as other employees, to carry out the defined responsibilities and duties.

Strategic planning is performed on the basis of well-founded assumptions, which are subject to sensitivity analyses and on reliable and understandable information, ensuring its timely adaptation in case of significant changes in assumptions, the definition of precise, clear and sustainable objectives for the Group's activity, covering its main products, activities, systems and processes, the determination of Risk Management Policies and the establishment of guidelines that support the development of the Group's internal control system.

Risk Management Model

The risk management model outlined by the Group is supported by a set of policies, procedures and appropriate risk tolerance limits, clearly defined and approved, which are periodically reviewed in compliance with the respective regulatory framework.

The risk management model includes four essential steps, namely: risk strategy definition, risk identification and assessment, risk response, and risk monitoring, control and reporting, as illustrated in the figure below:

On this issue, it is important to note that, in 2022, a review was conducted of the risk taxonomy and the model for classification of flaws endorsed by the Group, implemented in light of the provisions in Annexes I and II of Banco de Portugal Instruction 18/2020, with a view to the following main changes:

- introduction of the Climate, environmental and social risks component in the Risk Taxonomy;
- clarification of the definitions of the different risk categories and subcategories;
- review of the matrix of probability and impact in risk assessment;
- review of the Model for classification of flaws, arising from the practical experience of its application by the Control Functions (Internal Audit, Risk and Compliance) to the flaws detected during the period, which enabled identifying opportunities for improvement.

Additionally, it is particularly important that the Group's risk management system covers all its products, activities, processes and systems and integrates the provisions of recovery plans, incorporating policies and procedures aimed at ensuring the timely recovery of situations of financial imbalance of the Group, as well as the provisions of other processes and policies related to risk management.

<u>**Information and Communication System**</u>

The Group ensures the implementation of mechanisms to collect, produce and process information to support management, decision-making and compliance with obligations to supervisory bodies.

The Group's information and communication is governed by the principles of substance, timeliness, comprehensibility, consistency, punctuality and reliability and ensures a complete and integral vision of its financial situation, the development of its activities, the execution of its strategy and the fulfilment of the objectives defined, its overall risk profile, and the behaviour, evolution and risk profile of the market in which the Bank and its subsidiaries operate. With regard to communication, the Group has formal, transparent, relevant processes which are adjusted to its needs, ensuring effective communication throughout the organisation and facilitating the decision-making process. In this regard, and in compliance with the provisions in Articles 29 and 30 of Notice 3/2020, the Group promoted the conduct of an independent assessment, by an external entity, of the adequacy of the implemented processes for obtaining, production and processing of information, the associated control mechanisms and the compliance of the information flows, which gave rise to a series of recommendations that will be considered by the Group, with a view to alignment with the requirements in this notice.

Within the scope of the risk management processes and resulting from the internal control system, several reports are made with different responsible persons, categories and periodicities. These include current reports, which should be prepared by the Risk and Compliance Departments based on the monitoring of risks and risk events, and cyclical reports, which are drawn up by the different structure bodies with a predefined frequency, as part of their specific activities and procedures under the aegis of risk management and internal control.

Indeed, in the context of internal control, in compliance with Article 5 of Banco de Portugal Instruction 18/2020, since 2021, the Group has sent Banco de Portugal, by the end of December of each year, its annual self-assessment report, provided for in Article 4, as well as an individual report for the Bank and each of its subsidiaries covered by Banco de Portugal Notice 3/2020. In 2022, this report was drafted, and submitted to Banco de Portugal in December.

<u>**Monitoring**</u>

The Group's internal control includes a set of processes whose main goal is to ensure the effectiveness and/or efficiency of the implemented controls. In this sense, the internal control system establishes the use of controls as a means to mitigate risk or to mitigate the occurrence of certain risk events whose impact could jeopardise the Group's activity, especially in the case of those that are above the defined risk appetite.

In order to operationalise the internal control model, procedures were defined to promote efficient and effective management of the internal control system, which enhances the ability of the Bank and its subsidiaries to achieve objectives and adapt to operational and business changes. This methodology also defines the procedures to be followed by the various areas in the identification and management of internal control deficiencies, as well as the monitoring of the respective Action Plans by the control areas and the performance of the Compliance function in the systematisation of information, in order to ensure the effectiveness of the internal control system.

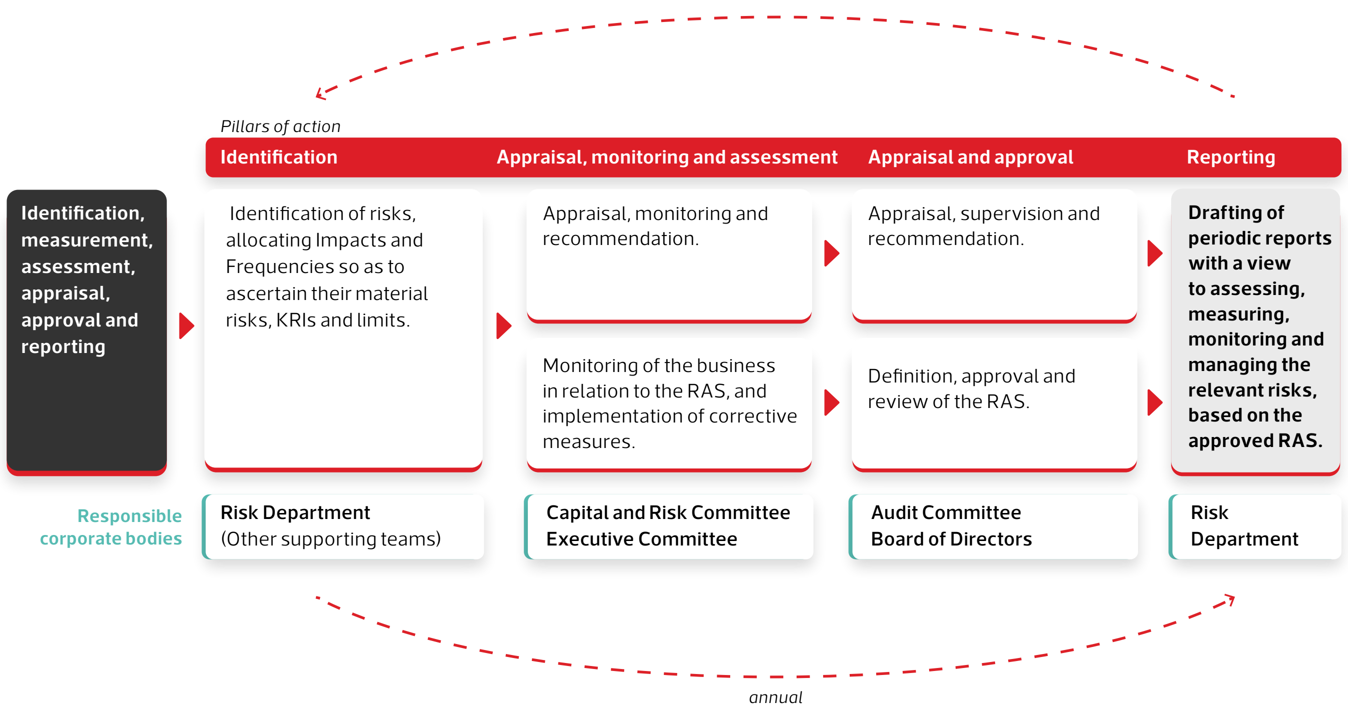
The information that results from the continuous monitoring of the Internal Control System is materialised in the deficiencies resulting from the internal control system, which, particularly those with a material impact on the Bank and its subsidiaries, are recorded, documented and communicated to senior management, ensuring their effective treatment and the timely implementation of immediate corrective measures. In this regard, special reference is made to the framework of the internal control system, with a view to the introduction of deadlines for resolving flaws according to their classification.

Risk Management

The risk management system is part of the Group's internal control system (SCI), creating an appropriate control environment in which the Group carries out its activities, within the limits of its Risk Appetite Statement (RAS).

The risk management system delineated by the Banco CTT Group is based on a number of concepts, principles and rules, and on an applicable organisational model adjusted to Group, respecting its regulatory framework. The risk management model entails the following pillars of action: identification, assessment, appraisal, monitoring, assessment, appraisal and approval, and reporting of risks.

Risk Management Model



In carrying out its activity, the Group is exposed to various types of risk arising from both external and internal factors, mainly depending on the characteristics of the market in which it operates.

The risk strategy is reviewed annually and defines the qualitative principles, rules and the quantitative rules and limits for the management of the different risks arising from the Group's activity. These are formalised in its RAS, presenting the risk appetite framework for the business growth of the Banco CTT Group in the next 3 years of activity.

The Group's risk management and internal control policy aims to maintain an adequate relationship between its own funds and the activity developed, as well as the corresponding risk profile assessment / return by line of business.

The risk management policy also seeks to support the decision-making process, thereby enhancing the Group's short and long-term capability to manage the risks to which it is exposed and enabling clear communication on how business risk should be managed, in order to create the basis for a solid operational environment.

In this context, it is important to monitor and control the main types of risks faced by the Group's activity.

The monitoring and management of risk in each area is based on the risk profile defined annually, in order to ensure that the pre-defined levels of risk appetite are complied with during the Group's activity.

In defining risk management processes, the Group adopts tools and methods that enable it to identify, assess, monitor and report risk both from an individual standpoint and in an integrated perspective. This ensures a comprehensive vision of the risks to which the Group is exposed, and an early understanding and appraisal of the potential impact these risks may have on the institution's solvency and liquidity.

Governance of Risk Management

The Board of Directors is responsible for defining and maintaining the Risk Policy, including the approval of its principles at the highest level, ensuring its compliance with the risk management model in force. The Board of Directors is also responsible for defining the Group's strategic orientation and the acceptable risk levels, ensuring that the business is conducted according to the instituted risk policy and that the material risks to which the Group is exposed stay at the predefined level.

The Audit Committee of Banco CTT, as a supervisory body, is responsible for overseeing the efficacy of the risk management system, the internal control system and internal audit system by way of internal audit duties and the External Auditor. It also acts as the risk committee, under the terms of and for the purposes established in Article 115-L of the RGICSF. The Audit Committee is responsible for assisting the Board of Directors in supervising the execution of the Bank's risk strategy by the Executive Committee. It also advises on risk appetite by presenting a corrective plan to the Board of Directors, whenever necessary, accessing information on the Bank's risk situation and, if necessary, accessing the risk management function and external expert advisers.

In order to make the control and preparation of the strategic decisions of the Board of Directors more efficient, the Executive Committee set up support committees for the Executive Board (Capital and Risk Committee and the Internal Control Committee), whose meetings are held on a recurring basis for the purpose of monitoring risks that, in line with the decisions of the Board of Directors, play an important role in the area of management and control of financial and non-financial risks.

These Committees are responsible for the definition and execution of the risk management criteria and instruments, capital allocation, liquidity management, management of non-financial risks, continuous monitoring and assessment of the efficacy of the internal control system, namely by monitoring the detected flaws and events, as well as by monitoring the risks, with a view to supporting the Executive Committee on the related issues.

Risk management duties are operationally centralised in the Risk Department and are independent from the business units, consistently incorporating the concepts of risk and capital in the Group's business strategy and decisions.

The Risk Department is responsible for implementing the risk policies set out by the Board of Directors and ensuring the integrated management of risks to which the Group is or may become exposed, ensuring these are managed appropriately by the Group's various Departments within the established limitations. In addition, the Risk Department identifies and assesses risks, develops methods and metrics for risk measurement and monitors and controls the evolution of risk, while defining effective and adequate controls for the mitigation of risk. It is also responsible for reporting the relevant risks, preparing periodic and timely reports that enable a reliable assessment of risk exposure and identifying the implemented control procedures to manage these risks, supporting the decision-making process in the risk management area of the Group.

The main responsibility of the Compliance Department is to manage compliance and reputational risk.

This department independently promotes and controls the adoption of the best banking practices by all the Group's bodies and employees. It also ensures they comply with the ethical principles and internal and external standards that govern the Bank's activity not only to avoid any monetary or reputational losses that may arise from a breach thereof, but also to contribute to customer satisfaction and the long-term sustainability of the business.

In addition, the Compliance Department prevents the Group's involvement in criminal money laundering and the financing of terrorism, by monitoring the customer acceptance policy

and the transactions performed by the customers, always notifying the competent authorities whenever there is cause for suspicion.

Internal audit duties are carried out by the Internal Audit Department. This department is integral part of the process of monitoring the internal control system, carrying out autonomous supplementary assessments of the controls made and identifying possible shortcomings and recommendations. All of this is documented and reported to the management body, thereby protecting the institution's value, its reputation and solvency.

The three control functions (Risk Management, Compliance and Internal Audit) perform their functions in a transversal manner to the different entities of the Banco CTT Group.

Credit Risk

Credit risk is related to the degree of uncertainty of attaining the expected returns as a result of the inability either of the borrower (and guarantors, if any) or of the issuer of a security or of the counterparty to an agreement to fulfils their obligations.

As the Group's main activity is commercial banking, with special emphasis on the retail segment, the Bank offers simple credit products - mortgage loans and overdraft facilities associated with a current account with payment/pension domiciliation, credit cards through the Universo Partnership and specialised credit at the point of sale through the activity of 321 Crédito.

Furthermore, the Group is also currently exposed to credit risk from other activities, namely its direct exposure to credit risk from investments and deposits in other credit institutions, eurozone public debt securities, debt instruments from other issuers (credit institutions and companies), investment funds and other portfolios of 321 Crédito that are essentially at a run-off stage.

The control and mitigation of credit risk is carried out through the early detection of signs of portfolio deterioration, mainly through early warning systems and the pursuit of appropriate actions to prevent risk of default, the remedying of actual default and the creation of conditions that maximise recovery results.

The Group considers that there is a concentration of risk when various counterparts are located in a common geographic region, develop activities or have economic features that are similar which affect their capacity to comply with contractual obligations in the event of significant changes in macroeconomic conditions or other relevant changes for the activities carried out by the counterparts. Banco CTT has defined and implemented limits of concentration to mitigate this risk.

The analysis of risk concentration is essentially based on geographic concentration and concentration in the economic sector in which the counterparts operate.

The exposure subject to credit risk by country and risk class are detailed in this section, portraying the increased geographic diversification of the Group's investments.

The activities developed by the counterparts show some level of concentration in investment in public debt instruments, namely in eurozone countries. However, this concentration is in accordance with the Group's policy on risk appetite and is part of the liquidity risk management performed by the Group.

Credit risk is quantified/measured on a monthly basis by assessing the impairments required to cover customer credit, resulting from the application of the collective and individual impairment model.

The Capital and Risk Committee, Audit Committee and Board of Directors regularly monitor the Group's credit risk profile, in particular with respect to the evolution of credit exposures and monitoring losses. Compliance with approved credit requirements and limits are also subject to review on a regular basis.

The following table presents information on the Group's exposures to credit risk (net of impairment and including off-balance sheet exposures) as at 31 December 2022 and 31 December 2021:

(amounts in thousand euros)

	2022	2021
Central Authorities or Central Banks	1,026,811	927,784
Regional governments or local authorities	-	-
Credit institutions	68,143	39,520
Companies	399,764	322,646
Retail customers	324,204	627,393
Loans secured by immovable assets	672,247	610,488
Non-performing loans	47,780	27,808
Collective investment undertakings (CIUs)	31,962	24,999
Shares	14,786	-
Other items	84,669	71,645
Risk Headings	**2,670,366**	**2,652,283**

The Banco CTT Group, according to its national matrix, predominantly has exposures to credit risk in Portugal. At the reference date, it presented the following exposures per country:

(amounts in thousand euros)

2022	Central Authorities or Central Banks	Regional governments or local authorities	Credit institutions	Companies	Retail customers	Loans secured by immovable assets	Non-performing loans	Collective investment undertakings (CIUs)	Shares	Other Items	Total
Portugal	710,594	-	46,441	399,764	324,204	672,247	47,780	31,962	14,786	84,669	2,332,447
Spain	106,438	-	-	-	-	-	-	-	-	-	106,438
France	99,896	-	18,790	-	-	-	-	-	-	-	118,686
Italy	109,883	-	-	-	-	-	-	-	-	-	109,883
United Kingdom	-	-	2,912	-	-	-	-	-	-	-	2,912
Total	**1,026,811**	**-**	**68,143**	**399,764**	**324,204**	**672,247**	**47,780**	**31,962**	**14,786**	**84,669**	**2,670,366**

(amounts in thousand euros)

2021	Central Authorities or Central Banks	Regional governments or local authorities	Credit institutions	Companies	Retail customers	Loans secured by immovable assets	Non-performing loans	Collective investment undertakings (CIUs)	Shares	Other Items	Total
Portugal	779,478	-	34,929	322,646	627,393	610,488	27,808	24,999	-	71,645	2,499,386
Spain	75,163	-	-	-	-	-	-	-	-	-	75,163
France	-	-	1	-	-	-	-	-	-	-	1
Italy	73,143	-	-	-	-	-	-	-	-	-	73,143
United Kingdom	-	-	4,590	-	-	-	-	-	-	-	4,590
Total	**927,784**	**-**	**39,520**	**322,646**	**627,393**	**610,488**	**27,808**	**24,999**	**-**	**71,645**	**2,652,283**

At the end of 2022 and 2021, the gross exposures by sector of activity were as follows:

(amounts in thousand euros)

2022	Companies		SME		Individuals	
	Performing Loans	*Non Performing Loans*	*Performing Loans*	*Non Performing Loans*	*Performing Loans*	*Non Performing Loans*
Companies						
Construction	376	88	12,085	637	-	-
Wholesale/retail trade, rep. of autom., motorc., personal and domestic goods	1,067	90	9,643	400	-	-
Transport, storage and communications	457	5	7,306	389	-	-
Accommodation and catering (restaurants and similar)	177	-	5,194	248	-	-
Real estate activities	213	-	1,609	63	-	-
Textile industry	32	-	2,982	248	-	-
Agriculture, animal husbandry, hunting, forestry and fisheries	16	-	193	115	-	-
Health and social welfare	66	-	981	-	-	-
Education	26	-	753	13	-	-
Unspecified manufacturing industries	46	10	1,116	6	-	-
Heavy metalworking industries and metal products	16	-	1,442	50	-	-
Paper pulp, cardboard, publishing and printing industries	19	-	208	-	-	-
Food, beverage and tobacco industries	-	3	1,314	62	-	-
Electricity, water and gas production and distribution	-	-	76	-	-	-
Leather and leather product industry	24	-	5,637	170	-	-
Mining industries except for energy products	-	-	2	-	-	-
Financial intermediation auxiliary activities	9	-	244	35	-	-
Work, cork and derived work industries	50	-	487	19	-	-
Manufacture of other non-metallic mineral products	-	-	172	-	-	-
Manufacture of electrical and optical equipment	-	-	4	-	-	-
Manufacture of machinery and equipment	-	-	188	29	-	-
Manufacture of rubber articles and plastics	-	-	162	11	-	-
Manufacture of transport material	-	-	12	-	-	-
Financial intermediation excluding insurance and pension funds	23,948	-	-	-	-	-
Manufacture of chemical products and synthetic or artificial fibres	-	-	180	17	-	-
Public administration, defence and mandatory social security:	-	-	96	-	-	-
Others	1,036	5	15,775	744	-	-
Individuals						
Housing/Mortgage	-	-	-	-	659,543	-
Consumer	-	-	-	-	692,095	31,906
Credit cards	-	-	-	-	314,747	59,066
	27,578	**201**	**67,861**	**3,256**	**1,666,385**	**90,972**

(amounts in thousand euros)

2021	Companies		SME		Individuals	
	Performing Loans	*Non Performing Loans*	*Performing Loans*	*Non Performing Loans*	*Performing Loans*	*Non Performing Loans*
Companies						
Construction	470	102	7,931	637	-	-
Wholesale/retail trade, rep. of autom., motorc., personal and domestic goods	1,314	1,578	7,917	400	-	-
Transport, storage and communications	537	14	3,707	119	-	-
Accommodation and catering (restaurants and similar)	196	-	3,434	211	-	-
Real estate activities	86	-	1,500	16	-	-
Textile industry	28	-	2,266	278	-	-
Agriculture, animal husbandry, hunting, forestry and fisheries	21	-	438	53	-	-
Health and social welfare	78	-	939	-	-	-
Education	31	-	667	14	-	-
Unspecified manufacturing industries	49	-	723	21	-	-
Heavy metalworking industries and metal products	10	-	1,062	51	-	-
Paper pulp, cardboard, publishing and printing industries	25	-	391	-	-	-
Food, beverage and tobacco industries	3	-	937	70	-	-
Electricity, water and gas production and distribution	-	-	124	-	-	-
Leather and leather product industry	26	-	1,510	59	-	-
Mining industries except for energy products	-	-	10	-	-	-
Financial intermediation auxiliary activities	11	-	318	3	-	-
Work, cork and derived work industries	19	-	348	21	-	-
Manufacture of other non-metallic mineral products	-	-	165	-	-	-
Manufacture of electrical and optical equipment	-	-	6	-	-	-
Manufacture of machinery and equipment	-	-	249	-	-	-
Manufacture of rubber articles and plastics	-	-	78	-	-	-
Manufacture of transport material	-	-	28	-	-	-
Financial intermediation excluding insurance and pension funds	41,165	-	-	-	-	-
Manufacture of chemical products and synthetic or artificial fibres	-	-	43	18	-	-
Public administration, defence and mandatory social security:	-	-	3	-	-	-
Others	8,933	965	16,448	638	-	-
Individuals						
Housing/Mortgage	-	-	-	-	595,420	-
Consumer	-	-	-	-	596,430	28,906
Credit cards	-	-	-	-	262,587	36,129
	53,002	**2,659**	**51,242**	**2,659**	**1,454,437**	**65,035**

At the reference dates, the Bank's exposures had the following maturity profile:

(amounts in thousand euros)

2022	Central Authorities or Central Banks	Regional governments or local authorities	Credit institutions	Companies	Retail customers	Loans secured by immovable assets	Non-performing loans	Collective investment undertakings (CIUs)	Shares	Other Items	Total
Up to 1 year	605,484	-	68,143	232,758	318,445	-	-	-	-	-	1,224,830
1 to 5 years	97,104	-	-	-	-	-	-	-	-	-	97,104
More than 5 years	324,223	-	-	149,891	-	656,852	-	-	-	-	1,130,966
Undetermined *	-	-	-	17,115	5,759	15,395	47,780	31,962	14,786	84,669	217,466
Total	**1,026,811**	**-**	**68,143**	**399,764**	**324,204**	**672,247**	**47,780**	**31,962**	**14,786**	**84,669**	**2,670,366**

(*) Off-balance sheet exposures were considered in the Undetermined maturity category.

(amounts in thousand euros)

2021	Central Authorities or Central Banks	Regional governments or local authorities	Credit institutions	Companies	Retail customers	Loans secured by immovable assets	Non-performing loans	Collective investment undertakings (CIUs)	Shares	Other Items	Total
Up to 1 year	629,401	-	39,520	298,161	619,990	-	-	-	-	-	1,587,072
1 to 5 years	98,503	-	-	4,882	-	-	-	-	-	-	103,385
More than 5 years	199,880	-	-	-	-	594,144	-	-	-	-	794,024
Undetermined *	-	-	-	19,603	7,403	16,344	27,808	24,999	-	71,645	167,802
Total	**927,784**	**-**	**39,520**	**322,646**	**627,393**	**610,488**	**27,808**	**24,999**	**-**	**71,645**	**2,652,283**

(*) Off-balance sheet exposures were considered in the Undetermined maturity category.

Impairment Model

During the year 2022, the Group used an impairment model based on IFRS 9 requirements and the respective benchmark criteria of Banco de Portugal defined in Circular Letter 62/2018. Moreover, the model also takes into account definitions and criteria that that have been published by the EBA.

The recognition of impairment should be based on historical information. However, due to the absence of historical data for some segments, namely Mortgage Loans and Credit Cards, the Group bases its calculations on benchmarks of PD (Probability of Default, only for Mortgage Loans) and LGD (Loss given default) of other national banks or rating agencies. Nevertheless, when existing, historical data are used in the estimates of the model parameters.

The use of benchmarks has some pertinent implications:

- Banco CTT assumes that the data obtained at portfolio level for conversion of the parameters by stage of impairment assume distributions that it considers to be its expected mature portfolio;
- Potential particularities of Banco CTT, negative or positive, are not captured by these benchmarks;
- Banco CTT transforms annual PD and LGD into Lifetime Expected Losses using a survival rate methodology. The PD for each period of the instrument's life is multiplied by the Loss Given Default (LGD), which in turn is a function of the expected exposure in each period and the collateral existing in the operation. Finally, the Bank updates the expected value of all the periods considered.

For portfolios with a historical profile that enable the use of more sophisticated statistical models, in particular Car Credit and Credit Card, the portfolio is segmented by financial product and by purpose, being subsequently subdivided into operations with (asset-backed) and without associated collateral. A new segmenting, based on the various criteria presented in Circular Letter 2018/00000062, enable a division by stage which, in turn, can be subdivided into intervals of days in arrears – risk classes – into intervals of 30 days, from 0 to 90 days in arrears.

The main inputs used for the measurement of expected credit losses on a collective basis, obtained through internal models, and other relevant historical data, taking into account existing models adapted to the requirements of IFRS 9, include the following variables:

- Probability of Default (PD):

Probability of default represents the risk associated to the default of a particular operation throughout a particular time horizon. This parameter is used directly for the calculation of the expected credit loss (ECL) of operations in Stages 1 and 2, where, pursuant to IFRS 9, the period considered for calculation of the PD varies according to the Stage. Thus, for Stage 1, the period of 12 months, or the estimated maturity if lower, should be considered, and for Stage 2 the useful life of the operation should be considered. The dataset for calculation of PDs is composed of all the contracts of the risk class that, in the first observation of the selected interval, are in a regular situation. The calculation is made in terms of number of occurrences, per period, and by vintage in order to follow the macroeconomic indicators.

- Loss Given Default (LGD):

Loss given default represents the estimated loss of a particular operation after entry into default. This parameter is used directly for calculation of the expected losses of operations in Stage 1,2 or 3. LGD can incorporate two components:

◊ Collateral LGD, which estimates recoveries via foreclosure on collateral;

◊ Cash LGD, which estimates recoveries via other means (e.g. payments made by the debtor).

- Exposure at Default (EAD):

EAD represents the expected exposure in the event that the exposer and/or customer enters into default. The Group obtains the EAD values based on the current exposure of the counterparty and includes the loans that have not yet fallen due, periodic calculation of interest, overdue interest not annulled and overdue loans.

In calculating impairment, the Group considers the following main segments:

Financial Assets	Retail Offer	Mortgage Credit	Consists of the Bank's Mortgage loans lending offer which has residential real estate property as collateral, regardless of the degree of completion of its construction.
		Overdraft	Includes the Bank's overdraft facilities and credit overrunning.
		Auto Loans	Includes the offer of used motor vehicle credit with reservation of ownership of 321 Crédito.
		Credit Cards	Includes the Universo Credit Card offer
	Sovereign debt		Eurozone public debt securities and exposures obtained through the credit assignment contract.
	Corporate		Deposits and investments in other credit institutions, other financing granted to other credit institutions and corporate debt securities.
	Other		Various legacy portfolios of 321 Crédito in run-off phase.

For segments whose lack of history implied the use of benchmarks, the reference parameters considered to calculate impairment in the various stages were, at the reference dates, the following:

		2022			2021			
		Mortgage Credit		Overdrafts	Mortgage Credit		Overdrafts	Credit Cards
Stage	*Substage*	PD	LGD	LGD	PD	LGD	LGD	LGD
1	*Performing*	0.4%	31.9%	59.2%	0.4%	31.9%	65.5%	45.0%
2	With indications	1.1%	31.9%	59.2%	1.1%	31.9%	65.5%	45.0%
	31-60 days	30.0%	31.9%	59.2%	30.0%	31.9%	65.5%	45.0%
	61-90 days	65.0%	31.9%	59.2%	65.0%	31.9%	65.5%	45.0%
Non-default average PD		0.6%			0.63%			
3	*Default*	100.0%	31.9%	59.2%	100.0%	31.9%	65.5%	45.0%

Rating	Expected Loss			
	2022		2021	
	Corporate	Sovereign debt	*Corporate*	Sovereign debt
AAA	0.030%	0.015%	0.030%	0.015%
AA+	0.035%	0.018%	0.035%	0.018%
AA	0.040%	0.020%	0.040%	0.020%
AA-	0.043%	0.022%	0.047%	0.023%
A+	0.047%	0.023%	0.053%	0.027%
A	0.050%	0.025%	0.060%	0.030%
A-	0.090%	0.045%	0.100%	0.050%
BBB+	0.130%	0.065%	0.140%	0.070%
BBB	0.170%	0.085%	0.180%	0.090%
BBB-	0.333%	0.183%	0.350%	0.193%
BB+	0.497%	0.282%	0.520%	0.297%
BB	0.660%	0.380%	0.690%	0.400%
BB-	1.333%	0,847%	1.383%	0.890%
B+	2.007%	1.313%	2.077%	1.380%
B	2.680%	1.780%	2.770%	1.870%
B-	11.390%	9.770%	11.825%	10.880%
CCC/C	20.100%	17.760%	20.880%	19.890%
No Rating	1.333%	0.847%	1.383%	0.890%

For segments that use parameters based on historical data, the average parameters considered to calculate impairment in the various stages were, at the reference dates, the following:

	2022						
	Overdrafts	Auto Loans		Credit Cards		Other	
Stage	PD	PD	LGD	PD	LGD	PD	LGD
Stage 1	2.50%	1.75%	28.36%	1.73%	53.00%	6.62%	28.36%
Stage 2	14.69%	35.41%	28.36%	12.74%	53.00%	100.00%	28.36%
Stage 3	100.00%	100.00%	49.60%	100.00%	76.69%	100.00%	83.75%

	2021					
	Overdrafts	Auto Loans		Credit Cards	Other	
Stage	PD	PD	LGD	PD	PD	LGD
Stage 1	3.50%	2.21%	27.37%	2.07%	5.29%	27.37%
Stage 2	23.99%	15.63%	27.37%	17.27%	18.26%	27.37%
Stage 3	100.00%	100.00%	44.28%	100.00%	100.00%	89.91%

At the reference dates, the Banco CTT Group presented the following breakdown of its credit risk exposures and impairment amounts:

(amounts in thousand euros)

2022										
					Credit Portfolio					
		Central Authorities or Central Banks	Financial institutions	Other Titles	Mortgage Loans	Overdrafts	Auto Loans	Credit Cards	Other	Total
Stage 1	**Gross exposure**	1,026,749	69,081	-	654,166	1,161	695,284	314,747	2,541	2,763,729
	Impairment losses	(132)	(2)	-	(692)	(18)	(3,439)	(3,320)	(45)	(7,648)
	Net exposure	**1,026,617**	**69,079**	**-**	**653,474**	**1,143**	**691,845**	**311,427**	**2,496**	**2,756,081**
Stage 2	**Gross exposure**	-	-	-	4,913	152	43,404	40,579	62	89,110
	Impairment losses	-	-	-	(85)	(17)	(4,347)	(2,499)	(6)	(6,954)
	Net exposure	**-**	**-**	**-**	**4,828**	**135**	**39,057**	**38,080**	**56**	**82,156**
Stage 3	**Gross exposure**	-	-	-	462	1,509	52,351	18,487	196	73,005
	Impairment losses	-	-	-	(136)	(1,136)	(23,884)	(14,178)	(7)	(39,341)
	Net exposure	**-**	**-**	**-**	**326**	**373**	**28,467**	**4,309**	**189**	**33,664**
POCI (*Stage 3*)	**Gross exposure**	-	-	-	-	-	1,831	-	456	2,287
	Impairment losses	-	-	-	-	-	(927)	-	-	(927)
	Net exposure	**-**	**-**	**-**	**-**	**-**	**904**	**-**	**456**	**1,360**
Total	**Gross exposure**	1,026,749	69,081	-	659,541	2,822	792,870	373,813	3,255	2,928,131
	Impairment losses	(132)	(2)	-	(913)	(1,171)	(32,597)	(19,997)	(58)	(54,870)
	Net exposure	**1,026,617**	**69,079**	-	**658,628**	**1,651**	**760,273**	**353,816**	**3,197**	**2,873,261**

(amounts in thousand euros)

2021										
					Credit Portfolio					
		Central Authorities or Central Banks	Financial institutions	Other Titles	Mortgage Loans	Overdrafts	Auto Loans	Credit Cards	Other	Total
Stage 1	**Gross exposure**	927,904	55,026	5,635	593,852	1,063	573,015	262,587	4,246	2,423,328
	Impairment losses	(121)	(4)	(3)	(569)	(24)	(3,444)	(2,378)	(58)	(6,601)
	Net exposure	**927,783**	**55,022**	**5,632**	**593,283**	**1,039**	**569,571**	**260,209**	**4,188**	**2,416,727**
Stage 2	**Gross exposure**	-	-	-	1,534	225	53,541	31,813	54	87,167
	Impairment losses	-	-	-	(16)	(41)	(2,246)	(2,297)	(2)	(4,602)
	Net exposure	**-**	**-**	**-**	**1,518**	**184**	**51,295**	**29,516**	**52**	**82,565**
Stage 3	**Gross exposure**	-	-	-	34	1,324	40,988	4,316	235	46,897
	Impairment losses	-	-	-	(11)	(1,083)	(15,484)	(1,942)	(31)	(18,551)
	Net exposure	**-**	**-**	**-**	**23**	**241**	**25,504**	**2,374**	**204**	**28,346**
POCI (*Stage 3*)	**Gross exposure**	-	-	-	-	-	3,050	-	1,123	4,173
	Impairment losses	-	-	-	-	-	(850)	-	(613)	(1,463)
	Net exposure	**-**	**-**	**-**	**-**	**-**	**2,200**	**-**	**510**	**2,710**
Total	**Gross exposure**	927,904	55,026	5,635	595,420	2,612	670,594	298,716	5,658	2,561,565
	Impairment losses	(121)	(4)	(3)	(596)	(1,148)	(22,024)	(6,617)	(704)	(31,217)
	Net exposure	**927,783**	**55,022**	**5,632**	**594,824**	**1,464**	**648,570**	**292,099**	**4,954**	**2,530,348**

The Group considers that the more sensitive parameters, because they are based on benchmarks or because they are more susceptible to changes in the economic cycle, are the reference PDs or the LGD (for the case of credit cards). In this context, a sensitivity analysis is presented below about what the impairment of the global portfolio would be if those parameters were 10% higher than the values considered.

(amounts in thousand euros)

2022	Impairment					Impairment with shock					Impact
	Stage 1	*Stage 2*	*Stage 3*		Total	*Stage 1*	*Stage 2*	*Stage 3*		Total	
			Stage 3	*POCI*				*Stage 3*	*POCI*		
Sovereign debt	132	-	-	-	132	145	-	-	-	145	13
Financial institutions	2	-	-	-	2	2	-	-	-	2	-
Corporate	-	-	-	-	-	-	-	-	-	-	-
Credit Portfolio	7,514	6,954	39,341	927	54,736	8,264	7,503	40,760	927	57,454	2,718
Mortgage Loans	692	85	136	-	913	762	99	136	-	997	84
Overdrafts	18	17	1,136	-	1,171	19	19	1,136	-	1,174	3
Auto Loans	3,439	4,347	23,884	927	32,597	3,783	4,629	23,884	927	33,223	626
Credit Cards	3,320	2,499	14,178	-	19,997	3,652	2,749	15,596	-	21,997	2,000
Other	45	6	7	-	58	48	7	8	-	63	5
Total	**7,648**	**6,954**	**39,341**	**927**	**54,870**	**8,411**	**7,503**	**40,760**	**927**	**57,601**	**2,731**

(amounts in thousand euros)

2021	Impairment					Impairment with shock					Impact
	Stage 1	*Stage 2*	*Stage 3*		Total	*Stage 1*	*Stage 2*	*Stage 3*		Total	
			Stage 3	*POCI*				*Stage 3*	*POCI*		
Sovereign debt	121	-	-	-	121	133	-	-	-	133	12
Financial institutions	4	-	-	-	4	5	-	-	-	5	1
Corporate	3	-	-	-	3	3	-	-	-	3	-
Credit Portfolio	6,473	4,602	18,551	1,463	31,089	7,099	4,977	18,745	1,463	32,284	1,194
Mortgage Loans	569	16	11	-	596	626	18	11	-	655	59
Overdrafts	24	41	1,083	-	1,148	27	45	1,083	-	1,155	6
Auto Loans	3,444	2,246	15,484	850	22,024	3,767	2,385	15,484	850	22,486	462
Credit Cards	2,378	2,297	1,942	-	6,617	2,616	2,527	2,136	-	7,279	662
Other	58	2	31	613	704	63	2	31	613	709	5
Total	**6,601**	**4,602**	**18,551**	**1,463**	**31,217**	**7,240**	**4,977**	**18,745**	**1,463**	**32,425**	**1,207**

Operational Risk

Operational risk arises from the probability of losses derived from the inadequacy or failure of internal procedures, systems, people or external events.

The operational risk management framework of the Banco CTT Group is a fundamental factor for risk management and control, with the continuous development of a strong risk culture and management being essential for its proper implementation.

Duly documented concepts, principles and practices have been endorsed for the management of this type of risk, which are reflected in control mechanisms subject to continuous improvement.

The objective in terms of control and management of operational risk is directed towards identification, assessment, reporting and monitoring.

Governance of operational risk management

The Operational Risk management framework is based on a three-line of defence model, in which the first, composed of all employees of the Banco CTT Group and Process Owners, is primarily responsible for the day-to-day management of risks, in accordance with the policies, procedures and controls that are defined.

These policies, procedures and controls aim, among others, at the clear definition of responsibilities, segregation of functions, adequate access control (physical and logical), reconciliation activities, exception reports, the structured process for the approval of new products, monitoring of the Group's outsourcing contracts and internal training on processes, products and systems.

The second line of defence ensures the monitoring of operational risk, advises and supports the first line of defence in identifying risks and controls associated to the various existing processes. The Control Functions (Risk and Compliance Departments) play a preponderant role in the second line of defence.

The third line of defence is ensured by Internal Audit, the Control Function which is responsible for independently examining and evaluating the adequacy and effectiveness of the policies, processes and procedures that support the governance and risk management system, by testing the effectiveness of the controls implemented.

The approach to operational risk management is supported by the structure of end-to-end processes. A vision that cuts across all operational areas within the organisation's structure is deemed the most appropriate approach to perceiving risks and estimating the impact of corrective mitigation measures. The framework has a defined process structure per Group entity, which is adjusted according to business evolution.

Process Owners are responsible for defining the processes from an end-to-end perspective, ensuring the effective adequacy of controls, reporting the operational risk events detected by its database processes, identifying and assessing the risks and controls of processes through active participation in RSA (Risk Self-Assessment) exercises, detecting and implementing appropriate measures to mitigate risk exposure and monitor key risk indicators (KRIs) and performance indicators (KPIs) of processes.

The operational risk management framework includes instruments such as the process of identifying and recording operational risk events, the self-assessment of risks and controls ("RSA") process and the identification and quantification of Key Risk Indicators (KRIs), which allow the identification, assessment, monitoring and mitigation of operational risk, ensuring the minimisation of losses associated with this risk and promoting effective operational risk management.

In addition to the aforementioned operational risk management instruments, there are also other initiatives aimed at the continuous improvement of processes and business continuity management.

Collection of operational risk management events

The recording of operational risk events is the instrument used to qualitatively and quantitatively measure the historical exposure to operational risk events, and to underpin subsequent analysis to the real efficacy of the existing controls.

This activity essentially consists of the use of a dynamic repository of all the risk events that may have occurred, supported by procedures that ensure the effective analysis of the most relevant events, whether due to their impact, their recurrence or other pertinent feature.

Therefore, the analysis of loss and near-miss events provides indications on the main risks and enables determining whether any failures are isolated events or systemic. On the other hand, this practice accelerates the identification of emerging events, enabling rapid response.

The detection and reporting of operational losses are the responsibility of all the employees, while Process Owners have a decisive role in recording and describing operational risk events, which includes detailing the respective cause and effect, quantifying the loss and describing the risk mitigation action plans.

The Risk Department is responsible for recording and characterising operational risk events for all Group entities and for validating and monitoring them. Furthermore, the department monitors and identifies shortcomings in the processes and respective mitigation actions.

Fraud Risk

Operational risk includes events or risks related to fraud, for which a fraud risk management policy has also been approved. This policy formalizes the way in which fraud is addressed concerning its prevention, detection and investigation. Fraud can materialise through different channels, both via products and services and through the different entities with which the Bank interacts. In this sense, the main types of fraud are the following: fraud in contracting credit products, accounting fraud, online fraud, card fraud, transaction fraud, supplier and service provider fraud, and partner fraud.

The fraud management model adopted includes several aspects, namely prevention, detection, investigation and monitoring. The approach to fraud management focuses mainly on the prevention and detection phases, in terms of defining processes, procedures and controls, as well as the implementation of detection tools. These phases contribute to the effectiveness of the fraud management process, namely in the prevention stage, thereby minimising the impact of any losses associated with fraud risk events.

IT Risk

Information and communication technology risk refers to the possibility of constraints caused by failure, breakdown or other interruption in information systems and other technological infrastructures.

In turn, information security risk is the inability of information systems to resist actions that compromise the confidentiality, integrity, availability, authenticity or non-repudiation of stored, transmitted or processed data, or of the services provided by those information systems, including data theft, phishing campaigns, financial crime, dissemination of malware, and denial of critical services with high operational, reputational and financial impacts.

The main objective of the Banco CTT Group's information security strategy is to ensure the implementation of adequate and relevant protection measures to meet business objectives, while simultaneously safeguarding the Group's interests and the trust of its customers and employees. The Information Security framework, defined and adopted by the Data Security and Protection Department, is based on the following areas of action: governance and compliance, cybersecurity, data protection, identity and access management, vulnerability management, coordination and response to security incidents, and systems development, maintenance and acquisition.

In addition, business continuity plans were implemented in each Group entity, periodically tested, revised and improved, based on risk analysis and in compliance with legal and regulatory requirements.

The Business Continuity Plan aims to formalise and promote the adoption of adequate response procedures that, in the event of a disaster, ensure, both from an organisational and technological point of view, the continuity of the Group's processes and the mitigation of any losses involved.

The Business Continuity Plan includes, in an integrated manner, an operational continuity component and a technological recovery component, and in each plan the adjacent continuity solutions are described, as well as the respective recovery/contingency operation procedures and the Business Continuity Plan teams involved.

In addition, the response and resolution service levels of both the internal teams and the main suppliers and partners and the level of availability of the main systems are monitored.

IT and Communication Risk is managed by the IT Department, Information Security Risk is managed by the Security and Data Protection Department and the Business Continuity Plan is under the responsibility of the Risk Department.

Compliance Risk

Compliance risk is defined by the Basel Committee on Banking Supervision as the risk of an institution incurring legal and/or regulatory sanctions and financial or reputational damage due to failure to comply with laws, regulations, codes of conduct and best practice. The prevention and mitigation of the Banco CTT Group's compliance risk requires the involvement of the management and supervisory bodies and the control functions, in particular the Group's Compliance Function, in decision-making processes, particularly those related to product governance. The management of this risk in the Group is intrinsically associated with the promotion of a culture and conduct based on ethical values and socially responsible behaviour, also ensuring the alignment of incentive policies with the best interests of customers.

In the pursuit of this objective, the Banco CTT Group has adopted an internal governance model that promotes the effectiveness of its internal control system, namely through the independent and influential performance of the control functions, the implementation of policies and regulations that prevent conduct risks, including the definition of remuneration and incentive policies that prevent the occurrence of conflicts of interest in the sales process.

In order to supervise and formalise the management of this risk, the Bank, as the parent company, has defined a procedures manual, which stipulates the fundamental principles of compliance, the objectives, players and responsibilities in the field of compliance control and the principles that must be respected by its employees.

As the Group operates in a highly regulated sector, it is crucial that it have an efficient and comprehensive compliance risk management cycle that reduces any possible penalties arising from breaches of legal and regulatory requirements. In this way, and in line with its General Risk Management and Internal Control Policy, the Bank defined the following stages in its cycle:

- **Risk strategy definition:** Considering that the Group has defined that the compliance risk (residual) to which it is exposed must be low, preventing penalties due to severe or very severe administrative offences, the management of this risk is guided by the following principles: existence of an independent Compliance Function; offer of products and services conditional to prior compliance risk analysis; variable remuneration models/incentives designed in a manner so as to minimise the occurrence of conflicts of interest and subject to prior validation by the control functions; implementation of control actions in areas of greater inherent risk; compulsory initial training of Employees on topics of compliance, anti-money laundering and countering the financing of terrorism; conservative customer acceptance policy and enhanced diligence levels for customers and operations with high risk of money laundering and financing of terrorism.

- **Identification and evaluation:** In the case of compliance risks, this stage involves identifying all the compliance requirements that the Group Bank should fulfil, whether derived from applicable legal and regulatory provisions or from rules contained in codes of conduct, policies or procedures defined internally. The Compliance Function is responsible for systematising the "compliance requirements" and the risks associated with them; Likewise, the potential risks associated with the "compliance requirements" identified must be assessed so that their inherent and residual risk is known.

- **Response:** Once the residual risk has been assessed, action priorities should be defined, together with the areas, in order to mitigate the risks that are above the defined risk appetite.

- **Monitoring and reporting:** compliance with requirements is monitored on an on-going basis by the Compliance Function, ensuring that any detected breaches are identified and acted upon in a timely fashion. On the other hand, the overall state of the Bank's compliance with the legal and regulatory requirements is periodically reported to the supervisory and management bodies.

Compliance risk management involves the ongoing follow-up of the regulatory initiatives with greatest impact on the Group, where special reference is made, concerning 2022, to the projects of regulatory nature associated with the measures to support families, arising from the inevitable contingencies left by the pandemic (Law 19/2022 of 21 October and Decree-Law 80-A/2022 of 25 November), the amendment of the General Regime of Credit Institutions and Financial Companies (Law 23-A/2022 of 9 December) related to access to banking activity, prudential supervision and review of the regulatory framework applicable to money laundering and the financing of terrorism (Banco de Portugal Notice 1/2022 of 6 June).

The Group's Compliance risk management also involves the preventive action by the Compliance Function in processes considered critical for this purpose, in particular, sign-off on new policies and procedures, relevant communications with customers, pre-contractual or contractual documentation or advertising materials. Likewise, the launch of new products/services or significant changes of existing products/services implies the conduct of risk assessments in which potential compliance or reputational risks are identified, for which actions or controls shall have to be implemented to enable their mitigation whether at stage before the launch of the product or after the beginning of its marketing. The follow-up of the handling of customer complaints also merits special attention, not only with a view to the identification of compliance risks, but also to ensure that customer complaints were properly addressed.

The implementation of actions for monitoring compliance and tests of front-line controls completes the compliance risk management cycle, where we highlight the accomplishment in 2022 of actions for monitoring compliance with variable remuneration policies and models, the response capacity in the event of activation of the Deposit Guarantee Fund, the process of approval of new products and services, in particular concerning the validation of actions to mitigate risks identified in sign-off processes, the requirements to disclose information, and transactions with related parties.

Market Risks

Market Risk generally represents the possible loss resulting from an adverse change in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, share, commodity, or real estate prices, volatility and credit spreads.

The Group does not have a Trading portfolio and, at the end of 2022, almost all of its investment portfolio is recorded as financial assets at amortised cost, with the main risk arising from its investments being credit risk rather than market risk. In addition, the Bank holds participation units totalling 26.6 million euros in a real estate investment fund which is accounted at fair value through profit or loss.

To limit any negative impacts from turmoil in the market, sector or issuer, the Group defined a number of limitations to manage its own portfolio in order to ensure that the risk levels incurred in the Group's portfolio comply with the predefined levels of risk tolerance. These limits are regularly reviewed and are monitored regularly by the Capital and Risk Committee, Audit Committee and Board of Directors.

Interest Rate Risk

Interest rate risk is the risk of any loss of an economic value on balance sheet items that are interest rate-sensitive due to changing interest rates.

One of the main instruments in monitoring the interest rate risk of the balance sheet is the repricing gap on assets and liabilities susceptible to interest rate changes. This model groups variation-sensitive assets and liabilities into fixed timeframes (maturity dates or first interest rate review dates when the interest rate is indexed, or behavioural when appropriate), from which a potential impact on the Group's financial margin and economic value, resulting from interest rate variations, is calculated and for which the Group has defined specific tolerance limits.

The repricing gap reports are prepared monthly and are an essential tool in defining the investment strategy for each cycle in order for the Group to ensure that time mismatches between assets and liabilities are aligned at all times with the appetite stipulated in the risk strategy.

Supplementing the previously followed practice of management of the interest rate risk of its balance sheet, in a structural manner using natural hedges in the composition of the investment portfolio, as well as the placement of interest rate hedge derivatives in securitisation vehicles aligned with best market practices and investor expectations, in 2022 the Group contracted interest rate derivatives outside the perimeter of the securitisations.

Liquidity Risk

Liquidity risk is the risk of the Group's potential inability to meet its funding repayment obligations without incurring in significant losses, due to more onerous financing conditions or the sale of assets under market values.

The Group is exposed to the liquidity risk inherent to its business of transforming maturities, lending in the longer-term (essentially in Mortgage Lending) and borrowing liquidity, primarily in the form of deposits, where prudent management of liquidity risk is thus crucial.

Management Practices

The Banco CTT Group has established a liquidity risk management structure with clearly identified responsibilities and processes in order to ensure that all participants in liquidity risk management are perfectly coordinated and that the management controls are effective. The overall liquidity risk management is entrusted to the Board of Directors, which delegates the Executive Committee with the responsibility for the current liquidity management activities in the measurement, action, communication and liquidity control stages. In the Risk Appetite Statement, the Board of Directors defines limits for liquidity risk, including the survival horizon of stress tests, delegating the Capital and Risk Committee with the responsibility of supervision of the instituted liquidity management model and monitoring of the relevant ratios to assure the Group's financial solidity, the definition of the methods and assumptions used in the liquidity stress tests, approves the Liquidity Contingency Plan and the definition of the liquidity limits by Bank Counterparty and by Asset encumbrance, as well as the intragroup funding structure, including direct and indirect funding of the branches.

The Capital and Risk Committee is responsible for proposing the Group's Liquidity Management Policy to the Board of Directors, taking into account the business goals and opportunities, as well as the legal and regulatory requirements; appraising the risk inherent to the balance sheet structure and the accomplishment of financial operations, taking into account the need to optimise the available financial resources and maintain liquidity at levels compatible with the effective and efficient operation of the Group as a whole, but also in terms of the Bank and its branches; defining, with the support of the Risk and Treasury Department, the Group's key risk indicators (KRIs), and monitoring their evolution; defining the liquidity limits by Bank Counterparty and by Asset encumbrance; approving, under proposal of the Risk Department, the methods and assumptions used in the Group's liquidity stress tests; and appraising, under proposal of the Risk Department, the Liquidity Contingency Plan.

The Treasury Department of Banco CTT is responsible for ensuring the cash flow management and necessary short-term liquidity levels. In particular, it is responsible for holding High Quality Liquid Assets (HQLA) and implementing the medium and long-term funding plans through cash management and interbank relationships, ensuring compliance with the established liquidity risk limits, minimum cash reserves, position limits and other regulatory ratios or those defined by the Executive Committee or Board of Directors, supporting the Capital and Risk Committee in the definition of the Group's KRIs, and monitoring their evolution and ensuring the timely detection of situations of non-compliance with the liquidity ratio requirements, promptly informing the Executive Committee and Risk Department.

The Risk Department is responsible for identifying, assessing, controlling and monitoring the Group's liquidity risk, ensuring its management within the risk appetite defined by the Board of Directors, supporting the definition of liquidity limits, ensuring the ongoing monitoring of its compliance, supporting the Capital and Risk Committee in the definition of KRIs, and monitoring their evolution, informing the Treasury Department of the performance of variables reflecting changes of risk which affect the Group's liquidity, and drafting the reports supporting liquidity management, disclosing them to the members of the Capital and Risk Committee and other stakeholders, coordinating the preparation and proposing, after appraisal of the Capital and Risk Committee, the Liquidity Contingency Plan to the Board of Directors, and proposing the methods and assumptions used in the liquidity stress tests to the Capital and Risk Committee.

The different assets are constantly monitored as regards their eligibility to be involved in transactions, duly limited by what can be undertaken in each market.

As regards structural liquidity, the Group draws up a monthly liquidity report that takes into account not only the effective maturity date of the different products, but also their behavioural maturity, through which structural mismatches are determined for each time bucket.

In this context, in addition to the internal analyses for monitoring this risk (e.g. ongoing assessment of liquidity gaps and/or duration, analysis of the composition and availability of assets, etc.), the Group also adopts the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) quantifications, as well as regularly monitoring their evolution and anticipating potential impacts. The Group also monitors additional liquidity monitoring metrics (ALMM) which enable checking for liquidity mismatches and the Group's capacity to offset negative mismatches (outflows greater than inflows).

The LCR aims to promote the resilience of banks to short-term liquidity risk by ensuring that they hold high-quality liquid assets, sufficient to survive a severe stress scenario, over a period of 30 days.

The implementation of NSFR seeks to ensure banks maintain stable financing for their off-balance sheet assets and operations for a 1-year period.

Due to having higher granularity than the LCR (30 days), the ALMM enable greater control over the liquidity mismatch, taking into account the contracted outflow and inflows, and also enable knowing the concentration of counterbalancing capacity.

Analysis of Liquidity Risk

The Liquidity Coverage Ratio (LCR) reached a comfortable figure of 601% (881% at the end of 2021), significantly higher than the minimum requirements, reflecting the Group's liquidity management, during 2022.

The Banco CTT Group continues to follow all the legislative changes in order to comply with the regulatory obligations, namely in relation to the Capital Requirements Regulation (CRR) – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

As at 31 December 2022, the ALMM show a positive liquidity mismatch (difference between contracted outflows and inflows) of 261,695 thousand euros (128,810 thousand euros at the end of 2021).

Furthermore, this positive liquidity mismatch already considers the inflows due to financial assets and reserves at the Central Bank of close to 1,463,855 thousand euros (781,858 thousand euros at the end of 2021).

Business Model Risk

Strategy risk is the probability of the occurrence of negative impacts on results or capital, arising from inadequate strategic decisions, poor implementation of decisions or inability to respond to changes in the surrounding environment or changes in the Group's business environment.

The Group actively manages its strategic risk through periodic reviews of its Business Plan according to the evolution of the actual business, changes of economic and competitive circumstances and market conditions, having constant concern with its level of capital and the risks taken in its strategic decisions and the established capitalisation plan. Its monitoring is ensured regularly by the Executive Committee, Audit Committee and the Board of Directors through the follow-up of budget deviations.

Board of Directors' Statement – Article 435(1)(e) of the CRR

It is hereby stated that the institution's risk management measures and the implemented risk management systems are appropriate to the Bank's risk profile and strategy.

Lisbon, 14 March 2023

The Board of Directors

João de Almada Moreira Rato	João Manuel de Matos Loureiro
Luís Maria França de Castro Pereira Coutinho	António Domingues
João Maria de Magalhães Barros de Mello Franco	Ana Maria Machado Fernandes
Pedro Rui Fontela Coimbra	António Pedro Ferreira Vaz da Silva
Nuno Carlos Dias dos Santos Fórneas	Guy Patrick Guimarães de Goyri Pacheco
Luís Jorge de Sousa Uva Patrício Paúl	Maria Rita Mégre de Sousa Coutinho

Board of Directors Statement' – Article 435(1)(f) of the CRR

Concise risk appetite statement:

The Banco CTT Group carries out its activity in a prudent and sustainable manner. The established goals for the business are, at any given time, limited by the risk tolerance levels defined according to the Group's long-term sustainability and profitability.

The risk tolerance levels are defined in the Risk Appetite Statement (RAS) of the Group, with this instrument being used in the Bank's management and decision-making process in its consolidated activity. The first and foremost objective of the RAS is to lead the Group, in general, and its governing bodies, in particular, to reflect on the Bank's risk positioning. Accordingly, the RAS is reflected in a continuous and ever-present concern in the different strategic planning and business cycles, being one of the core components for the definition of the Group's growth and profitability goals, and defines the main qualitative principles and quantitative limits for the management of the different risks arising from the activity, thus conditioning the criteria on decision-making and management operatives of the different risks. The RAS is divided into two main components: a) Governance Model that, based on the General Policy on Internal Control and Risk Management, assigns responsibilities to the different corporate bodies and structural units; and b) Risk Assessment and Indicators that include an assessment of the different risks, identification of the material risks and definition of their limits.

The RAS is reviewed at least annually, both with regard to the assessment of risks and identification of those that are material and with regard to the choice of relevant indicators and the established limits.

The 2023-25 version of the RAS, approved by the Board of Directors in December 2022, includes 19 indicators as limits that the Group considers essential for its sustainability in various aspects of its business: capital, liquidity risks, operational, credit, interest rate, reputational, compliance and information systems management.

In the last 2 years, the Banco CTT Group presented the following consolidated capital and liquidity indicators:

	dec/22	dec/21
Common equity tier 1 ratio [CRR] (1)	15.6%	16.0%
Total own funds ratio [CRR] (1)	15.6%	16.0%
Leverage ratio [CRR] (1)	7.0%	6.3%
Liquidity coverage ratio [CRR]	601%	881%
Net stable funding ratio [CRR]	168%	168%

(1) *Includes net income for the year in 2021 and 2021.*

Lisbon, 14 March 2023

The Board of Directors

João de Almada Moreira Rato	João Manuel de Matos Loureiro
Luís Maria França de Castro Pereira Coutinho	António Domingues
João Maria de Magalhães Barros de Mello Franco	Ana Maria Machado Fernandes
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Nuno Carlos Dias dos Santos Fórneas	Guy Patrick Guimarães de Goyri Pacheco
Luís Jorge de Sousa Uva Patrício Paúl	Maria Rita Mégre de Sousa Coutinho

Supplementary Information

Consolidated Financial Statements

Consolidated Income Statements for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	2022	2021
Interest and similar income	81,084	57,815
Interest and similar expenses	(6,691)	(2,097)
Net Interest Income	**74,393**	**55,718**
Net fee and commission income	22,459	17,841
Net gains/(losses) of assets and liabilities at fair value through profit or loss	11,110	1,101
Net gains/(losses) of other financial assets at fair value through other comprehensive income	(1)	-
Results from financial assets and liabilities at amortised cost	-	17,777
Net gains/(losses) from divestment of other assets	(154)	(80)
Other operating income/(expenses)	2,471	735
Operating Income	**110,278**	**93,092**
Staff costs	(24,871)	(23,034)
General administrative expenses	(34,523)	(31,035)
Amortisation and depreciation for the year	(7,176)	(7,011)
Operating Costs	**(66,570)**	**(61,080)**
Operating Profit/(Loss) Before Provisions and Impairments	**43,708**	**32,012**
Credit impairment	(24,719)	(14,134)
Impairment of other financial assets	(6)	91
Impairment of other assets	113	(1)
Provisions	(307)	683
Operating Profit/(Loss)	**18,789**	**18,651**
Profit/(Loss) before tax of continuing business premises	**18,789**	**18,651**
Taxes		
Current	1,012	(4,226)
Deferred	(6.840)	(326)
Profit/(Loss) after taxes of continuing business premises	**12,961**	**14,099**
Profit/(Loss) of discontinued business premises	**1,755**	**2,049**
Net Income for the Year	**14,716**	**16,148**
Earnings per share (in euros)		
Basic	0.05	0.05
Diluted	0.05	0.05
Earnings per share of continuing activities (euros)		
Basic	0.04	0.05
Diluted	0.04	0.05

Consolidated Statement of Financial Position as at 31 December 2022 and 2021

(amounts in thousand euros)

	2022	2021
Assets		
Cash and deposits at central banks	64,123	621,469
Deposits at other credit institutions	59,141	34,252
Financial assets at amortised cost		
Investments at credit institutions	460,188	13,771
Loans and advances to customers	1,777,565	1,541,908
Debt securities	537,781	334,161
Financial assets at fair value through profit or loss	52,699	27,261
Financial assets at fair value through other comprehensive income		
Debt securities	-	6,095
Non-current assets and groups for disposal classified as held for sale	14,786	14,776
Other tangible assets	5,096	6,512
Goodwill and intangible assets	82,113	83,415
Deferred tax assets	1,732	1,511
Other assets	49,690	18,855
Total Assets	**3,104,914**	**2,703,986**
Liabilities		
Financial liabilities at fair value through profit or loss	26,345	-
Financial liabilities at amortised cost		
Deposits from Customers	2,280,392	2,121,511
Debt securities issued	445,578	277,796
Provisions	1,384	1,171
Current tax liabilities	1,362	1,362
Deferred tax liabilities	7,276	49
Other liabilities	82,064	57,360
Liabilities included in groups for disposal classified as held for sale	7,521	6,907
Total Liabilities	**2,851,922**	**2,466,156**
Equity		
Share capital	296,400	296,400
Legal reserves	1,571	29
Fair value reserves	-	27
Other reserves	(347)	(820)
Retained earnings	(59,348)	(73,954)
Net income for the year	14,716	16,148
Total Equity	**252,992**	**237,830**

Individual Financial Statements

Individual Income Statements for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	2022	2021
Interest and similar income	38,185	23,681
Interest and similar expenses	(1,729)	(1,470)
Net Interest Income	**36,456**	**22,211**
Net fee and commission income	19,175	15,474
Net gains/(losses) of assets and liabilities at fair value through profit or loss	(11,634)	(1)
Net gains/(losses) of other financial assets at fair value through other comprehensive income	(1)	-
Results from financial assets and liabilities at amortised cost	-	17,777
Other operating income/(expenses)	1,868	(262)
Operating Income	**45,864**	**55,199**
Staff costs	(18,458)	(17,087)
General administrative expenses	(26,308)	(24,243)
Amortisation and depreciation for the year	(6,334)	(6,328)
Operating Costs	**(51,100)**	**(47,658)**
Operating Profit/(Loss) Before Provisions and Impairments	**(5,236)**	**7,541**
Credit impairment	(1,819)	(1,106)
Impairment of other financial assets	(11,848)	(5,652)
Impairment of other assets	(3)	(112)
Provisions	(128)	(118)
Operating Profit/(Loss)	**(19,034)**	**553**
Net gains/(losses) of investments in subsidiaries and associates	**29,141**	**14,689**
Profit/(Loss) Before Tax	**10,107**	**15,242**
Taxes		
Curent	4,754	26
Deferred	(205)	156
Net Income for the Year	**14,656**	**15,424**
Earnings per share (in euros)		
Basic	0.05	0.05
Diluted	0.05	0.05

Individual Statements of Financial Position as at 31 December 2022 and 2021

(amounts in thousand euros)

	2022	2021
Assets		
Cash and deposits at central banks	48,733	613,012
Deposits at other credit institutions	28,010	4,158
Financial assets at amortised cost		
Investments at credit institutions	592,860	69,898
Loans and advances to customers	700,952	631,673
Debt securities	1,007,448	864,041
Financial assets at fair value through profit or loss	26,479	24,999
Financial assets at fair value through other comprehensive income		
Debt securities	-	6,095
Non-current assets held for sale	8,911	8,247
Other tangible assets	4,129	4,919
Intangible assets	20,221	21,614
Investments in subsidiaries and associates	148,024	125,474
Deferred tax assets	870	683
Other assets	48,404	18,211
Total Assets	**2,635,041**	**2,393,024**
Liabilities		
Financial liabilities at fair value through profit or loss	26,345	-
Financial liabilities at amortised cost		
Amounts owed to other credit institutions	15,023	43
Deposits from Customers	2,283,288	2,122,817
Provisions	477	429
Deferred tax liabilities	392	6
Other liabilities	57,256	32,571
Total Liabilities	**2,382,781**	**2,155,866**
Equity		
Share capital	296,400	296,400
Legal reserves	1,571	29
Fair value reserves	-	27
Other reserves	(347)	(820)
Retained earnings	(60,020)	(73,902)
Net income for the year	14,656	15,424
Total Equity	**252,260**	**237,158**

Appropriation of Net Income

Whereas:
in the financial year of 2022, Banco CTT S.A. recorded a positive net income of 14,655,944.31 euros, it

Is proposed,
In accordance with Article 66 (5) (f) and for the purposes of Article 376 (1) (b), both of the Commercial Companies Code:

- that 10% of the net profit, in the amount of 1,465,594.43 euros, be transferred to legal reserves, in accordance with article 97(1) of the General Regime of Credit Institutions and Financial Companies; and
- that the remaining amount of 13,190,349.88 euros be transferred to Retained Earnings.

Lisbon, 14 March 2023

The Board of Directores

João de Almada Moreira Rato	João Manuel de Matos Loureiro
Luís Maria França de Castro Pereira Coutinho	António Domingues
João Maria de Magalhães Barros de Mello Franco	Ana Maria Machado Fernandes
Pedro Rui Fontela Coimbra	António Pedro Ferreira Vaz da Silva
Nuno Carlos Dias dos Santos Fórneas	Guy Patrick Guimarães de Goyri Pacheco
Luís Jorge de Sousa Uva Patrício Paúl	Maria Rita Mégre de Sousa Coutinho

Accounts and Notes to the Accounts

Accounts and Notes to the Consolidated Accounts of 2022

Consolidated Financial Statements

Consolidated Income Statements for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	2022	2021
Interest and similar expenses	4	81,084	57,815
Interest and similar expenses	4	(6,691)	(2,097)
Net Interest Income	4	**74,393**	**55,718**
Net fee and commission income	5	22,459	17,841
Net gains/(losses) of assets and liabilities at fair value through profit or loss	6	11,110	1,101
Net gains/(losses) of other financial assets at fair value through other comprehensive income		(1)	-
Results from financial assets and liabilities at amortised cost	7	-	17,777
Net gains/(losses) from divestment of other assets		(154)	(80)
Other operating income/(expenses)	8	2,471	735
Operating Income		**110,278**	**93,092**
Staff costs	9	(24,871)	(23,034)
General administrative expenses	10	(34,523)	(31,035)
Amortisation and depreciation for the year	20 and 21	(7,176)	(7,011)
Operating Costs		**(66,570)**	**(61,080)**
Operating Profit/(Loss) Before Provisions and Impairment		**43,708**	**32,012**
Credit impairment	15	(24,719)	(14,134)
Impairment of other financial assets	14, 16 and 18	(6)	91
Impairment of other assets	19, 21 and 23	113	(1)
Provisions net of annulments	26	(307)	683
Operating Profit/(Loss)		**18,789**	**18,651**
Profit/(Loss) before tax of continuing business premises		**18,789**	**18,651**
Taxes			
Current	22	1,012	(4,226)
Deferred	22	(6,840)	(326)
Profit/(Loss) after taxes of continuing business premises		**12,961**	**14,099**
Profit/(Loss) of discontinued business premises	19	**1,755**	**2,049**
Net Income for the Year		**14,716**	**16,148**
Earnings per share (in euros)			
Basic		0.05	0.05
Diluted	12	0.05	0.05
	12		
Earnings per share from continuing activities (in euros)			
Basic		0.04	0.05
Diluted		0.04	0.05

The accompanying notes form an integral part of these financial statements.

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

João de Almada Moreira Rato
João Manuel de Matos Loureiro
Luís Maria França de Castro Pereira Coutinho
António Domingues
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Consolidated Comprehensive Income Statements for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	2022	2021
Net Income for the Year		**14,716**	**16,148**
Comprehensive income recognized directly in Equity after taxes		**446**	**9**
Items that may be reclassified to the income statement			
Fair value reserve	29	(27)	(56)
Items that shall not be reclassified to the income statement			
Actuarial gains/(losses) for the year			
Employee benefits	29	473	65
Total Comprehensive Income for the Year		**15,162**	**16,157**

The accompanying notes form an integral part of these financial statements.

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

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Luís Jorge de Sousa Uva Patrício Paúl
Maria Rita Mégre de Sousa Coutinho

Consolidated Statements of Financial Position as at 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	2022	2021
Assets			
Cash and deposits at central banks	12	64,123	621,469
Deposits at other credit institutions	13	59,141	34,252
Financial assets at amortised cost			
Investments at credit institutions	14	460,188	13,771
Loans and advances to customers	15	1,777,565	1,541,908
Debt securities	16	537,781	334,161
Financial assets at fair value through profit or loss	17	52,699	27,261
Financial assets at fair value through other comprehensive income			
Debt securities	18	-	6,095
Non-current assets and disposal groups classified as held for sale	19	14,786	14,776
Other tangible assets	20	5,096	6,512
Goodwill and intangible assets	21	82,113	83,415
Deferred tax assets	22	1,732	1,511
Other assets	23	49,690	18,855
Total Assets		**3,104,914**	**2,703,986**
Liabilities			
Financial liabilities at fair value through profit or loss	17	26,345	-
Financial liabilities at amortised cost			
Deposits from Customers	24	2,280,392	2,121,511
Debt securities issued	25	445,578	277,796
Provisions	26	1,384	1,171
Current tax liabilities	22	1,362	1,362
Deferred tax liabilities	22	7,276	49
Other liabilities	27	82,064	57,360
Liabilities included in disposal groups classified as held for sale	19	7,521	6,907
Total Liabilities		**2,851,922**	**2,466,156**
Equity			
Share capital	28	296,400	296,400
Legal reserves	29	1,571	29
Fair value reserves	29	-	27
Other reserves	29	(347)	(820)
Retained earnings	29	(59,348)	(73,954)
Net income for the year		14,716	16,148
Total Equity		**252,992**	**237,830**

The accompanying notes form an integral part of these financial statements.

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

António Domingues

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Maria Rita Mégre de Sousa Coutinho

Consolidated Statements of Changes in Equity for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	Share capital	Fair Value Reserves	Legal Reserves	Other Reserves	Retained earnings	Net Income for the Year	Total Equity
Balance on 31 December 2020		**286,400**	**83**	**-**	**(885)**	**(74,158)**	**233**	**211,673**
Share capital increase		10,000	-	-	-	-	-	10,000
Appropriation of net income		-	-	29	-	204	(233)	-
Other variations		-	-	-	-	-	-	-
Comprehensive income for the year		-	(56)	-	65	-	16,148	16,157
Actuarial gains/(losses)	*35*	-	-	-	*65*	-	-	*65*
Fair value reserves	*18*	-	*(56)*	-	-	-	-	*(56)*
Net income for the year		-	-	-	-	-	*16,148*	*16,148*
Balance on 31 December 2021		**296,400**	**27**	**29**	**(820)**	**(73,954)**	**16,148**	**237,830**
Appropriation of net income		-	-	1,542	-	14,606	(16,148)	-
Other variations		-	-	-	-	-	-	-
Comprehensive income for the year		-	(27)	-	473	-	14,716	15,162
Actuarial gains/(losses)	*35*	-	-	-	*473*	-	-	*473*
Fair value reserves	*18*	-	*(27)*	-	-	-	-	*(27)*
Net income for the year		-	-	-	-	-	14,716	14,716
Balance on 31 December 2022		**296,400**	**-**	**1,571**	**(347)**	**(59,348)**	**14,716**	**252,992**

The accompanying notes form an integral part of these financial statements.

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Consolidated Cash Flow Statements for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	2022	2021
Cash flow from operating activities		(67,276)	9,868
Interest income received		70,977	52,810
Interest paid		(7,432)	(2,074)
Commissions income received		24,257	21,007
Commissions paid		(4,545)	(3,927)
Payments to employees		(23,377)	(20,995)
Income tax payments		429	(2,698)
Sectoral contributions		(525)	(373)
Credit recovery		1,475	(1,281)
Other payments and receipts		(28,171)	(11,373)
Variation in operational assets and liabilities		(100,364)	(21,228)
Other operational assets and liabilities		*(17,842)*	*(6,165)*
Loans and advances to customers	15	*(242,913)*	*(448,172)*
Deposits from Customers	24	*160,391*	*433,109*
Cash flow from investment activities		(658,095)	172,541
Deposits at Banco de Portugal		(3,248)	(4,142)
Investment in securities		(203,795)	155,311
Investment		*(663,070)*	*(287,409)*
Repayment/divestment		*459,275*	*442,720*
Investments at the Central Bank	14	(450,200)	-
Investments in other credit institutions	14	3,825	25,145
Investment		*(4,800)*	*(1,750)*
Redemptions		*8,625*	*26,895*
Acquisitions of tangible fixed assets and intangible assets		(4,677)	(3,773)
Cash flow from financing activities		168,178	240,000
Share capital increases	28	-	10,000
Debt securities issued	25	169,485	231,369
Issue		*201,500*	*251,500*
Redemptions		*(32,015)*	*(20,131)*
Leases		(1,307)	(1,369)
Cash and cash equivalents at the beginning of the year		**634,780**	**212,371**
Net changes in cash and cash equivalents		**(557,193)**	**422,409**
Cash and cash equivalents at the end of the year		**77,587**	**634,780**
Cash and cash equivalents cover:		77,587	634,780
Cash	12	25,487	28,308
Demand deposits at Banco de Portugal	12	15,451	573,223
Deposits at credit institutions	13	36,649	33,249

The accompanying notes form an integral part of these financial statements.

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Notes to the Consolidated Financial Statements

Introductory Note

Banco CTT, S.A. (hereinafter referred to as "Banco CTT" or "Bank") is a credit institution with registered office at Praça Duque de Saldanha, n.º 1, Edifício Atrium Saldanha, piso 3, 1050-094 Lisboa, controlled by CTT – Correios de Portugal, S.A., having been incorporated in August 2015.

The Bank is dedicated to obtaining third party funds, in the form of deposits or other, which the Bank invests, together with its own funds, in various sectors of the economy, mostly in the form of loans granted to customers or debt securities, while also providing other banking services to its customers.

The consolidated financial statements presented herein reflect the results of the operations of the Bank and all its subsidiaries, Payshop (Portugal), S.A. and 321 Crédito – Instituição Financeira de Crédito, S.A. (together referred to as "Group").

The shareholding in the subsidiary Payshop (Portugal), S.A. was considered as a discontinued activity, with reference to 31 December 2022, and the comparative Consolidated Income Statement of December 2021 was restated for comparability purposes of the financial information.

Note 1 – Basis of Presentation

In accordance with Regulation (EC) 1606/2002 of the European Parliament and Council, of 19 July 2002 and Banco de Portugal Notice 5/2015, the financial statements of Banco CTT are prepared in accordance with the International Reporting Financial Standards (IFRS), as endorsed in the European Union (EU) on the reporting date.

IFRS includes accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), and their predecessor bodies.

The Banco CTT Group is composed of the following subsidiaries:

	2022		2021	
	Holding (%)	Voting Rights (%)	Holding (%)	Voting Rights (%)
Payshop (Portugal), S.A. (*)	100%	100%	100%	100%
321 Crédito - Instituição Financeira de Crédito, S.A.	100%	100%	100%	100%

(*) Discontinued activity

Moreover, considering the requirements of IFRS 10, the Group's consolidation perimeter includes the following structured entities:

	Year of Incorporation	Place of Issue	Consolidation Method
Ulisses Finance No.1 (*)	2017	Portugal	Full
Chaves Funding No.8 (*)	2019	Portugal	Full
Ulisses Finance No.2 (*)	2021	Portugal	Full
Next Funding No.1	2021	Portugal	Full
Ulisses Finance No.3 (*)	2022	Portugal	Full

*(*) Entities incorporated under securitisation operations, recorded in the consolidated financial statements according to the Group's continued involvement, determined on the basis of the holding of the residual interests (equity piece or excess spread) of the respective vehicles and to the extent that the Group substantially holds all the risks and benefits associated with the underlying assets and has the capacity to affect those same risks and benefits (see Note 36 — Securitisation of assets).*

The main impacts of the consolidation of these structured entities on the Group's accounts are presented below:

(amounts in thousand euros)

	2022	2021
Cash and deposits at credit institutions	22,640	20,092
Financial assets at fair value through profit or loss – Derivatives	26,220	2,262
Financial assets at amortised cost – Loans and advances to customers (Credit cards)	353,816	298,716
Financial assets at amortised cost – Loans and advances to customers (Other loans and advances)	(40,672)	(35,387)
Financial assets at amortised cost – Debt securities	(319,776)	(259,669)

The consolidated financial statements, presented herein, reflect the results of the operations of the Bank and its subsidiaries for the year ended on 31 December 20212 having been prepared in accordance with current IFRS as adopted in the European Union by 31 December 2021.

The financial statements are expressed in thousands of euros, rounded to the nearest thousand, and have been prepared on a going concern basis and under the historical cost convention, except for the assets and liabilities accounted at fair value, namely other financial assets at fair value through other comprehensive income. Besides what is disclosed in Note 19 regarding the subsidiary Payshop (Portugal), S.A., the Group has no projects or intentions of actions that may jeopardise the continuity of its operations.

The accounting policies used by the Group in preparing the statements as at 31 December 2022 are consistent with those used in preparing the financial statements as at 31 December 2021. The main accounting policies are described in Note 3.

The preparation of financial statements in conformity with IFRS requires the Group to make judgements and use estimates that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes to these assumptions or if they are different from reality could imply that the actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

These financial statements were approved by the Board of Directors in the meeting held on 14 March 2023.

Note 2 – Main Accounting Policies

The main accounting policies used in the preparation of these financial statements are as follows:

2.1 Basis of consolidation

The Group applies IFRS 3 for the accounting recognition of business combinations, except in situations of business combinations between companies under common control (Transactions under common control), pursuant to article 2 c) and paragraph B1 of the appendix to Annex B of this standard.
The consolidated financial statements presented herein reflect the assets, liabilities, income and costs of the Bank and its subsidiaries (Group).

2.1.1 *Financial stakes in subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has the power to direct the entity's core activities and, when it is exposed, or has rights, to the variability in the returns derived from its involvement with this entity and might claim them through the power held over the core activities of this entity (de facto control). The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group acquires control up to the date when the control ends.

The accumulated losses are attributed to non-controlling interests in the proportions held, which could imply the recognition of negative non-controlling interests.

In a step acquisition operation giving rise to the acquisition of control, when the goodwill is calculated, the revaluation of any stake previously acquired is recognised through profit or loss. At the time of a partial sale, resulting in loss of control over a subsidiary, any remaining stake is revalued at market value on the sale date and the gain or loss derived from this revaluation is recorded through profit or loss.

2.1.2 *Financial investments in associates*

Financial investments in associates are recorded by the equity method from the date when the Group acquires significant influence up to the date when it ends. Associates are entities in which the Group has significant influence but does not exercise control over its financial and operating policy. It is assumed that the Group has significant influence when it has the power to exercise more than 20% of the voting rights of the associate. If the Group directly or indirectly holds less than 20% of the voting rights, 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 demonstrated by one or more of the following ways:

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

The consolidated financial statements include the part attributable to the Group, of the total reserves and profits and losses of the associated company recorded by the equity method. When the Group's share of losses exceeds its interest in the associate, the book value is reduced to zero and recognition of further losses is discontinued, except to the extent that the Group has incurred in a legal obligation to assume those losses on behalf of the associate.

As at 31 December 2022 and 2021, the Bank does not have any associates.

2.1.3 *Acquisition and dilution of non-controlling interests*

The acquisition of non-controlling interests that does not give rise to a change of control over a subsidiary is recorded as a transaction with shareholders and, as such, additional goodwill is not recognised as a result of this transaction. The difference between the acquisition cost and the fair value of non-controlling interests acquired is recognised directly in reserves. Likewise, gains and losses derived from the divestment of non-controlling interests, that does not give rise to loss of control over a subsidiary, are always recognised against reserves.

2.1.4 *Loss of control*

Gains or losses derived from the dilution or sale of a financial stake in a subsidiary, with loss of control, are recognised by the Group in the income statement.

2.1.5 *Transactions eliminated on consolidation*

Balances and transactions between Group companies, and any unrealised gains and losses arising from these transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated in the proportion of the Group's stake in these entities.

2.1.6 *Goodwill*

Business combinations are recorded by the purchase method. The acquisition cost corresponds to the fair value determined on the acquisition date of the assets assigned and liabilities incurred or assumed. Costs directly attributable to the acquisition of a subsidiary are directly recorded through profit or loss.

Positive goodwill arising from acquisitions is recognised as an asset and recorded at acquisition cost and is not subject to amortisation. Goodwill resulting from the acquisition of shareholdings in subsidiaries and associates is defined as the difference between the value of the acquisition cost and the total or proportional fair value of the acquiree's contingent assets and liabilities, depending on the option taken.

If the goodwill determined is negative, it is recorded directly in the results of the period in which the concentration of activities occurs.

Goodwill is not adjusted according to the final determination of the value of the contingent price, with its impact being recognised through profit or loss, or equity, when applicable.

The recoverable amount of *goodwill* recorded in the Group's assets is analysed on an annual basis in the preparation of accounts with reference to the end of the year or whenever there is evidence of possible loss of value. Impairment losses are recognised in the income statement. The recoverable amount is determined based on the highest figure between the value of the assets in use and the market value minus selling costs, calculated using valuation methodologies supported by discounted cash flow

techniques, considering market conditions, the time value of money and the business risks.

In the case of a transaction of a jointly controlled entity, the Group has decided to apply the option of recording the acquired company at the book value that this entity was stated at in the balance sheet of the entity that divested it. Thus, a new goodwill is not calculated, and the Bank records the goodwill that existed, if any, in the accounts of the selling entity.

2.2 Foreign Currency Transactions

Transactions in foreign currency (a currency different from the Group's functional currency) are recorded at the exchange rates in force on the transaction date. At each reporting date, the book values of the monetary items in foreign currency are updated at the exchange rates on that date. The book values of non-monetary items recorded at historical cost in foreign currency are not updated.

Favourable and unfavourable currency translation differences arising from the use of different exchange rates in force on the transaction dates and those in force on the recovery, payment or reporting dates are recognised in the profit or loss for the year.

2.3 Financial Instruments – IFRS 9

2.3.1 *Financial assets*

Classification, initial recognition and subsequent measurement

At the time of their initial recognition, the financial assets are classified into one of the following categories.
i) Financial assets at amortised cost;
ii) Financial assets at fair value through other comprehensive income; or
iii) Financial assets at fair value through profit or loss.

The classification takes into account the following aspects:
i) the Group's business model for the management of the financial asset; and
ii) the features of the financial asset's contractual cash flows.

Assessment of the Business Model

The Group makes an assessment of the business model in which the financial asset is held, at the portfolio level, as this approach best reflects how the assets are managed and how the information is provided to the management bodies. The information considered in this assessment included:

- the policies and objectives established for the portfolio and the practical operation of these policies, including how the management strategy focuses on the receipt of contractual interest or the realisation of cash flows through the sale of assets;
- the way that the portfolio performance is assessed and reported to the Group's management bodies;;
- the assessment of the risk that affect the performance of the business model (and of the financial assets held under this business model) and how these risks are managed; and
- the frequency, volume and periodicity of the sales in previous periods, the motives for these sales and the expectations on future sales. However, information on sales should not be considered in isolation, but as part of an overall assessment of how

the Group sets financial asset management objectives and how cash flows are obtained.
- Evaluation whether contractual cash flows correspond only to the receipt of principal and interest (SPPI - Solely Payments of Principal and Interest).

For purposes of this assessment, "principal" is defined as the fair value of the financial asset upon initial recognition. "Interest" is defined as compensation for the time value of money, for the credit risk associated to the amount in debt during a particular period of time and for other risks and costs associated to the activity (e.g. liquidity risk and administrative costs), as well as a profit margin.

In the assessment of financial instruments where contractual cash flows refer exclusively to the receipt of principal and interest, the Group considered the original contractual terms of the instrument. This assessment included analysis of the existence of situations in which the contractual terms could modify the periodicity and the amount of the cash flows so that they do not comply with the SPPI condition. In the assessment process, the Group took into account:

- contingent events that could modify the periodicity and amount of the cash flows;
- characteristics that give rise to leverage;
- clauses on early payment and extension of maturity;
- clauses that may limit the Group's right to claim cash flows in relation to specific assets (e.g. contracts with clauses that prevent access to assets in case of default — "non-recourse asset"); and
- characteristics that could modify the compensation for the time value of money.

Moreover, an early payment is consistent as a SPPI criterion, if:
- the financial asset was acquired or originated with a premium or discount relative to the contractual nominal value;
- the early payment substantially represents the nominal amount of the contract plus the periodic contractual interest, but that has not been paid (it may include reasonable compensation for the early payment); and
- the fair value of the early payment is insignificant upon initial recognition.

Reclassifications between financial instruments categories

If the Group changes its financial asset management business model, which is expected to take place infrequently and exceptionally, it reclassifies all the financial assets affected, in conformity with the requirements defined in IFRS 9 - "Financial instruments". The reclassification is applied prospectively from the date when it becomes effective. Pursuant to IFRS 9 – "Financial instruments", reclassifications are not permitted for equity instruments with the option of measurement at fair value through other comprehensive income or for financial assets and liabilities classified at fair value under the fair value option.

2.3.1.1 *Financial assets at amortised cost*

Classification

A financial asset is classified in the category of "Financial assets at amortised cost" if it cumulatively complies with the following conditions:

- the financial asset is held in a business model whose main objective is the holding of assets for collection of its contractual cash flows; and
- its contractual cash flows occur on specific dates and correspond only to payments of principal and interest of the amount in debt (SPPI).

The category of "Financial assets at amortised cost" includes investments at credit institutions, loans and advances to customers, and debt securities managed based on a business model whose objective is the receipt of their contractual cash flows (public debt bonds and bonds issued by companies).

Initial recognition and subsequent measurement

Investments at credit institutions and loans and advances to customers are recognised on the date when the funds are provided to the counterparty (settlement date). Debt securities are recognised on the date of their trading (trade date), i.e. on the date when Group makes a commitment to acquire them.

Financial assets at amortised cost are initially recognised at their fair value, plus transaction costs, and are subsequently measured at amortised cost. Furthermore, after their initial recognition, they are subject to the estimation of impairment losses due to expected loan losses, which are recorded against the heading "Impairment of other financial assets".

Interest arising from financial assets at amortised cost is recognised under the heading "Interest and similar income calculated through the effective interest rate", based on the effective interest rate method and pursuant to the criteria described in Note 2.11.

Gains or losses generated at the time of their derecognition are recorded under the heading "Results from financial assets and liabilities at amortised cost".

2.3.1.2 *Financial assets at fair value through other comprehensive income*

Classification

A financial asset is classified in the category of "Financial assets at fair value through other comprehensive income" if it cumulatively complies with the following conditions:

- the financial asset is held in a business model where the objective is the collection of its contractual cash flows and the sale of that financial asset;
- its contractual cash flows occur on specific dates and correspond only to payments of principal and interest of the amount in debt (SPPI).

Furthermore, upon the initial recognition of an equity instrument, which is not held for trading, nor for a contingent retribution recognised by an acquiror in a business combination subject to IFRS 3, the Group can irrevocably decide to classify it in a category of "Financial assets at fair value through other comprehensive income" (FVOCI). This option is decided on a case-by-case basis for each investment and is only available for financial instruments that comply with the definition of equity instruments established in IAS 32, and cannot be used for financial instruments whose classification as an equity instrument in the sphere of the issuer is done under the exceptions foreseen in paragraphs 16A to 16D of IAS 32.

Initial recognition and subsequent measurement

Debt instruments at fair value through other comprehensive income are initially recognised at their fair value, plus transaction costs, and are subsequently measured at amortised cost. The fair value variations of these financial assets are recorded through other comprehensive income and, at the time of their divestment, the respective accumulated gains or losses in other comprehensive income are reclassified to a specific income statement heading named "Net gains/(losses) of other financial assets at fair value through other comprehensive income".

Debt instruments at fair value through other comprehensive income are also subject, since their initial recognition, to the calculation of impairment losses due to expected loan losses. The estimated impairment losses are recognised through profit or loss, in the heading "Impairment of other financial assets", through other comprehensive income, and do not reduce the book value of financial asset on the balance sheet.

The interest, premiums or discounts of financial assets at fair value through other comprehensive income are recognised under the heading "Interest and similar income calculated through the effective interest rate", based on the effective interest rate and pursuant to the criteria described in Note 2.11.

Equity instruments at fair value through other comprehensive income are initially recognised at their fair value, plus transaction costs, and are subsequently measured at fair value. Fair value variations of these financial assets are recorded through other comprehensive income. Dividends are recognised through profit or loss when the right to receive them has been attributed.

No impairment is recognised for equity instruments at fair value through other comprehensive income, and the respective accumulated gains or losses recorded under fair value changes are transferred to Retained Earnings at the time of their derecognition.

2.3.1.3 *Financial assets at fair value through profit or loss*

A financial asset is classified in the category of "Financial assets at fair value through profit or loss" (FVTPL) if the business model defined by the Group for its management or the characteristics of its contractual cash flow do not meet the conditions described above to be measured at amortised cost (2.3.1.1) nor at fair value through other comprehensive income (FVOCI) (2.3.1.2).

Financial assets held for trading or management whose performance is assessed on a fair value basis are measured at fair value through profit or loss due to neither being held for the collection of contractual cash flow nor for the sale of these financial assets.

Furthermore, the Group may irrevocably designate a financial asset, that meets the criteria to be measured at amortised cost or fair value through other comprehensive income, at fair value through profit or loss, at the time of its initial recognition, if this eliminates or significantly reduces an incoherence in its measurement or recognition (accounting mismatch), which would otherwise arise from the measurement of assets or liabilities or from the recognition of gains or losses from these assets or liabilities on a different basis..

2.3.1.4 *Derecognition of financial assets*

i) The Group derecognises a financial asset when, and only when:

- the contractual rights to the cash flows arising from the financial asset expire; or
- it transfers the financial asset as described in points ii) and iii) below and the transfer meets the conditions for derecognition pursuant to point iv).

ii) The Group transfers a financial asset if, and only if one of the following situations occurs:

- the contractual rights to receive the cash flows arising from the financial asset are transferred; or
- the contractual rights to receive the cash flows arising from the financial asset are withheld, but a contractual obligation is undertaken to pay the cash flows to one or more receivers in an agreement that meets the conditions established in point iii).

iii) When the Group withholds the contractual rights to receive the cash flows arising from a financial asset (the «original asset»), but undertakes a contractual obligation to pay these cash flows to one or more entities (the «final receivers»), the Group treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- the Group has no obligation to pay amounts to the final receivers unless it receives equivalent amounts arising from the original asset. The short-term advances by the entity with the right to total recovery of the loaned amount plus the overdue interest at market rates are not in breach of this condition;
- the Group is prohibited by the terms of the transfer contract from selling or pledging the original asset other than to as guarantee to the final receivers for the obligation of paying them cash flows; and
- the Group has an obligation to send any cash flow that it receives on behalf of the final receivers without significant delays. Moreover, it does not have the right to reinvest these cash flows, except in the case of investments in cash or its equivalents (as defined in IAS 7 Cash Flow Statements) during the short period of settlement between the date of receipt and the required date of delivery to the final receivers, and the interest received as a result of these investments are passed on to the final receivers.

iv) When the Group transfers a financial asset (see point ii above), it should assess to what extent it retains the risks and benefits arising from the ownership of this asset. In this case:

- if the Group substantially transfers all the risks and benefits arising from the ownership of the financial asset, it derecognises the financial asset and separately recognises, as assets or liabilities, any rights and obligations created or retained with the transfer;
- if the Group substantially retains all the risks and benefits arising from the ownership of the financial asset, it will continue to recognise the financial asset.
- if the Group does not substantially transfer or retains all the risks and benefits arising from the ownership of the financial asset, it should determine whether it retained control of the financial asset. In this case:
  ◊ if the Group did not retain control, it should derecognise the financial asset and separately recognise, as assets or liabilities, any rights and obligations created or retained with the transfer;
  ◊ if the Group retained control, it should continue to recognise the financial asset in proportion to its continued involvement in the financial asset.

v) The transfer of the risks and benefits referred to in the previous point is assessed by comparison of the Group's exposure, before and after the transfer, to the variability of the amounts and time of occurrence of the net cash flows arising from the transferred asset.

vi) The question of knowing whether the Group retained control or not (see point iv above) of the transferred asset depends on the ability of whoever receives the transfer to sell the asset. If whoever receives the transfer has the practical ability to sell the asset as a whole to an unrelated third party and is able to exercise this ability unilaterally and without needing to impose additional restrictions to the transfer, it is considered that the entity did not retain control. In all other cases, it is considered that the entity retained control.

2.3.1.5 *Loans written off from the assets ("write-off")*

The Group recognises a loan written from the asset when it has no reasonable expectations of recovering an asset totally or partially. This record occurs after all the recovery actions developed by the Group have proved unsuccessful. Loans written off from the assets are recorded in off-balance sheet accounts.

2.3.1.6 *Impairment losses*

The Group determines the expected loan losses of each operation according to the deterioration of the credit risk observed since its initial recognition. For this purpose, operations are classified in one of the following three *stages*:

- *Stage 1*: operations in which there has not been a significant increase in credit risk since their initial recognition are classified as being at this stage. The impairment losses associated with operations classified at this stage correspond to the expected credit losses that result from a default event that may occur within a period of 12 months after the reporting date (credit losses expected at 12 months).
- *Stage 2*: operations in which there has been a significant increase in credit risk since their initial recognition, but that are not yet in situations of impairment, are classified as being at this stage. The impairment losses associated with operations classified at this stage correspond to the expected credit losses resulting from default events that may occur over the expected residual life of the operations (lifetime expected credit losses).
- *Stage 3*: operations in a situation of impairment are classified as being at this stage. The impairment losses associated to operations classified in this stage correspond to lifetime expected credit losses. Operations acquired or originated in situations of impairment (Purchased or Originated Credit-Impaired – POCI) are also classified under stage 3.

Forward Looking Information

For models based on historical records, namely those applicable to Motor Vehicle Credit, plans have been made to use a Forward Looking component based on macroeconomic variables with historical data series and forecasts of suitable bodies considered relevant for estimation of the probabilities of default. In this case the Gross Domestic Product, the Unemployment Rate and the Harmonised Index of Consumer Prices were selected.

On the reporting date, and as a result of the most recent review of the model, this component was not being applied as no explanatory and intuitive statistical relationships have been observed between these variables and the performance of the historical records used.

Also for the credit card portfolio, whose model is also based on historical data, there is a forward looking methodology that is also based on economic variables (collected from the Banco de Portugal Economic Bulletins with forecasts), namely the unemployment rate, Harmonised Consumer Price Index, private consumption, exports of goods and services and GDP at market prices. Performing several tests with various combinations gives a set of statistical results that evaluate the correlation of the variables with the Probabilities of Default. Until the reporting date, the results have not shown sufficient statistical relevance and robustness for the inclusion of the component in the model.

Finally, in the case of mortgage loans, where historical data on default is virtually non-existent, it proved impossible to apply a statistically-based forward-looking component. Therefore, special conservatism has been applied in the latest revisions of benchmark-based parameters.

Significant increase of credit risk (SICR)

Significant increase of credit risk (SICR) is mainly determined according to quantitative criteria but also according to qualitative criteria, with a view to detecting significant increases of the Probability of Default (PD), supplemented with other type of information, in particular the behaviour of customers to entities of the financial system.

However, regardless of the observation of a significant increase of credit risk in an exposure, it is classified under Stage 2 when any of the following conditions are met:

- Loans with payment in arrears for more than 30 days (backstop);
- Loans with qualitative triggers subject to risk, namely those presented in Banco de Portugal Circular Letter 02/2014/DSP.

Definition of financial assets in default and in a situation of impairment

Customers who meet at least one of the following criteria are considered indefault:

- Existence of instalments of principal or interest overdue for more than 90 days;
- Debtors in a situation of bankruptcy, insolvency or liquidation;
- Loans in litigation;
- Cross-default credits;
- Restructured loans due to financial difficulties;
- Default quarantined credits;
- Loans regarding which there is a suspicion of fraud or confirmed fraud;
- Loans with amounts written off from assets.

Estimated expected loan losses – Individual analysis

Customers in any of the following conditions are subject to individual analysis:

- Individual customers of Banco CTT with exposures above 500,000 euros;
- Exposures to credit institutions, sovereign entities, central banks or companies through debt securities in stage 2 or 3;
- 321 Crédito customers with factoring product;
- Customers with a securities leasing product whose active operations have an exposure of more than 70,000 euros; and
- Customers with a real estate leasing product whose active operations have an exposure of more than 75,000 euros or whose LTV ratio is more than 50% or non-existent.

Estimated expected loan losses – Individual analysis

Operations that are subject to individual impairment analysis are grouped together according to their risk characteristics and subject to collective impairment analysis. The Group's loan portfolio is divided by degrees of internal risk and according to the following segments:

Financial Assets	Retail Offer	Mortgage Loans	Consists of the Bank's Mortgage loans lending offer which has residential real estate property as collateral, regardless of the degree of completion of its construction.
		Overdrafts	Includes the Bank's overdraft facilities and credit overrunning.
		Auto Loans	Includes the offer of used motor vehicle credit with reservation of ownership of 321 Crédito.
		Credit cards	Includes the Universo Credit Card offer.
	Sovereign debt		Eurozone public debt securities and exposures obtained through the credit assignment contract.
	Corporate		Deposits and investments in other credit institutions, other financing granted to other credit institutions and corporate debt securities.
	Other		Various legacy portfolios of 321 Crédito in run-off phase.

Expected loan losses are estimated loan losses which are determined as follows:

- financial assets with no signs of impairment on the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Group expects to receive;
- financial assets with signs of impairment on the reporting date: the difference between the gross book value and the present value of the estimated cash flows;
- unused credit commitments: the present value of the difference between the resulting contractual cash flows if the commitment is realised and the cash flows that the Group expects to receive.

The main inputs used to measure the expected loan losses on a collective basis include the following variables:

- probability of default (hereinafter referred to as "Probability of Default" or "PD");
- loss given default (hereinafter referred to as "Loss Given Default" or "LGD"); and
- exposure at default (hereinafter referred to as "Exposure at Default" or "EAD").

These parameters are obtained through internal models and other relevant historical data, taking into account existing regulatory models adapted according to the requirements of IFRS 9.

The PDs are calculated based on historical records, when available, or benchmarks in all other cases. If the degree of risk of the counterpart or exposure changes, the associated estimated PD will also vary. The PDs are calculated considering the contractual maturities of the exposures.

The Group collects performance and *default* indicators about its credit risk exposures with analysis by types of customers and products.

LGD is the magnitude of the expected loss in the event that the exposure enters into default. The Group estimates LGD parameters based on benchmarks and, in the segments where it exists, based on history. In the case of contracts secured by real estate, LTV (loan-to-value) ratios are a highly relevant parameter in determining LGD.

EAD represents the expected exposure in the event that the exposer and/or customer enters into default. The Group obtains the EAD values from the current exposure of the counterpart and potential changes to the respective present value as a result of the contractual conditions. For commitments, the EAD value considers both the value of credit used and the expected future

potential value which could be used pursuant to the contract.

As described above, except for financial assets that consider a PD at 12 months due to not having shown a significant increase of credit risk, the Group calculates the value of the expected loan losses taking into account the risk of default during the maximum contractual maturity period even though, for risk management purposes, a longer period is considered. The maximum contractual period will be considered as the period up to the date when the Group has the right to demand the payment or terminate the commitment or guarantee.

For financial assets that are "Cash and deposits at other credit institutions", "Investments in other credit institutions" and "Investments in securities" the impairments are calculated by attributing:

i) a probability of default that derives from the external rating of the issuer or counterparty, respectively; and

ii) a Loss Given Default (LGD) defined by the Group, based on data from Moody's rating agency, and depending on whether the entity is Corporate or Sovereign.

2.3.1.7 *Modification of financial assets*

If the conditions of a financial asset are modified, the Group assesses whether the asset's cash flows are substantially different.

If the cash flows are substantially different, the contractual rights to the cash flows of the original financial asset are considered expired and the principles described in Note 2.3.1.4 Derecognition of financial assets apply.

If the modification of a financial asset measured at amortised cost or fair value through other comprehensive income does not give rise to the derecognition of the financial asset, then the Group firstly recalculates the gross book value of the financial asset, applying the original effective interest rate of the asset and recognises the adjustment derived thereof as a modification gain or loss through profit or loss. For financial assets with variable rates, the original effective interest rate used to calculate the gain or loss of the modification is adjusted to reflect the current market conditions at the time of the modification. Any costs or commissions incurred and commissions received as part of the modification are incorporated to adjust the gross book value of the modified financial asset and are amortised during the remaining period of the modified financial asset.

2.3.2 Financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation of its settlement being made against the submission of cash or another financial asset, irrespective of its legal form.

Non-derivatives financial liabilities essentially include deposits from customers.

These financial liabilities are recorded (i) initially at fair value minus the transaction costs incurred, and (ii) subsequently at amortised cost, based on the effective interest rate method.

The Group derecognises financial liabilities when these are cancelled, extinguished or expire.

2.3.3 Derivate Financial instruments

Derivative financial instruments are recorded at fair value on the date the Group negotiates contracts and are subsequently measured at fair value. Fair value is obtained through market prices quoted on active markets, including recent market transactions, and valuation models, namely: discounted cash flow models and options valuation models. Derivatives are considered assets when their fair value is positive and as liabilities when their fair value is negative. Revaluation results are recognised in "Results from assets and liabilities at fair value through profit or loss".

Certain derivatives embedded in other financial instruments, such as the indexation of returns on debt instruments to the value of shares or share indices, are bifurcated and treated as separate derivatives when their risk and economic characteristics are not clearly related to those of the host contract and the host contract is not measured at fair value with changes recognised in profit or loss. These embedded derivatives are measured at fair value, with subsequent changes recognised in the income statement.

Derivatives are also recorded in off-balance sheet accounts at their theoretical value (notional value).

2.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

2.5 Equity Instruments

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

Transaction costs directly attributable to the issue of equity instruments are recognised against equity as a deduction to the value of the issue. Amounts paid or received due to sales or acquisitions of equity instruments are recorded in equity, net of transaction costs.

Distributions to holders of equity instruments are debited directly from the equity as dividends when declared.

2.6 Tangible Assets

Tangible assets are recorded at their acquisition or production cost, minus accumulated depreciation and impairment losses, when applicable. The acquisition cost includes:

(i) the purchase price of the asset;
(ii) the expenses directly imputable to the purchase.

The depreciation of tangible assets, minus their residual estimated value, is calculated in accordance with the straight-line method, from the month when the assets are available for use, over their useful lives, which are determined according to their expected economic utility.

The depreciation rates that are applied correspond, on average, to the following estimated useful lives for the different categories of assets:

	Years of useful life
Works in rented properties	1-10
Security equipment	1-8
Other equipment	1-5

Depreciation terminates when the assets are re-classified as held for sale.

On each reporting date, the Group assesses whether there is any indication that an asset might be impaired. Whenever such indicators exist, the tangible assets are subject to impairment tests, where any excess of the carrying value relative to the recoverable amount, should this exist, is recognised in the consolidated income statement. The recoverable amount corresponds to the highest figure between the fair value of an asset minus the costs of selling it and its value in use, calculated based on the present value of the future cash flows that are expected to be obtained from its continued use.

Tangible assets in progress correspond to tangible assets that are still under construction/production and are recorded at acquisition or production cost. These assets are depreciated from the month when they fulfil the necessary conditions to be used for their intended purpose.

Costs related to maintenance and repair of current nature are recorded as costs in the period these are incurred. Major repairs which lead to increased benefits or increased in expected useful life are recorded as tangible assets and depreciated at the rates corresponding to their expected useful life. Any replaced component is identified and written off.

Income or expenses derived from the divestment of tangible assets are determined by the difference between the sale value and its book value, being recorded under the heading "Other operating income/(expenses)".

2.7 Intangible Assets

Intangible assets are registered at acquisition cost, minus amortisation and impairment losses, when applicable. Intangible assets are only recognised when it is probable that they will result in future economic benefits for the Group, and they can be measured reliably.

Intangible assets are essentially composed of expenses related to software (whenever this is separable from the hardware and associated to projects where the generation of future economic benefits is quantifiable), licenses and other rights of use. Also included are expenses related to the development of R&D projects whenever the intention and technical capacity to complete this development is demonstrated, for the purpose of the projects being available for marketing or use. Research costs incurred in the search of new technical or scientific knowledge or aimed at the search of alternative solutions, are recognised through profit or loss when incurred.

Intangible assets are amortised through the straight-line method, as of the month when they are available for use, during their expected useful life, which is situated in a period varying between 3 and 6 years. In the specific case of the base operational system, after specific analysis regarding the expected period of its effective use, it was decided to amortise it over a period of 15 years (until 2030).

The Group performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount, with the difference, when existing, being recognised through profit or loss. The recoverable amount is the higher of net

selling price and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.
Income or expenses derived from the divestment of intangible assets are determined by the difference between the sale value and its book value, being recorded under the heading "Other operating income/(expenses)".

2.8 Leases

At the beginning of a contract, the Group assesses whether it is or contains a lease. A contract or part of a contract that transfer the right to use an asset (the underlying asset) during a certain period, in exchange of a retribution. In order to assess whether a contract transfer the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – which could be specified explicitly or implicitly, and should be physically distinctive or substantially represent all the capacity of a physically distinctive asset. Even if the asset is specified, the Group does not have the right to use an identified asset if the supplier has the substantive right to replace this asset during its period of use;
- the Group has the right to substantially receive all the economic benefits from the use of the identified asset, throughout its entire period of use; and
- the Group has the right to direct the use of the identified asset. The Group has this right when it has the most relevant decision-making rights to change the way and purpose with which the asset is used throughout its entire period of use. In cases where the decision on how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if:
    - ◊ The Group has the right to make use of the asset (or order others to make use of the asset in the manner that the Group determines) throughout its entire period of use, where the supplier does not have the right to change these instructions on the asset's use; or
    - ◊ The Group designed the asset (or specific aspects of the asset) in a manner that previously determines how and for what purpose the asset shall be used throughout its entire period of use.

The Group applied this approach to the contracts concluded or amended on or after 1 January 2019.

At the beginning or in the reassessment of a contract that contains a component of the lease, the Group imputes the retribution in the contract to each component of the lease based on their individual prices. However, for leases of land and buildings in which it is the lessee (tenant), the Group decided not to separate the components that do not belong to the lease, and to record the lease and non-lease components as a single component.

2.8.1 As lessee

The Group recognises a right-of-use asset and a liability related to the lease on the lease starting date. The right-of-use asset is initially measured at cost, which includes the initial value of the lease liability adjusted for all the expected lease payments on or before the starting date, plus any direct costs incurred and an estimate of the costs for dismantlement and removal of the underlying asset or to restore the underlying asset or the premises on which it is located, minus any lease incentives received.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the starting date to the end of the useful life of the right-of-use asset or to the end of the lease period, according to what ends first. The useful life of right-of-use assets is determined by following the same principles as those applicable to Tangible Assets. Furthermore, the right-of-use asset is

periodically deducted impairment losses, if any, and adjusted for particular remunerations of the lease liability.

The lease liability is initially measured at the present value of the lease payments that have not yet been made on that date, discounted by the implicit interest rate in the lease, if this rate can be easily determined. If this rate cannot be easily determined, the Group's incremental funding rate should be used. As a rule, the Group uses its incremental funding rate as the discount rate.

The lease payments included in the measurement of the lease liability consist of the following:

- fixed payments (including fixed payments in substance), minus the lease incentives;
- variable payments that depend on an index or rate, initially measured using the existing rate or index on the starting date;
- amounts that are expected to be paid to guarantee the residual value;
- the price of the exercise of a purchase option, if the Group is reasonably certain that it shall exercise this option; and
- payments of sanctions due to rescission of the lease, if the lease period reflects the exercise of an option for lease rescission by the Group.

The lease liability is measured at amortised cost using the effective interest rate method. This is remeasured when there is a change to the future lease payments derived from a change in an index or rate, when there is a change in the Group's estimate of the amount it expects to pay for a residual value guarantee, or whenever the Group changes its assessment of the expected exercise or not of a purchase, extension or rescission option.

Whenever the lease liability is remeasured, the Group recognises the remeasurement amount of the lease liability as an adjustment to the right-of-use asset. However, if the book value of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises this reduction in the income statement.

The Group presents the right-of-use assets that do not correspond to the definition of investment property under "Other Tangible Assets" and the lease liabilities under "Other Liabilities" in the statement of financial position.

Short-term leases and low-value leases

The rules allow a lessee not to recognise right-of-use assets and short-term leases with a lease period of 12 months or less, and leases of low-value assets, where the payments associated to these leases are recognised as an expense by the straight-line method during the enforcement of the contract.

2.8.2 As lessor

When the Group acts as a lessor, at the beginning of the lease it determines whether this lease should be classified as an operating lease or a finance lease.

In order to classify each lease, the Group makes an overall assessment as to whether the lease substantially transfers all the risks and benefits inherent to the ownership of the underlying asset. If the lease substantially transfers all the risks and benefits inherent to the ownership of the underlying assets, this entails a finance lease, otherwise it shall be considered an operating lease. As part of this assessment, the Group considers various indicators such as whether the lease is conducted for the majority of the asset's economic life.

When the Group is an intermediary lessor, the Group records its interests in the main lease and in the sublease separately. The classification of the sublease is made by reference to the right-of-use asset derived from the original lease, and not by reference to the underlying asset. If the original lease is a short-term lease contract to which the Group applies the exemption of recognition described above, the Group classifies the sublease as an operating lease.

If a contract contains lease and non-lease components, the Group shall apply IFRS 15 to impute the retribution established in the contract.

2.9 Income Tax

Corporate income tax corresponds to the sum of current taxes and deferred taxes. Current taxes and deferred taxes are recorded under net income, unless they refer to items recorded directly in equity. In these cases, deferred taxes are also recorded under equity.

Current tax payable is based on the taxable profit for the period, calculated in accordance with the tax laws in force on the reporting date. Taxable income differs from accounting income, since it excludes various costs and revenues which will only be deductible or taxable in other financial years. Taxable income also excludes costs and revenues which will never be deductible or taxable.

Deferred taxes refer to temporary differences between the amounts of assets and liabilities for accounting purposes and the corresponding amounts for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences. However, this recognition only takes place when there are reasonable expectations of sufficient future taxable profits to use these deferred tax assets, or when there are deferred tax liabilities whose reversal is expected in the same period that the deferred tax assets may be used. On each reporting date, a review is made of these deferred tax assets, which are adjusted according to expectations on their future use.

Deferred tax assets and liabilities are measured using the tax rates which are in force on the date of the reversal of the corresponding temporary differences, based on the taxation rates (and tax legislation) which are enacted, formally or substantially, on the reporting date.

The Bank and its subsidiaries – more than 75% held directly or indirectly, and for more than 1 year by the parent company CTT – are covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 75% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, and until 2020 inclusive, Banco CTT and its subsidiaries, eligible to application of the RETGS, receive from CTT the value relative to the tax loss which they contribute to the consolidated corporate income tax of the CTT Group and, likewise, pay to CTT the value relative to their positive contribution to the consolidated corporate income tax of the CTT Group. As of 2021, the Banco CTT Group is considered to be a "tax sub-consolidated" entity within the Regime in which CTT - Correios de Portugal, S.A. is the dominant company. In this way, Banco CTT's subsidiaries make corporate income tax (IRC) settlements to Banco CTT, and Banco CTT pays or receives the net amount determined for the Banco CTT Group to/from that dominant company. In the event that there are historical amounts receivable from CTT by the Group, any corporate income tax payments to CTT are settled through the use/reduction of the amount receivable, with effective payment only after there are no historical amounts receivable.

2.10 Provisions

Provisions are recognised when, cumulatively: (i) the Group has a present obligation (legal or implicit) arising from a past event, (ii) it is probable that its payment will be demanded, and (iii) there is a reliable estimate of the value of this obligation. The amount of the provisions corresponds to the present value of the obligation, with the financial updating being recorded as a financial cost under the heading "Interest and similar expenses".

The provisions are reviewed on every reporting date and are adjusted in order to reflect the best estimate at that date.

2.11 Recognition of Interest

The net gains/(losses) of financial instruments measured at amortised cost and at fair value through other comprehensive income are recognised in the headings "Interest and similar income" or "Interest and similar expenses", using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net book value of the financial asset or financial liability. The effective interest rate is established upon the initial recognition of the financial assets and liabilities and us not reviewed subsequently.

When calculating the effective interest rate, the future cash flows are estimated considering all the contractual terms of the financial instrument but not considering possible future loan losses. The calculation includes all fees and commissions that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts directly related to the transaction. In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, the interest recorded in "Interest and similar income" is calculated using the interest rate used to measure the impairment loss.

The Group does not recognise interest for financial assets in arrears for more than 90 days.

2.12 Recognition of Income of Services, Fees and Commissions

The income from services, fees and commissions is recognised as follows:

- Fees and commissions that are earned in the execution of a significant act, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period that the services are provided; and
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recorded through profit or loss using the effective interest rate method.

2.13 Earnings per Share

Basic earnings per share are calculated by dividing the net income by the weighted average number of ordinary shares in circulation during the year.

The earnings by diluted share are calculated by adjusting the effect of all the potential ordinary diluting shares to the weighted average number of ordinary shares in circulation.

2.14 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balance sheet items with less than three months' maturity counted from the acquisition/contracting date, including cash and deposits at other credit institutions.

Cash and cash equivalents exclude restricted balances with central banks.

2.15 Provision of Insurance Mediation Services

Banco CTT and its subsidiary 321 Crédito (Group) are entities authorised by the Insurance and Pension Fund Supervision Authority ("ASF") to conduct the activity of insurance mediation in the category of Linked Insurance Broker, in accordance with article 8, subparagraph a), item i) of Decree-Law 144/2006, of July 31, developing the activity of insurance intermediation in the life and non-life insurance business.

Under the insurance mediation services, the Group sells insurance contracts. As remuneration for the insurance mediation services rendered, Banco CTT receive commissions for insurance contract mediation, which are defined in the agreements / protocols established with the Insurance Companies.

The commissions received for the insurance mediation services are recognised in accordance with the accrual principle. Therefore, commissions received at a different period from that to which they refer are recorded as an amount receivable under "Other Assets".

2.16 Employee Benefits

Career Bonus

Pursuant to Clause 69 of the collective bargaining agreement (ACT) of the banking sector, published in the Labour and Employment Bulletin (BTE) number 38/2017 of 15 October, 321 Crédito undertook the commitment to, on the date of retirement, due to disability or old age, grant the employee a bonus equal to 1.5 times the effective monthly remuneration earned on that date. In the event of death while actively employed, a bonus shall be paid of the value equal to 1.5 times the effective monthly retribution that the deceased employee earned on the date of death.

The basic salary, seniority payments and all the extra components are considered. It is presumed that their salary growth will be higher than that of the salary table in order to consider possible progressions.

The seniority payments are calculated according to the provisions established in Annex II of the collective bargaining agreement, and also foresees the increase arising from the number of years of service.

Allowance due to Death Arising from a Work Accident

In the sphere of 321 Crédito, death arising from a work accident shall give rise to the payment of a capital sum – death allowance – as defined in Clause 72 of the collective bargaining agreement referred to above. For the liability related to allowances due to death arising from a work accident, the calculation uses the value established in Annex II of the collective bargaining agreement, considering the growth rate of the salary table and the probabilities of death due to a work accident.

Post-Retirement Medical Care (SAMS)

The Group, through its subsidiary 321 Crédito, is liable for the payment of the medical care costs of all the employees of 321 Crédito, S.A. as well as those who move into a situation of retirement, and for the costs related to survivors' pensions. This medical care is provided by the Social Medical Assistance Service (SAMS) whose post-retirement costs to the member are defined are Clause 92 of the collective bargaining agreement of the banking sector published in Bulleting of Work and Employment (BTE) number 38/2017 of 15 October. The Group is liable for the payment of the aforesaid costs for all its employees as soon as they move into a situation of retirement and for the costs related to survivors' pensions. For the calculation the values of Annex III in the collective bargaining agreement (ACT) are considered, including the growth rate of the salary table for the counting of length of service, taking into account the seniority date in the group.

The value of the Group's liabilities related to the defined benefit plans for employees are calculated based on the Projected Unit Credit method, subject to annual review by independent actuaries. The actuarial assumptions used are based on expectations of future salary increases and mortality tables.

The discount rate is determined according to the Group's analysis of the evolution of the macroeconomic context and constant need to adjust the actuarial and financial assumptions to that context.

Remeasurement gains and losses, namely actuarial gains and losses arising from differences between the actuarial assumptions used and the figures effectively observed (experience gains and losses) and from changes of actuarial assumptions are recognised against equity under the heading "Other net changes in equity".

The Group recognises in its income statement a net total value that includes (i) the cost of current service; (ii) the interest of the benefit plan; (iii) costs of past services; and (iv) the effects of any settlement or cut occurred in the period. The interest related to the benefit plan for employees was recognised as interest and similar income or interest and similar expenses according to their nature.

Variable remunerations of the employees

Pursuant to IAS 19 – Employee benefits, the variable remunerations (profit-sharing, bonuses and other) attributed to the employees and, possibly, to executive members of the management bodies are recorded under profit or loss for the year to which they refer.

2.17 Non-Current Assets Held for Sale and Assets of Disposal Groups Classified as Held for Sale

IFRS 5 – Non-current Assets Held for Sale and Discontinued Business Premises is applicable to separate non-current assets, groups of non-current assets held for sale (groups of assets together with the respective liabilities, which include at least one non-current asset) and discontinued operations. These assets are classified as held for sale when there is the intention to divest these assets and liabilities, and the assets or groups of assets are available for immediate sale, subject to the terms of sale usually applicable to these types of assets and their sale is highly probable, pursuant to the provisions defined in IFRS 5.

During its current activity of granting loans, the Group incurs the risk of being unable to secure the full repayment of its loans. In the case of loans with collateral, the Group enforces the foreclose of these assets/award for settlement of the granted loan.

Pursuant to the provisions in the Legal Framework of Credit Institutions and Financial Companies (RGICSF), banks are precluded, unless authorisation has been granted by Banco de Portugal, from acquiring real estate properties that are not indispensable for their installation and operation or the pursuit of their corporate purpose (number 1 of article 112 of the RGICSF) but may, however, acquire real estate properties through repayment of their own loans, where the situations arising thereof should be cleared within the period of 2 years which, if there are grounds for such, may be extended by Banco de Portugal, under the conditions determined by the latter (article 114 of the RGICSF).

These assets are recorded, at their initial recognition, at the lowest figure between their fair value less the expected costs to sell and the book value of the granted loan under recovery (credit that has not yet fallen due in the case of finance lease contracts). These assets are subsequently measured at the lowest figure between the initial recognition value and the fair value less costs to sell and are not amortised.

Whenever the calculated fair value net of costs to sell and maintenance costs (including haircuts defined in the discount table presented in Annex II of Circular Letter 2018/00000062) is less than the value at which it is recognised in the Group's balance sheet, an impairment loss is recorded of the amount of the calculated decrease of value. Impairment losses are recorded through profit or loss for the year. If the net fair value of the costs to sell, at a time after the recognition of impairments, indicates a gain, the Group may reflect this gain up to the maximum amount of the impairment that has been constituted for this asset.

Periodic assessment of real estate properties is carried out by independent expert valuators specialised in these types of services.

2.18 Securitisation operations

The Group has four consumer credit securitisation operations in progress (Ulisses Finance No.1, Chaves Funding No. 8, Ulisses Finance No. 2 and Ulisses Finance No.3) and one financial lease securitisation operation (Fénix 1), in which it was the originator of the securitised assets. With regard to the operations Ulisses Finance No.1, Chaves Funding No. 8, Ulisses Finance No. 2 and Ulisses Finance No. 3, the Group maintained control over assets and liabilities to the extent that it acquired their residual tranches. These entities are consolidated in the Group's financial statements in accordance with accounting policy 2.1.

In addition, the Banco CTT Group is the sole investor in the Next Funding No.1 securitisation operation, which has as underlying asset the credit card balances originated by the Universo credit card issued by Sonae Financial Services. This entity is consolidated in the Group's financial statements in accordance with accounting policy 2.1.

Note 3 – Main Estimates and Judgements Used in the Preparation of the Financial Statements

The IFRS establish a series of accounting treatments and require the Board of Directors to make the necessary judgments and

estimates in deciding which treatment is most appropriate. The main accounting estimates and judgements used in applying the accounting principles by the Group are discussed in this Note in order to improve the understanding of how their application affects the Group's reported results and disclosures.

A broad description of the main accounting policies used by the Group is disclosed in Note 2 to the financial statements.
Considering that in some cases there are several alternatives to the accounting treatment chosen by Board of Directors, the results reported by the Group could differ if a different treatment were chosen.

The Board of Directors believes that the choices made are appropriate and that the financial statements present the Group's financial position and the results of its operations fairly in all material aspects.

3.1 Financial instruments – IFRS 9

3.1.1 *Classification and measurement*

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of the contractual cash flows, to conclude on whether they correspond only to payments of principal and interest on the principal in debt) and the business model test.

The Group determine the business model taking into account the manner in which the groups of financial assets are managed as a whole to achieve a specific business goal. This assessment requires judgement, as the following aspects must be considered, among others: the way that asset performance is assessed; and the risks that affect the performance of the assets and how these risks are managed.

The Group monitors the financial assets measured at amortised cost and at fair value through other comprehensive income that are derecognised before their maturity, in order to understand the reasons underlying their divestment and to determine if they are consistent with the objective of the business model defined for these assets. This monitoring is inserted within the Group's process of continuous assessment of the business model of the financial assets that remain in the portfolio, in order to determine whether it is appropriate, and if it not, whether there has been a change of the business model and consequently a prospective change of the classification of these financial assets.

3.1.2 *Impairment losses on financial assets at amortised cost and debt instruments at fair value through other comprehensive income*

The determination of the impairment losses of financial instruments involves judgements and estimates relative to the following aspects, among others:

<u>Significant increase of credit risk</u>

Impairment losses correspond to the expected losses in the event of default over a 12-month time horizon, or the estimated maturity if lower, for assets at stage 1, and to the expected losses considering the probability of occurrence of a default event default at some point until the maturity date of the financial instrument, for assets in stage 2 and 3. An asset is classified at stage 2 whenever there has not been a significant increase in its credit risk since its initial recognition. The Group's assessment of the existence of a significant increase of credit risk considers qualitative and quantitative information, reasonable and sustainable.

Definition of group of assets with common credit risk features

When the expected loan losses are measured on a collective basis, the financial instruments are grouped together based on common risk features. This procedure is necessary to ensure that, in case there is a change of the credit risk features, the segmentation of the assets is reviewed. This review can give rise to the creation of new portfolios or to the transfer of the assets to existing portfolios, which better reflect their credit risk features.

Probability of default

The probability of default represents a determinant factor in the measurement of the expected loan losses. The probability of default corresponds to an estimate of the probability of default in a particular time period, calculated based on historical data, benchmarks or using market data.

Loss given default

Corresponds to an estimated loss in a default scenario. This is based on the difference between the contractual cash flows and those that the Group expects to receive, via cash flows generated by the business of the client or credit collateral. Loss given default is calculated based on, among other aspects, the different scenarios of recovery, historical information, market information, the costs involved in the recovery process and the estimated valuation of the collateral associated to credit operations.

3.1.3 *Fair value of derivative financial instruments*

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions, time value, yield curve and volatility factors. These methodologies may require the use of assumptions or judgements in estimating fair value. Consequently, the use of different methodologies or of different assumptions or judgements in applying a particular model could give rise to results different from those reported.

3.2 *Provisions*

The Group exercises considerable judgement in the measurement and recognition of provisions. Due to the uncertainties inherent to the process of assessment, actual losses might be different from those originally estimated in the provision. These estimates are subject to changes as new information becomes available. Reviews to the estimates of these losses might affect future results.

When relevant, judgement includes assessment of the probability of a litigation having a successful outcome. Provisions are constituted when the Group expects that the ongoing lawsuits will lead to the outflow of funds, the loss is probable and may be estimated reasonably.

3.3 *Goodwill impairment*

The Group tests Goodwill, with the purpose of verifying if it is impaired, in accordance with the policy referred in Note 2.1.6. The calculation of the recoverable amounts of the cash generating units involves a judgment and substantially relies on the analysis of the Management related to the future developments of the respective subsidiary. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment. The variations of these assumptions can influence the results and consequent recording of impairments.

3.4 *Economic environment*

The year 2022 was marked above all by the armed conflict in Ukraine, with economic and social consequences at global level. The effects, in the banking sector, can be divided into three: (i) first-order, through exposures to counterparties in any of the countries in conflict; (ii) second-order, through exposures to counterparties with investment or commercial dependence in the countries in conflict; (iii) lastly, and thirdly, through the propagation of effects associated with the increase in inflation, namely at the macroeconomic level. The first and second order effects on Banco CTT's loan portfolio are, if any, absolutely residual. At the macroeconomic level, the Bank of Portugal's forecasts for 2023 indicate a slowdown in the growth of the Portuguese economy to 1.5%, with the maintenance of a relatively low unemployment rate of 5.9%. It will, however, be a challenging and uncertain year, with the economy constrained by high inflation, more adverse financial conditions and great geopolitical uncertainty. In this context of uncertainty, and in order to meet supervisors' expectations, in 2022, the Group recorded additional impairments in relation to the current models for calculating collective impairment (overlays) in the credit portfolios, namely by increasing the PD parameters in stage 1. However, the high degree of geopolitical instability means that the magnitude of the economic impact of the conflict is uncertain, involving the risk of more adverse scenarios materialising in the evolution of the economy.

Note 4 – Net Interest Income

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Interest and similar expenses	**81,084**	**57,815**
Interest on deposits at Central Banks and credit institutions	169	-
Interest on financial assets at amortised cost		
Investments at credit institutions	1,983	282
Loans and advances to customers	72,711	51,972
Debt securities	6,002	5,461
Interest on financial assets at fair value through other comprehensive income		
Debt securities	34	102
Other interest	185	(2)
Interest and similar expenses	**6,691**	**2,097**
Interest on financial liabilities at amortised cost		
Amounts owed to other credit institutions	-	1
Deposits from Customers	493	472
Debt securities issued	4,877	528
Interest on deposits at Banco de Portugal (assets)	1,202	1,000
Other interest	119	96
Net Interest Income	**74,393**	**55,718**

The heading "Interest and similar income" for the year ended on 31 December 2022 presents a total of 2,034 thousand euros (2021: 2,229 thousand euros) related to impaired financial assets (Stage 3) as at the reference date.

The heading "Interest on loans and advances to customers" includes the amount of -11,943 thousand euros (2021: -9,689 thousand euros) related to commissions and other expenses and income recorded according to the effective interest method, as referred in the accounting policy described in Note 2.11.

The item Interest on deposits at Banco de Portugal (assets) has a value of 1,202 thousand euros (2021: 1,000 thousand euros) which represents interest expenses for amounts deposited with the Central Bank that exceed the minimum reserve requirements. From the reserve counting period beginning on 30 October 2019, the ECB has introduced the tiering regime, whereby the balance with the Central Bank in excess of the minimum cash reserves, up to a calculated maximum of 6 times the reserves, is remunerated at a rate that is the minimum between the deposit facility rate and 0%. This tiering regime ceased to apply on 27 July 2022, following the decision of the Governing Council to raise the deposit facility rate to a non-negative value.

Note 5 – Net Fee and Commission Income

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Fees and commissions received	**27,014**	**21,793**
Due to banking services provided	16,515	14,058
Due to credit intermediation services	2,741	1,766
Due to insurance mediation services	7,673	5,969
Other fees and commissions received	85	-
Fees and commissions paid	**4,555**	**3,952**
Due to banking services provided by third parties	4,393	3,805
Dues to operations with securities	108	117
Other fees and commissions paid	54	30
Net Fee and Commission Income	**22,459**	**17,841**

Note 6 – Results from Assets and Liabilities at Fair Value Through Profit or Loss

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Earnings on transactions with assets and liabilities at fair value through profit or loss	**24,223**	**1,102**
Derivatives	22,744	1,102
Investment fund units	1,479	-
Losses on transactions with assets and liabilities at fair value through profit or loss	**(3,283)**	**(1)**
Derivatives	(13,113)	-
Investment fund units	-	(1)
Results from Assets and Liabilities at Fair Value Through Profit or Loss	**11,110**	**1,101**

The fair value of the assets and liabilities at fair value through profit and loss is presented in Note 17.

Note 7 - Results from Financial Assets and Liabilities at Amortised Cost

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Earnings on operations with financial assets and liabilities at amortised cost	**-**	**17,916**
Debt securities	-	17,916
Losses on operations with financial assets and liabilities at amortised cost	**-**	**(139)**
Debt securities	-	(139)
Results from Financial Assets and Liabilities at Amortised Cost	**-**	**17,777**

In 2022 the Group did not sell securities at amortised cost.

During 2021, the Group made sales of securities at amortised cost, resulting in a gain of 17,777 thousand euros. These sales of securities resulted from the Group's balance sheet management in the context of the entry into a new business segment (credit cards) resulting from the partnership with Universo, IME, S.A..

Note 8 – Other Operating Income/(Expenses)

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Operating income	**5,700**	**3,639**
Credit recovery	1,475	1,281
Other operating income	4,225	2,358
Operating expenses	**3,229**	**2,904**
Levies and donations	56	50
Contribution of the banking sector	158	127
Contribution to the Single Resolution Fund	270	185
Contribution to the Resolution Fund	54	47
Annual supervisory fees (SSM)	13	7
Taxes	197	181
Annual supervisory fees (ASF)	4	4
Contribution to the Deposit Guarantee Fund	27	4
Other operating expenses	2,450	2,299
Other Operating Income/(Expenses)	**2,471**	**735**

The heading "Credit recovery" relates to amounts recovered, by judicial or other means, from contracts written off the assets of the company 321 Crédito.

The heading "Other operating income" refers to expenses charged to customers on account of costs incurred by the Group, namely administrative expenses, expenses related to lawsuits, dossier expenses and postage costs. Additionally, in 2022, 1,930 thousand euros (represents the present value of the amount to be paid in 2023, corresponding to 2,000 thousand euros) related to the compensation due by Universo, IME, S.A. under the termination agreement of the Universo partnership, to be paid when the partnership ends.

The "Contribution of the banking sector" is calculated in accordance with the provisions in Law 55-A/2010, with the amount determined based on: (i) the annual average liability stated on the balance sheet, minus core own funds (Tier 1 Capital) and supplementary own funds (Tier 2 Capital) and the deposits covered by the Deposit Guarantee Fund; and (ii) the notional value of the derivative financial instruments.

The heading "Contribution to the Single Resolution Fund" refers to the ex-ante contribution to the Single Resolution Fund, under the Single Resolution Mechanism and pursuant to number 2 of article 70 of Regulation (EU) 806/2014 of the European Parliament and of the Council, of 15 July 2014.

The heading "Contribution to the Resolution Fund" " corresponds to mandatory periodic contributions to the Fund, pursuant to Decree-Law 24/2013. The periodic contributions are calculated according to a basic rate applicable every year, determined by Banco de Portugal, by instruction, which can be adjusted according to the institution's risk profile, on the objective basis of assessment of these contributions. The periodic contributions are incident on the liabilities of the institutions participating in the Fund, defined under the terms of article 10 of the aforesaid Decree-Law, minus the liability items that are part of the of the core own funds (Tier 1 Capital), supplementary own funds (Tier 2 Capital) and deposits covered by the Deposit Guarantee Fund.

The Single Supervisory Mechanism (SSM) is one of the three pillars of the Banking Union (the Single Supervisory Mechanism, the Single Resolution Mechanism and a Common System for Deposit Protection). The SSM model distinguishes between significant credit institutions (under direct supervision of the ECB) and less significant credit institutions (under indirect supervision of the ECB and direct supervision of the competent national authorities, with articulation and reporting to the ECB), based on quantitative and qualitative criteria. Banco CTT is classified as a Less Significant Entity (LSE).

The heading "Other operating expenses" essentially records expenses related to registry offices, ownership reservations and change of motor vehicle registration.

Note 9 – Staff Costs

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Remuneration	14,647	13,692
Social charges on remunerations	3,447	3,259
Employees with a multiple employer arrangement	3,272	3,328
Incentives and performance bonuses	2,584	2,125
Occupational accident and disease insurance	501	472
Other costs	420	158
Staff costs	**24,871**	**23,034**

The total amount of fixed remunerations attributed to the Management and Supervisory Bodies of Banco CTT, during 2022, recorded in the heading "Remunerations", reached 1,652 thousand euros (2021: 1,640 thousand euros). During 2022, costs related to Social Security contributions of the Management and Supervisory Bodies were also paid of the value of 403 thousand euros (2021: 388 thousand euros). As at 31 December 2022, the heading "Incentives and performance bonuses" includes 1,065 thousand euros of bonuses attributable to the Management Bodies (2021: 689 thousand euros). In 2022, the Bank recorded under the heading "Other costs" 35 thousand euros of costs related to retirement savings plans attributed to Management Bodies (2021: 35 thousand euros).

The employees of the retail network are under a multiple employer arrangement, as established in article 101 of the Labour Code, accumulating positions with the CTT postal service. In 2022 the cost related to these employees shared with CTT amounted to 2,438 thousand euros (2021: 2,380 thousand euros).

In 2022 the Management Bodies were paid 290 thousand euros of variable remuneration (2021: 226 thousand euros).

On the date of the end of 2022 and 2021, the permanent staff, excluding employees under the multiple employer arrangement, distributed by major professional category, was as follows:

	2022	2021
Administration	12	12
Executive	5	5
Non-executive	7	7
of which: Audit Committee	3	3
Corporate Bodies (subsidiaries)	5	5
of which: Supervisory Bodies	4	4
Heads of functional areas	43	44
Technical and secretarial staff	439	383
	499	444

As at 31 December 2022, this table includes 3 Corporate Bodies (subsidiaries), 2 heads of functional areas (2021: 3) and 49 technicians (2021: 51) of the subsidiary Payshop (Portugal), S.A. classified as Non-current assets and disposal group classified as held for sale.

The heading "Other costs" includes, as at 31 December 2022, 124 thousand euros (2021: 121 thousand euros) relative to defined benefit plans, as referred to in Note 36.

Note 10 – General Administrative Expenses

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Water, electricity and fuel	299	219
Consumables	113	72
Hygiene and cleaning supplies	9	10
Rental and hire charges	209	254
Communications	1,881	1,910
Travel, hotel and representation costs	799	487
Advertising	1,823	1,633
Maintenance and related services	33	29
Training costs	172	151
Insurance	118	120
IT	10,709	10,306
Consulting and advisory services	2,406	2,358
Other specialised services	3,064	2,868
Other supplies and services	12,888	10,618
General Administrative Expenses	**34,523**	**31,035**

The heading "IT" records the costs incurred with the implementation and maintenance of IT systems and infrastructure.

The heading "Advertising" records the costs incurred with advertising and communication of the brand and products.

The heading "Other specialised services" records the costs incurred with banking and transactional operations.

The heading "Other supplies and services" records, among others, costs related to the use of the CTT Retail Network, servicing of banking operations and use of payments networks. The cost of using the physical and technical resources of the CTT Post Office Network amounted to 4,697 thousand euros (2021: 3,713 thousand euros).

The costs incurred with services provided by the Statutory Audit Firm are as follows:

(amounts in thousand euros)

	2022	2021
Legal certification	272	266
Other assurance services	72	109
Other services	106	-
	450	**375**

Note 11 – Earnings per Share

Earnings per share are calculated as follows:

	2022	2021
Net income for the year (thousand euros)	14,716	16,148
Profit/(Loss) after tax from continuing business premises (thousands of euros)	12,961	14,099
Average number of shares	296,000,400	295,742,466
Earnings per share (euros)		
Basic	0.05	0.05
Diluted	0.05	0.05
Earnings per share from continuing activities (in euros)		
Basic	0.04	0.05
Diluted	0.04	0.05

The Bank's share capital stands at 296,400,000 euros, represented by 296,400,000 ordinary shares without nominal value, and is fully paid-up.

Basic earnings per share are calculated by dividing the net income by the weighted average number of ordinary shares in circulation during the year.

The earnings by diluted share are calculated by adjusting the effect of all the potential ordinary diluting shares to the weighted average number of ordinary shares in circulation.

As at 31 December 2022 and 2021, the Bank did not hold potential dilutive ordinary shares: hence, the diluted earnings per share are the same as the basic earnings per share.

Note 12 – Cash and Deposits at Central Banks

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Cash	25,487	28,309
Demand deposits at Bank of Portugal	38,636	593,160
Cash and Deposits at Central Banks	**64,123**	**621,469**

The heading "Cash" is represented by notes and coins denominated in euros.

The heading "Demand deposits at Bank of Portugal" includes mandatory deposits with a view to meeting the minimum cash reserve requirements. As at 31 December 2022, the amount of the minimum cash reserves was 23,186 thousand euros (2021: 19,938 thousand euros).

Pursuant to Regulation (EU) 1358/2011 of the European Central Bank, of 14 December 2011, the minimum cash requirements kept as demand deposits at Banco de Portugal correspond to 1% of the deposits and other liabilities.

From the reserve-counting period beginning on 30 October 2019, the ECB introduced the tiering regime, which exempted part of the excess reserves deposited by credit institutions with the central bank from the negative remuneration then associated with the deposit facility rate. Tiering ceased to apply on 27 July 2022, following the decision of the Governing Council to raise the deposit facility rate to a non-negative value.

Within the tiering system, all credit institutions subject to the minimum reserve system have a limit on excess reserves which is effectively remunerated at 0%. This limit is based on a multiple applied to the amount of minimum reserves to be held, adopted by decision of the Governing Council of the ECB, and subject to change by it.

The tiering system came into effect with a multiple of six. At its meeting on 8 September 2022, the Governing Council decided to suspend this system, setting the multiplier at zero.

Note 13 – Deposits at Other Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Credit institutions in Portugal	14,009	13,158
Credit institutions abroad	22,640	20,092
Cheques for collection	22,492	1,002
Deposits at Other Credit Institutions	**59,141**	**34,252**

The heading "Cheques for collection" represents drawn by third parties at other credit institutions, which are pending collection. The increase in collections is due to the increase in the volume of cheques cleared during 2022, essentially through the agreement with CTT - Correios de Portugal, S.A. to clear cheques.

Note 14 – Financial Assets at Amortised Cost – Investments at Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Investments in Central Banks		
Bank of Portugal	450,250	-
Investments in other credit institutions in Portugal		
Term deposits	4,701	2,350
Loans	5,239	11,425
Impairment for investments in credit institutions	(2)	(4)
Investments at Credit Institutions	**460,188**	**13,771**

The heading "Investments in Central Banks" includes very short-term (overnight) deposits with Bank of Portugal. As at 31 December 2022, these investments amounted to 450,250 thousand euros.

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2022	2021
Up to 3 months	455,572	2,338
3 to 12 months	3,656	6,198
1 to 3 years	962	5,239
More than 3 years	-	-
Investments at Credit Institutions	**460,190**	**13,775**

The heading "Investments at credit institutions" showed an annual average rate of 1.314% in 2021 (2019: 1.191%).

Note 15 – Financial Assets at Amortised Cost – Loans and Advances to Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Mortgage loans	659,529	595,420
Auto loans	780,322	660,983
Credit cards	364,276	297,944
Finance leases	3,098	4,975
Overdrafts	1,352	1,331
Outstanding loans	**1,808,577**	**1,560,653**
Overdue loans - less than 90 days	1,407	1,165
Overdue loans - more than 90 days	22,317	11,180
Overdue loans	**23,724**	**12,345**
Impairment for credit risk	**(54,736)**	**(31,090)**
Loans and Advances to Customers	**1,777,565**	**1,541,908**

The credit cards heading represents the portfolio of credit cards acquired under the Universo Partnership with Universo, IME: S.A.. As mentioned in Note 37 (Securitisation of Assets), this portfolio has been recognised in the Group's financial statements to the extent that the Group is the sole investor in the Next Funding No.1 securitisation operation and therefore, given the conditions set out in IFRS 10 (Consolidated Financial Statements) the securitisation operation is consolidated.

In December 2022, Banco CTT and Universo, IME, SA ("Universo") revised the terms of the Partnership Agreement in the financial

services area, communicated to the market on 1 April 2021. In that context, Banco CTT and Universo agreed on the terms for the termination of the Agreement with a view to ending the partnership by December 2023. Notwithstanding this agreement, the conditions set out in IFRS 10 for recognition of the credit card portfolio in the Group's financial statements continue to apply as at 31 December 2022. Under this agreement Banco CTT will be entitled to a compensation of 2,000 thousand euros, as disclosed in Note 8.

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

2022							
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage loans	-	4,636	12,112	33,651	609,130	12	659,541
Auto loans	-	31,351	83,953	218,528	446,490	12,548	792,870
Credit cards	-	364,276	-	-	-	9,536	373,812
Finance leases	-	344	802	1,277	675	156	3,254
Other loans	-	-	-	-	-	-	-
Overdrafts	1,352	-	-	-	-	1,472	2,824
Loans and Advances to Customers	**1,352**	**400,607**	**96,867**	**253,456**	**1,056,295**	**23,724**	**1,832,301**

(amounts in thousand euros)

2021							
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage loans	-	4,529	13,058	35,360	542,473	-	595,420
Auto loans	-	27,206	73,257	188,259	372,261	9,611	670,594
Credit cards	-	297,944	-	-	-	773	298,717
Finance leases	-	460	1,281	2,717	517	77	5,052
Other loans	-	-	-	-	-	606	606
Overdrafts	1331	-	-	-	-	1,278	2,609
Loans and Advances to Customers	**1331**	**330,139**	**87,596**	**226,336**	**915,251**	**12,345**	**1,572,998**

The distribution of this heading by type of rate is presented as follows:

(amounts in thousand euros)

	2022	2021
Fixed rate	1,147,499	926,351
Variable rate	684,802	646,647
Loans and Advances to Customers	**1,832,301**	**1,572,998**

The analysis of this heading by type of collateral is presented as follows:

(amounts in thousand euros)

2022	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Asset-backed loans	662,648	147	662,795	(1,036)	661,759
Personal guaranteed loans	761,034	5,466	766,500	(25,918)	740,582
Unsecured loans	384,895	18,111	403,006	(27,782)	375,224
	1,808,577	23,724	1,832,301	(54,736)	1,777,565

(amounts in thousand euros)

2021	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Asset-backed loans	600,434	1,510	601,944	(2,409)	599,535
Personal guaranteed loans	645,072	4,776	649,848	(17,150)	632,698
Unsecured loans	315,147	6,059	321,206	(11,531)	309,675
	1,560,653	12,345	1,572,998	(31,090)	1,541,908

The analysis of this heading by type of loan is presented as follows:

(amounts in thousand euros)

2022	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Mortgage loans	659,529	12	659,541	(914)	658,627
Auto loans	780,322	12,548	792,870	(32,597)	760,273
Credit cards	364,276	9,536	373,812	(19,997)	353,815
Finance leases	3,098	156	3,254	(59)	3,195
Overdrafts	1,352	1,472	2,824	(1,169)	1,655
	1,808,577	23,724	1,832,301	(54,736)	1,777,565

(amounts in thousand euros)

2021	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Mortgage loans	595,420	-	595,420	(596)	594,824
Auto loans	660,983	9,611	670,594	(22,024)	648,570
Credit cards	297,944	773	298,717	(6,618)	292,099
Finance leases	4,975	77	5,052	(98)	4,954
Other loans	-	606	606	(606)	-
Overdrafts	1,331	1,278	2,609	(1,148)	1,461
	1,560,653	12,345	1,572,998	(31,090)	1,541,908

The analysis of this heading by activity sector is presented as follows:

(amounts in thousand euros)

2022	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Companies					
Agriculture, forestry, animal husbandry and fisheries	8,953	111	9,064	(284)	8,780
Mining industry	1,276	2	1,278	(17)	1,261
Manufacturing industries	6,335	150	6,485	(209)	6,276
Water	76	-	76	(1)	75
Construction	12,764	393	13,157	(607)	12,550
Wholesale and retail trade	10,509	160	10,669	(313)	10,356
Transport and storage	7,191	189	7,380	(249)	7,131
Restaurants and hotels	5,522	97	5,619	(235)	5,384
Information and communication	826	-	826	(5)	821
Financial and insurance sector	281	7	288	(16)	272
Real estate activities	1,882	3	1,885	(38)	1,847
Professional, scientific and technical activities	2,199	20	2,219	(71)	2,148
Administrative and support services	3,877	90	3,967	(186)	3,781
Public administration, defence and social security:	96	-	96	-	96
Education	791	2	793	(14)	779
Health services and social assistance	1,357	47	1,404	(33)	1,371
Artistic, sports and recreational activities	1,196	93	1,289	(99)	1,190
Other services	8,386	67	8,453	(259)	8,194
Individuals					
Mortgage loans	659,618	12	659,630	(915)	658,715
Consumer	1,075,442	22,281	1,097,723	(51,185)	1,046,538
	1,808,577	23,724	1,832,301	(54,736)	1,777,565

(amounts in thousand euros)

2021	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Companies					
Agriculture, forestry, animal husbandry and fisheries	4.234	39	4,273	(132)	4,141
Mining industry	695	-	695	(5)	690
Manufacturing industries	6,007	137	6,144	(174)	5,970
Water	124	-	124	-	124
Construction	9,894	301	10,195	(387)	9,808
Wholesale and retail trade	10,126	428	10,554	(531)	10,023
Transport and storage	4,168	88	4,256	(115)	4,141
Restaurants and hotels	4,182	91	4,273	(146)	4,127
Information and communication	645	-	645	(5)	640
Financial and insurance sector	308	2	310	(4)	306
Real estate activities	1,707	2	1,709	(21)	1,688
Professional, scientific and technical activities	1,657	8	1,665	(46)	1,619
Administrative and support services	3,471	329	3,800	(380)	3,420
Education	721	1	722	(10)	712
Health services and social assistance	1,305	15	1,320	(23)	1,297
Artistic, sports and recreational activities	897	73	970	(66)	904
Other services	5,867	71	5,938	(183)	5,755
Individuals					
Mortgage loans	595,516	-	595,516	(598)	594,918
Consumer	909,129	10,760	919,889	(28,264)	891,625
	1,560,653	**12,345**	**1,572,998**	**(31,090)**	**1,541,908**

The movement of credit impairment in the period is detailed as follows:

(amounts in thousand euros)

2022	Stage 1	Stage 2	Stage 3	Total
Opening balance	**6,474**	**4,602**	**20,014**	**31,090**
Movement for the period:				
Financial assets originated or acquired	2,039	1,488	2,647	6,174
Variations due to change in exposure or risk parameters	(2,049)	2,296	19,878	20,125
Derecognised financial assets excluding write-offs	(642)	(236)	(702)	(1,580)
Write-offs	-	-	(1,411)	(1,411)
Transfers to:				
Stage 1	2,335	(1,212)	(1,123)	-
Stage 2	(457)	1,877	(1,420)	-
Stage 3	(198)	(1,808)	2,006	-
Other movements	12	(53)	379	338
Credit impairment	**7,514**	**6,954**	**40,268**	**54,736**
Of which: POCI	-	-	*927*	*927*

(amounts in thousand euros)

2021	Stage 1	Stage 2	Stage 3	Total
Opening balance	**4,161**	**2,225**	**10,279**	**16,665**
Movement for the period:				
Financial assets originated or acquired	3,754	2,937	2,507	9,198
Variations due to change in exposure or risk parameters	(1,623)	(370)	8,187	6,194
Derecognised financial assets excluding write-offs	(407)	(155)	(696)	(1,258)
Write-offs	-	-	(685)	(685)
Transfers to:				
Stage 1	1,012	(361)	(651)	-
Stage 2	(204)	1,687	(1,483)	-
Stage 3	(164)	(1,482)	1,646	-
Other movements	(55)	121	910	976
Credit impairment	**6,474**	**4,602**	**20,014**	**31,090**
Of which: POCI	-	-	1,463	1,463

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

2022	Stage 1	Stage 2	Stage 3	Total
Opening balance	**6,474**	**4,602**	**20,014**	**31,090**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	(652)	3,548	21,823	24,719
Transfers of Stage (net)	1,680	(1,143)	(537)	-
Write-offs	-	-	(1,411)	(1,411)
Other movements	12	(53)	379	338
Credit impairment	**7,514**	**6,954**	**40,268**	**54,736**

(amounts in thousand euros)

2021	Stage 1	Stage 2	Stage 3	Total
Opening balance	**4,161**	**2,225**	**10,279**	**16,665**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	1,724	2,412	9,998	14,134
Transfers of Stage (net)	644	(156)	(488)	-
Write-offs	-	-	(685)	(685)
Other movements	(55)	121	910	976
Credit impairment	**6,474**	**4,602**	**20,014**	**31,090**

The credit portfolio detailed by stage as defined in IFRS 9 is presented as follows:

(amounts in thousand euros)

	2022	2021
Stage 1	**1,660,384**	**1,428,288**
Gross Value	1,667,898	1,434,762
Impairment	(7,514)	(6,474)
Stage 2	**82,156**	**82,565**
Gross Value	89,110	87,167
Impairment	(6,954)	(4,602)
Stage 3	**35,025**	**31,055**
Gross Value	75,293	51,069
Impairment	(40,268)	(20,014)
	1,777,565	**1,541,908**

The heading "Loans and advances to customers" includes the effect of traditional securitisation transactions, carried out through securitisation vehicles, consolidated pursuant to IFRS 10 in accordance with accounting policy 2.1.

The heading "Loans and advances to customers" includes the following amounts related to finance lease contracts:

(amounts in thousand euros)

	2022	2021
Value of future minimum payments	3,548	5,352
Interest not yet due	(450)	(377)
Present Value	**3,098**	**4,975**

The value of the future minimum payments of finance lease contracts, by maturity period, is analysed as follows:

(amounts in thousand euros)

	2022	2021
Up to 1 year	1,580	2,107
1 to 5 years	1,632	2,727
More than 5 years	336	518
Value of future minimum payments	**3,548**	**5,352**

The analysis of the finance lease contracts by type of customer is presented as follows:

(amounts in thousand euross)

	2022	2021
Individuals	**403**	**623**
Mortgage	83	91
Other	320	532
Companies	**2,695**	**4,352**
Furniture	179	199
Real estate	2,516	4,153
	3,098	**4,975**

Note 16 – Financial Assets at Amortised Cost – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Public debt securities		
Portuguese	221,695	185,545
Foreign	316,218	148,350
Bonds of other issuers		
Portuguese	-	387
Impairment	(132)	(121)
Financial Assets at Amortised Cost – Debt Securities	**537,781**	**334,161**

The financial assets in this portfolio are managed based on a business model whose objective is the receipt of its contractual cash flows (Note 2.3.1.1).

The analysis of investments in securities as at 31 December 2022 and 2021, by residual maturity, is as follows:

(amounts in thousand euros)

2022	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	3,011	17,990	38,028	162,666	221,695
Foreign	1,462	105,938	10,027	198,791	316,218
Financial Assets at Amortised Cost – Debt Securities	**4,473**	**123,928**	**48,055**	**361,457**	**537,913**

(amounts in thousand euros)

2021	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	2,521	22,264	38,565	122,195	185,545
Foreign	1,013	12,997	11,098	123,242	148,350
Bonds of other issuers					
Portuguese	387	-	-	-	387
Financial Assets at Amortised Cost – Debt Securities	**3,921**	**35,261**	**49,663**	**245,437**	**334,282**

The movement of the impairment of debt securities at amortised cost is analysed as follows:

(amounts in thousand euros)

	2022	2021
	Stage 1	*Stage 1*
Opening balance	**121**	**182**
Movement for the period:		
Financial assets originated or acquired	27	35
Variations due to change in exposure or risk parameters	(7)	(78)
Derecognised financial assets excluding *write-offs*	(9)	(18)
Impairment of debt securities at amortised cost	**132**	**121**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2022	2021
	Stage 1	*Stage 1*
Opening balance	**121**	**182**
Movement for the period:		
Variations in the expected credit loss of the portfolio	11	(61)
Impairment of debt securities at amortised cost	**132**	**121**

Note 17 – Financial Assets at Fair Value Through Profit or Loss

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Investment fund units	26,479	24,999
Real-estate Investment Funds	26,479	24,999
Derivatives	26,220	2,262
Financial Assets at Fair Value Through Profit or Loss	**52,699**	**27,261**
Derivatives	26,345	-
Financial Liabilities at Fair Value Through Profit or Loss	**26,345**	**-**

The heading Derivatives represents the fair value of derivative financial instruments contracted in the context of the Group's interest rate risk management and related with securitisation operations in progress (Note 36).

The heading "Real Estate Investment Funds" in the amount of 26,479 thousand euros (31 December 2021: 24,999 thousand euros) relates to an investment in an open-ended real estate investment fund domiciled in Portugal, representing 10.4% of the total units issued on 31 December 2022 (31 December 2021: 10.7%).

Associated to the derivative contracts, Banco CTT has, as at 31 December 2022, a captive amount of 26,040 thousand euros in cash accounts with other financial institutions as margin call, which are disclosed in the heading "Other assets" (Note 23).

The movement of the heading "Derivatives" is presented as follows:

(amounts in thousand euros)

	2022			2021		
	Notional	Fair Value Assets	Fair Value Liabilities	Notional	Fair Value Assets	Fair Value Liabilities
OTC Market						
Interest rate contracts						
Interest Rate Swaps						
Purchase	200,000	12,658	-	-	-	-
Sale	200,000	-	12,810	-	-	-
Interest Rate Options						
Purchase	263,790	13,562	-	294,669	2,262	-
Sale	237,003	-	13,535	-	-	-
Derivatives		**26,220**	**26,345**		**2,262**	-

The impact on the income statement of financial assets and liabilities at fair value through profit or loss is presented in Note 6.

Note 18 – Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Public debt securities		
Portuguese	-	849
Bonds of other issuers		
Portuguese	-	5,246
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	-	**6,095**

Changes in fair value are reflected in other comprehensive income as described in Note 2.3.1.2. (see Note 28).

The impairment of these assets is reflected in other comprehensive income, as described in note 2.3.1.2. (see Note 28).

Note 19 – Non-current Assets and Disposal Groups Classified as Held for Sale

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Non-Current Assets Held for Sale	**-**	**606**
Assets	**1**	**771**
Real estate properties	-	770
Equipment	1	1
Impairment	(1)	(165)
Assets of Disposal Groups Classified as Held for Sale	**14,786**	**14,170**
Payshop (Portugal), S.A.	**14,786**	**14,170**
Non-current Assets and Disposal Groups Classified as Held for Sale	**14,786**	**14,776**

Non-Current Assets Held for Sale

Non-current assets held for sale correspond to real estate properties and equipment recovered following the dissolution of finance and operating lease contracts, for which, in the applicable cases, impairment was recorded in conformity with accounting policy 2.17.

The movement during 2022 is presented as follows:

(amounts in thousand euros)

	2021							2022		
	Gross value	Accumulated impairment	Net value	Additions	Divestment and Write-off	Transfers	Impairment for the year	Gross value	Accumulated impairment	Net value
Real estate properties	770	(164)	606	-	(770)	-	164	-	-	-
Equipment	1	(1)	-	-	-	-	-	1	(1)	-
	771	**(165)**	**606**	**-**	**(770)**	**-**	**164**	**1**	**(1)**	**-**

The movement during 2021 is presented as follows:

(amounts in thousand euros)

	2020							2021		
	Gross value	Accumulated impairment	Net value	Additions	Divestment and Write-off	Transfers	Impairment for the year	Gross value	Accumulated impairment	Net value
Real estate properties	1,248	(282)	996	-	(478)	(29)	118	770	(164)	606
Equipment	1	(1)	-	-	-	-	-	1	(1)	-
	1,249	**(283)**	**996**	**-**	**(478)**	**(29)**	**118**	**771**	**(165)**	**606**

The movements in impairment for non-current assets held for sale are analysed as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**165**	**283**
Charge for the period	-	15
Reversal for the period	(164)	(133)
Impairment for non-current assets held for sale	**1**	**165**

Assets of Disposal Groups Classified as Held for Sale

In accordance with IFRS 5, a group of assets and liabilities shall be classified as held for sale if (i) its carrying amount will be recovered principally through a sale transaction rather than continuing use, (ii) it must be available for immediate sale in its present condition and its sale must be highly probable and (iii) management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated, and the price must be reasonable in relation to its current fair value, with the sale expected to be completed within 12 months.

The detail of assets and liabilities included in disposal groups classified as held for sale is presented as follows:

(amounts in thousand euros)

	2022			2021		
	Assets	Liabilities	Results	Assets	Liabilities	Results
Payshop (Portugal), S.A.	14,706	7,521	1,755	14,170	6,907	2,049
	14,706	**7,521**	**1,755**	**14,170**	**6,907**	**2,049**

In the context of a corporate reorganisation underway in the Group, on 8 July 2022 the Board of Directors of Banco CTT approved the sale, and its terms, to CTT - Correios de Portugal, S.A., and its completion is still dependent on the non-opposition of the regulator, which is expected to occur during 2023.

As at 30 June 2022 the assets and liabilities of Payshop (Portugal), S.A. were reclassified to Discontinued Assets and Liabilities as the company was being sold and was considered a major line of business within the Group due to its contribution to the profit and loss account, among others.

The contributions of Payshop (Portugal), S.A. to the Consolidated Income Statements of the Group, are detailed as follows:

(amounts in thousand euros)

	2022	2021
Interest and similar expenses	-	-
Interest and similar expenses	(5)	(4)
Net Interest Income	**(5)**	**(4)**
Net fee and commission income	7,677	7,538
Other operating income/(expenses)	636	41
Operating Income	**8,308**	**7,575**
Staff costs	(2,374)	(2,137)
General administrative expenses	(2,354)	(1,942)
Amortisation and depreciation for the year	(895)	(680)
Operating Costs	**(5,623)**	**(4,759)**
Operating Profit/(Loss) Before Provisions and Impairment	**2,685**	**2,816**
Impairment of other assets	-	13
Provisions	(415)	(175)
Operating Profit/(Loss)	**2,270**	**2,654**
Profit/(Loss) before tax	**2,270**	**2,654**
Taxes		
Current	(608)	(658)
Deferred	93	53
Net Income for the year	**1,755**	**2,049**

Note 20 – Other Tangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Acquisition Cost	**8,456**	**10,429**
Real estate properties		
Works in rented properties	413	493
Equipment		
Furniture	481	556
Machinery and tools	1,035	898
Computer equipment	752	624
Interior installations	1	11
Transport material	6	6
Security equipment	86	132
Other equipment	39	39
Rights of use		
Real estate properties	4,122	6,366
Motor vehicles	1,520	1,293
Accumulated Depreciation	1	11
Accumulated Depreciation	**(3,360)**	**(3,917)**
Related to previous years	(1,666)	(2,270)
Related to the current year	(1,694)	(1,647)
Other Tangible Assets	**5,096**	**6,512**

The movement of the heading "Other Tangible Assets" during 2022 is analysed as follows:

(amounts in thousand euros)

	2022					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other variations	Balance on 31 December
Acquisition cost	**10,429**	**3,463**	-	**(5,436)**	-	**8,456**
Real estate properties						
Works in rented properties	493	39	-	(119)	-	413
Equipment						
Furniture	556	6	-	(81)	-	481
Machinery and tools	898	153	8	(24)	-	1,035
Computer equipment	624	238	-	(110)	-	752
Interior installations	11	-	-	(10)	-	1
Transport material	6	-	-	-	-	6
Security equipment	132	-	-	(46)	-	86
Other equipment	39	-	-	-	-	39
Rights of use						
Real estate properties	6,366	2,663	-	(4,907)	-	4,122
Motor vehicles	1,293	364	-	(137)	-	1,520
Other tangible assets	11	-	(8)	(2)	-	1
Accumulated depreciation	**(3,917)**	**(1,896)**	-	**916**	-	**(6,748)**
Real estate properties						
Works in rented properties	(317)	(36)	-	69	-	(284)
Equipment						
Furniture	(479)	(15)	-	81	-	(414)
Machinery and tools	(129)	(86)	-	24	-	(190)
Computer equipment	(529)	(68)	-	110	-	(489)
Interior installations	(6)	-	-	4	-	(1)
Transport material	(6)	-	-	-	-	(6)
Security equipment	(103)	(9)	-	45	-	(66)
Other equipment	(9)	-	-	-	-	(9)
Rights of use						
Real estate properties	(1,835)	(1,122)	-	1,781	-	(1,176)
Motor vehicles	(503)	(358)	-	136	-	(724)
Other tangible assets	(2)	-	-	1	-	(1)
Other Tangible Assets	**6,512**	**1,769**	-	**(3,185)**	-	**5,096**

The write-off of 4,907 thousand euros in 2022 under the heading "Rights of use - Real estate" is related to the change of facilities with the consequent change of the head office.

The movement of the heading "Other Tangible Assets" during 2021 is analysed as follows:

(amounts in thousand euros)

2021	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other variations	Balance on 31 December
Acquisition cost	**6,304**	**5,161**	-	**(716)**	-	**10,429**
Real estate properties						
Works in rented properties	522	5	-	(34)	-	493
Equipment						
Furniture	534	22	-	-	-	556
Machinery and tools	343	563	-	(8)	-	898
Computer equipment	945	75	-	(396)	-	624
Interior installations	11	-	-	-	-	11
Transport material	6	-	-	-	-	6
Security equipment	130	2	-	-	-	132
Other equipment	36	3	-	-	-	39
Rights of use						
Real estate properties	2,689	3,699	-	(22)	-	6,366
Motor vehicles	1,085	464	-	(256)	-	1,293
Other tangible assets	3	8	-	-	-	11
Accumulated depreciation	**(2,974)**	**(1,647)**	-	**704**	-	**(3,917)**
Real estate properties			-	34		(317)
Works in rented properties	(311)	(40)			-	
Equipment						
Furniture	(466)	(13)	-	-	-	(479)
Machinery and tools	(95)	(42)	-	8	-	(129)
Computer equipment	(842)	(84)	-	397	-	(529)
Interior installations	(5)	(1)	-	-	-	(6)
Transport material	(6)	-	-	-	-	(6)
Security equipment	(95)	(8)	-	-	-	(103)
Other equipment	(6)	(3)	-	-	-	(9)
Rights of use						
Real estate properties	(713)	(1,145)	-	23	-	(1,835)
Motor vehicles	(434)	(311)	-	242	-	(503)
Other tangible assets	(1)	-	-	-	-	(2)
Other Tangible Assets	**3,330**	**3,194**	-	**(12)**	-	**6,512**

Note 21 – Goodwill and Intangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Goodwill	**60,679**	**60,679**
321 Crédito – Instituição Financeira de Crédito, S.A.	60,679	60,679
Intangible Assets	**21,434**	**22,736**
Acquisition Cost	**47,708**	**44,334**
Software in use	47,202	43,799
Other intangible assets	16	76
Software in progress	490	459
Impairment	-	**(61)**
Accumulated Amortisation	**(26,274)**	**(21,537)**
Related to previous years	(20,792)	(16,173)
Related to the current year	(5,482)	(5,364)
Goodwill and Intangible Assets	**82,113**	**83,415**

Intangible assets essentially include expenses with the acquisition and development of software, including the core banking system, implementation projects and their customisation.

The goodwill attributable to the investment in Payshop (Portugal), S.A. in the amount of 406 thousand euros was reclassified to "Non-current assets and disposal groups classified as held for sale" (Note 20).

The movement of the headings "Goodwill" and "Intangible Assets" during 2022 is analysed as follows:

(amounts in thousand euros)

2022	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Goodwill	**60,679**	-	-	-	**60,679**
Consolidation and revaluation differences	60,679	-	-	-	60,679
Impairment	-	-	-	-	-
Intangible Assets	**22,736**	**(1,302)**	-	-	**21,434**
Acquisition Cost	**44,334**	**4,180**	-	**(806)**	**47,708**
Software in use	43,799	325	3,760	(682)	47,202
Other intangible assets	76	-	-	(60)	16
Software in progress	459	3,855	(3,760)	(64)	490
Impairment	**(61)**	-	-	**61**	-
Accumulated amortisation	**(21,537)**	**(5,482)**	-	**745**	**(26,274)**
Software in use	(16,173)	(5,480)	-	685	(20,792)
Other intangible assets	(5,364)	(2)	-	60	(5,482)
Goodwill and Intangible Assets	**83,415**	**(1,302)**	-	-	**82,113**

The movement of the headings "Goodwill" and "Intangible Assets" during 2021 is analysed as follows:

(amounts in thousand euros)

2021	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Goodwill	**60,679**	-	-	-	**60,679**
Consolidation and revaluation differences	60,679	-	-	-	60,679
Impairment	-	-	-	-	-
Intangible Assets	**25,419**	**(2,683)**	-	-	22,736
Acquisition Cost	**41,695**	**2,742**	**-**	**(103)**	**44,334**
Software in use	40,751	131	2,917	-	43,799
Other intangible assets	179	-	-	(103)	76
Software in progress	765	2,611	(2,917)	-	459
Impairment	-	**(61)**	-	-	**(61)**
Accumulated amortisation	**(16,276)**	**(5,364)**	**-**	**103**	**(21,537)**
Software in use	(16,109)	(5,358)	-	-	(21,467)
Other intangible assets	(167)	(6)	-	103	(70)
Goodwill and Intangible Assets	**86,098**	**(2,683)**	-	-	**83,415**

Goodwill

The recoverable amount of Goodwill is assessed annually or whenever there is indication of a possible loss of value. The recoverable amount is determined based on the value in use of the assets, computed using calculation methodologies supported by discounted cash flow techniques, considering the market conditions, the time value and business risks.

In order to determine the recoverable amount of its investments, impairment tests were carried out, as at 31 December 2022 and 31 December 2020, based on the following assumptions:

2022	Basis of determination of recoverable amount	Explicit period for cash flows	Discount rate	Growth rate in perpetuity
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	10 years	10.0%	1.5%

2021	Basis of determination of recoverable amount	Explicit period for cash flows	Discount rate	Growth rate in perpetuity
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	9 years	10.0%	1.5%

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

Cash flows were estimated on the basis of forecasts of results and of evolution of activity based on the entity's business plan. This business plan covers a period up to 2032 and considers an annual compound growth rate of 4.4% of assets over this period.

The valuation was based on the Dividend Discount Model methodology common in the banking sector. The logic of the methodology is that the investor observes two types of flows when valuing the asset, dividend/equity enhancement binomial and the value of future dividends in perpetuity.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) reduction/increase of 0.5% in the target of the CET1 ratio (ii) an increase of 50 points in the different discount rates used.

As a result of the impairment test performed, as well as the sensitivity analyses carried out, no impairment loss was identified in the goodwill recorded on 31 December 2022.

Note 22 – Income Tax

The Group is subject to Corporate Income Tax (IRC) and corresponding Surcharge.

Income tax (current or deferred is reflected in the net income for the year, except in cases in which the transactions that originated this tax have been reflected in other equity headings. In these situations, the corresponding tax is likewise reflected through equity, not affecting the net income for the year.

The calculation of the current tax for 2022 and 2021 was based on a nominal corporate income tax rate of 21% pursuant to Law 107-B/2003, of 31 December, and Law 2/2007, of 15 January.

Deferred tax is calculated based on the tax rates that are expected to be applicable on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the reporting date.

As mentioned in Note 2.9, the Group is covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 90% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC).

Reconciliation of the Income Tax Rate

The reconciliation of the income tax rate, in the portion relative to the amount recognised through profit or loss, may be analysed as follows:

(amounts in thousand euros)

	2022	2021
Profit/(Loss) before tax	18,789	18,651
Current tax rate	21%	21%
Expected income tax	**3,946**	**3,917**
Surcharges	716	850
Total expected tax	**4,662**	**4,767**
Accruals/(deductions) for calculation purposes	(48)	(163)
Autonomous tax	111	73
Other adjustments	(5,026)	(174)
Recorded current tax for the year	**(301)**	**4,503**
Recorded deferred tax	**6,840**	**326**
Recorded total tax	**6,539**	**4,829**
Effective rate	**34.8%**	**25.9%**
Corrections relative to previous years	**(711)**	**(277)**
Taxes *	**5,828**	**4,552**

** negative values represent tax to be recovered.*

Current tax

Pursuant to the accounting policy described in Note 2.9, the amount related to the tax of entities included in the Special Regime for Taxation of Groups of Companies (RETGS) is recorded as an amount receivable from or payable to the shareholder CTT (see Notes 24 and 28).

The heading "Current tax liabilities", in the amount of 1,362 thousand euros (2021: 1,362 thousand euros), includes sums falling under IFRIC 23 as well as the estimated income tax of 321 Crédito.

Deferred tax

The movement of the deferred tax assets in the period is presented as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**1,511**	**1,902**
Recognised through profit or loss	246	(366)
Recognised through other reserves	(24)	(24)
Other	(1)	(1)
Deferred Tax Assets	**1,732**	**1,511**

The value of deferred tax assets as at 31 December 2022 and 2021 primarily arises from temporary differences derived from impairments not deductible for tax purposes.

The movement of the deferred tax liabilities in the period is presented as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**49**	**103**
Recognised through profit or loss	7,086	(40)
Recognised through other reserves	141	(14)
Deferred Tax Liabilities	**7,276**	**49**

Tax regime for impairment losses

In 2019 the Group exercised the option to definitively adopt the tax system applicable to the impairment losses of credit institutions and other financial institutions subject to the supervision of Banco de Portugal, established by articles 2 and 3 of Law 98/2019, of 4 September, under the terms stipulated in number 1 of article 4 of this same Law, taking effect from the tax period started on 1 January 2019 (inclusively).

Special Regime applicable to the Taxation of Groups of Companies (RETGS)

The Bank and its subsidiaries – more than 75% held directly or indirectly, and for more than 1 year by the parent company CTT – are covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 75% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, and until 2020 inclusive, Banco CTT and its subsidiaries, eligible to application of the RETGS, receive from CTT the value relative to the tax loss which they contribute to the consolidated corporate income tax of the CTT Group and, likewise, pay to CTT the value relative to their positive contribution to the consolidated corporate income tax of the CTT Group. As of 2021, the Banco CTT Group is considered to be a "tax sub-consolidated" entity within the Regime in which CTT - Correios de Portugal, S.A. is the dominant company. In this way, Banco CTT's subsidiaries make corporate income tax (IRC) settlements to Banco CTT, and Banco CTT pays or receives the net amount determined for the Banco CTT Group to/from that dominant company. In the event that there are historical amounts receivable from CTT by the Group, any corporate income tax payments to CTT are settled through the use/reduction of the amount receivable, with effective payment only after there are no historical amounts receivable.

As at 31 December 2022 the heading "Other Assets" includes the amount of 12,412 thousand euros (31 December 2021: 11,796 thousand euros) to be received from CTT through this mechanism.

SIFIDE

Until 2021, the Group recognised the tax credit related to SIFIDE upon effective receipt of the declaration from the certifying commission of the eligibility of expenses presented in the application.

Currently, and considering the history associated to this reality, the Group started to recognise in the period to which the investments refer, an estimate of the tax credit that was submitted for certification by the competent authority (ANI - Agência Nacional de Inovação). The amount of corrections relating to previous years relates to differences in tax estimates, mainly arising from the recognition of tax credits relating to SIFIDE 2020 and 2021, amounting to 628,468 euros, which are shown below:

<u>SIFIDE 2020</u>

In the financial year 2020, the Group incurred R&D expenses for which it will benefit - deferred in 2022 - from a Corporate Income Tax (IRC) tax credit amounting to 310,239 euros.

<u>SIFIDE 2021</u>

In the financial year 2021 the Group incurred R&D expenses for which it will benefit - deferred in 2023 - from a Corporate Income Tax (IRC) tax credit amounting to 454,612 euros (of which 318,229 euros were recognised in results in the financial year 2022).

Note 23 – Other Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
IRC RETGS	12,412	11,796
Operations to be cleared	2,008	1,184
Escrow accounts	26,622	316
Other receivables	3,206	2,871
Expenses with deferred charges	2,091	1,770
Administrative Public Sector	848	1,018
Income receivable	5,017	2,405
Impairment of other assets	(2,514)	(2,505)
Other assets	**49,690**	**18,855**

The heading Margin Accounts includes 26,040 thousand euros related to amounts deposited with other financial institutions as margin calls under derivative financial instruments operations.

The heading "Other Assets" includes the amount of 12,412 thousand euros (2021: 11,796 thousand euros) for corporate income tax as a result of the application of the special regime applicable to the taxation of groups of companies (RETGS), pursuant to point 2.9 of Note 2. This amount is classified as a financial instrument at amortised cost, being remunerated at a market rate.

The heading "Other receivables" essentially records the amounts receivable due to credit intermediation and insurance mediation operations. This also includes overdue and uncollected amounts related to credit agreements granted to customers, namely, amounts for administrative expenses and Value Added Tax (VAT) on monthly finance lease payments totalling 1,822 thousand euros (2021: 1,804 thousand euros).

The movement of impairment of other assets is analysed as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**2,505**	**3,903**
Charge for the period	59	82
Reversal for the period	(8)	(23)
Usage for the period	(42)	(1.457)
Transfers	-	-
Impairment of other assets	**2,514**	**2,505**

Note 24 – Financial Liabilities at Amortised Cost – Deposits from Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Demand deposits	1,643,385	1,485,970
Term deposits	184,027	223,067
Saving accounts	452,980	412,474
Financial Liabilities at Amortised Cost – Deposits from Customers	**2,280,392**	**2,121,511**

In 2021, the average rate of return on resources from customers was 0.02% (2021: 0.02%).

The analysis of the heading "Deposits from Customers", by contractual residual maturity, is as follows:

(amounts in thousand euros)

	2022	2021
Demand deposits and saving accounts	2,096,365	1,898,444
Term deposits		
Up to 3 months	83,545	106,310
3 to 12 months	100,482	116,757
Financial Liabilities at Amortised Cost – Deposits from Customers	**2,280,392**	**2,121,511**

Note 25 – Financial Liabilities at Amortised Cost – Debt Securities Issued

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Securitisations (see Note 37)	445,578	277,796
Financial Liabilities at Amortised Cost – Debt Securities Issued	**445,578**	**277,796**

As at 31 December 2021, debt securities issued and not retained are analysed as follows:

(amounts in thousand euros)

				2022		2021	
	Issue date	Redemption date	Remuneration	Nominal value	Book value	Nominal value	Book value
Ulisses Finance No.1				**11,333**	**11,351**	**24,521**	**24,533**
Class A	July 2017	March 2033	Euribor 1M + 85 bps	-	-	10,421	10,424
Class B	July 2017	March 2033	Euribor 1M + 160 bps	4,233	4,238	7,000	7,002
Class C	July 2017	March 2033	Euribor 1M + 375 bps	7,100	7,113	7,100	7,107
Ulisses Finance No.2				**233,347**	**234,867**	**251,275**	**253,263**
Class A	September 2021	September 2038	Euribor 1M + 70 bps	189,826	191,351	203,700	205,736
Class B	September 2021	September 2038	Euribor 1M + 80 bps	9,319	9,315	10,000	9,987
Class C	September 2021	September 2038	Euribor 1M + 135 bps	18,638	18,633	20,000	19,976
Class D	September 2021	September 2038	Euribor 1M + 285 bps	10,530	10,532	11,300	11,291
Class E	September 2021	September 2038	Euribor 1M + 368 bps	3,448	3,449	3,700	3,698
Class F	September 2021	September 2038	Euribor 1M + 549 bps	1,211	1,212	1,300	1,300
Class G	September 2021	September 2038	Euribor 1M + 500 bps	375	375	1,275	1,275
Ulisses Finance No.3				**200,600**	**199,360**	**-**	**-**
Class A	June 2022	June 2039	Euribor 1M + 90 bps	168,000	167,809	-	-
Class B	June 2022	June 2039	Euribor 1M + 200 bps	8,000	7,829	-	-
Class C	June 2022	June 2039	Euribor 1M + 370 bps	12,000	11,741	-	-
Class D	June 2022	June 2039	Euribor 1M + 525 bps	6,000	5,666	-	-
Class E	June 2022	June 2039	Euribor 1M + 650 bps	5,000	4,759	-	-
Class F	June 2022	June 2039	Euribor 1M + 850 bps	1,000	966	-	-
Class G	June 2022	June 2039	Euribor 1M + 785 bps	600	590	-	-
				445,280	**445,578**	**275,796**	**277,796**

The movement of this heading for 2022 is presented as follows:

(amounts in thousand euros)

2022	Opening balance	Emissions	Redemptions	Other movements	Closing balance
Ulisses Finance No.1	24,533	-	(13,188)	7	11,352
Ulisses Finance No.2	253,263	-	(17,927)	(468)	234,868
Ulisses Finance No.3	-	201,500	(2,699)	557	199,358
	277,796	**201,500**	**(33,814)**	**96**	**445,578**

The movement of this heading for 2021 is presented as follows:

(amounts in thousand euros)

2021	Opening balance	Emissions	Redemptions	Other movements	Closing balance
Ulisses Finance No.1	44,518	-	(19,981)	(5)	24,532
Ulisses Finance No.2	-	251,500	(225)	1,989	253,264
	44,518	**251,500**	**(20,206)**	**1,984**	**277,796**

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

2022	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Securitisations	352	-	-	445,226	445,578
	352	**-**	**-**	**445,226**	**445,578**

(valores expressos em milhares de euros)

2021	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Securitisations	35	-	-	277,761	277,796
	35	**-**	**-**	**277,761**	**277,796**

Note 26 – Provisions

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Provisions for other risks and charges	1,260	857
Provisions for commitments	124	314
Provisions	**1,384**	**1,171**

The provisions for other risks and charges were established in order to cover contingencies related to the Group's activity and whose payment is considered probable.

Provisions for commitments refer to provisions for indirect credit.

On each reporting date, the Group revalues the amounts recorded under this heading, so as to ensure that it reflects the best estimate of amount and probability of occurrence.

The movement of the heading "Provisions" in the period is detailed as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**1,171**	**1,780**
Charge for the period	642	332
Reversal for the period	(335)	(1,015)
Uses	(94)	(79)
Transfers	-	153
Provisions	**1,384**	**1,171**

Note 27 – Other Liabilities

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Payables		
Suppliers	16,680	12,188
Related parties	1,007	861
Other payables	4,455	3,358
Staff costs	7,557	6,769
Operations to be cleared	46,387	26,988
Revenue with deferred charge	313	288
Administrative Public Sector	1,796	1,544
Lease liabilities	3,869	5,364
Other Liabilities	**82,064**	**57,360**

The heading "Operations to be cleared" primarily records the balance of banking operations pending financial settlement.

The heading "Lease liabilities" corresponds to the lease liabilities recognised under IFRS 16, as described in accounting policy 2.8.

Note 28 – Share Capital

The share capital stands at 296,400,000 euros, represented by 296,400,000 ordinary shares without nominal value, and is fully underwritten and paid-up.

An increase of the Company's share capital was carried out on 25 January 2021 from 286,400,000 euros (two hundred and eighty-six million and four hundred thousand euros) to 296,400,000 euros (two hundred and ninety-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 10,000,000 euros (ten million euros) giving rise to the issue of 10,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

As at 31 December 2022, the Bank's share capital is 100% held by CTT – Correios de Portugal, S.A. (public company).

Note 29 – Fair Value Reserves, Other Reserves and Retained Earnings

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Fair value reserves		
Other financial assets at fair value through other comprehensive income	-	27
Legal reserves	1,571	29
Other reserves	(347)	(820)
Retained earnings	(59,348)	(73,954)
Reserves and Retained Earnings	**(58,124)**	**(74,718)**

Note 30 – Guarantees and Other Commitments

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Guarantees provided	44,736	21,988
Guarantees received	2,079,897	1,832,086
Commitments to third parties		
Revocable commitments		
Credit lines	444,518	567,603
Irrevocable commitments		
Credit lines	15,395	16,344
Commitments from third parties		
Revocable commitments		
Credit lines	22,575	16,137

The amount recorded as Guarantees provided primarily includes securities given as collateral to secure the settlement of interbank operations.

The amount recorded as Guarantees received primarily includes securities given as collateral to secure mortgage loan operations.

The revocable and irrevocable commitments present contractual agreements for the granting of credit to the Group's customers (for example, undrawn credit card facilities and bank overdrafts) which are generally contracted for fixed terms or with other expiry requirements. Substantially all the credit granting commitments in force require the customers to maintain certain requirements observed at the time the loans were granted.

Notwithstanding the particularities of these commitments, the appraisal of these operations follows the same basic principles of any other commercial operation, namely the principle of the customer's solvency, where the Group requires that these operations should be duly collateralised when necessary. As it is expected that some of them shall expire without having been used, the indicated amounts do not necessarily represent future cash needs.

Provisions for commitments made to third parties are disclosed in Note 26.

Note 31 – Transactions with Related Parties

All the business and operations carried out by the Group with related parties are cumulatively concluded under normal market conditions for similar operations and are part of the Group's current activity.

For all due purposes, the concept of related parties is provided in Chapter 4 of the Banco CTT Group's Policy on Transactions with Related Parties (which refers to the provisions of IAS 24, the RGICSF and Banco de Portugal Notice 3/2020), available for consultation at https://www.bancoctt.pt/sobre-o-banco-ctt/governo-da-sociedade/estatutos-e-regulamentos.

As at 31 December 2022, the value of the Group's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

2022	Balance Sheet		Income Statement	
	Assets	Liabilities	Loss	Profit
CTT – Correios de Portugal, S.A.	13,353	36,266	7,610	3,738
CTT Expresso – Serviços Postais e Logística, S.A.	13	9	99	84
CTT Contacto, S.A.	-	20	195	-
CTT Soluções Empresariais, S.A.	5	-	-	20
NewSpring Services, S.A.	53	92	73	-
	13,424	**36,387**	**7,977**	**3,842**

The value of liabilities against CTT - Correios de Portugal S.A. includes 35,062 thousand euros of bank deposits.

As at 31 December 2021, the value of the Group's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

2021	Balance Sheet		Income Statement	
	Assets	Liabilities	Loss	Profit
CTT – Correios de Portugal, S.A.	12,893	3,887	6,292	3,103
CTT Expresso – Serviços Postais e Logística, S.A.	12	12	91	-
CTT Contacto, S.A.	-	21	-	-
	12,905	**3,920**	**6,383**	**3,103**

As at 31 December 2022, the value of the deposits placed by the members of the Corporate Bodies at the Group amounted to 303 thousand euros (2021: 253 thousand euros).

Note 32 – Fair Value

The fair value of the financial assets and liabilities, as at 31 December 2022, is analysed as follows:

(amounts in thousand euros)

2022	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Book value	Fair Value
Cash and deposits at central banks	-	-	64,123	64,123	64,123
Deposits at other credit institutions	-	-	59,141	59,141	59,141
Financial assets at amortised cost					
Investments at credit institutions	-	-	460,188	460,188	460,188
Loans and advances to customers	-	-	1,777,565	1,777,565	1,775,576
Debt securities	-	-	537,781	537,781	498,547
Bonds issued by public entities	-	-	537,781	537,781	498,547
Bonds of other issuers	-	-	-	-	-
Financial assets at fair value through profit or loss					
Derivatives	26,220	-	-	26,220	26,220
Investment fund units	26,479	-	-	26,479	26,479
Financial assets at fair value through other comprehensive income					
Debt securities	-	-	-	-	-
Bonds issued by public entities	-	-	-	-	-
Bonds of other issuers	-	-	-	-	-
Other (financial) assets	-	-	12,412	12,412	11,564
Financial Assets	**52,699**	-	**2,911,210**	**2,963,909**	**2,921,838**
Financial liabilities at fair value through profit or loss					
Derivatives	26,345	-	-	26,345	26,345
Financial liabilities at amortised cost					
Deposits from Customers	-	-	2,280,392	2,280,392	2,280,392
Debt securities issued	-	-	445,578	445,578	438,819
Financial liabilities	**26,345**	-	**2,725,970**	**2,752,315**	**2,745,556**

The fair value of the financial assets and liabilities, as at 31 December 2021, is analysed as follows:

(amounts in thousand euros)

2021	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Book value	Fair value
Cash and deposits at central banks	-	-	621,470	621,470	621,470
Deposits at other credit institutions	-	-	41,252	41,252	41,252
Financial assets at amortised cost					
Investments at credit institutions	-	-	13,771	13,771	13,771
Loans and advances to customers	-	-	1,541,908	1,541,908	1,541,382
Debt securities	-	-	334,161	334,161	348,482
Bonds issued by public entities	-	-	333,774	333,774	348,100
Bonds of other issuers	-	-	386	386	382
Financial assets at fair value through profit or loss					
Derivatives	2,262	-	-	2,262	2,262
Investment fund units	24,999	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income					
Debt securities	-	6,095	-	6,095	6,095
Bonds issued by public entities	-	*849*	-	*849*	*849*
Bonds of other issuers	-	5,246	-	5,246	5,246
Other (financial) assets	-	-	11,796	11,796	12,750
Financial Assets	**27,261**	**6,095**	**2,557,357**	**2,590,713**	**2,605,462**
Financial liabilities at amortised cost					
Deposits from Customers	-	-	2,121,511	2,121,511	2,121,511
Debt securities issued	-	-	277,796	277,796	277,392
Financial liabilities	-	-	**2,399,307**	**2,399,307**	**2,398,903**

Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through internal models based on discounted cash flow methods. The generation of cash flow of the different instruments is based on their financial characteristics, and the discount rates used incorporate both the market interest rate curve and the current risk levels of the respective issuer.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model, which necessarily incorporate some degree of subjectivity, and exclusively reflects the value attributed to the different financial instruments.

The Bank uses the following fair value hierarchy, with three levels in the valuation of financial instruments (assets or liabilities), which reflect the level of judgement, the observability of the data, and the importance of the parameters applied in the determination of the assessment of the fair value of the financial instrument, pursuant to IFRS 13:

- Level 1: Fair value is determined based on unadjusted listed prices, captured in transactions in active markets involving financial instruments similar to the instruments to be assessed. Where there is more than one active market for the same financial instrument, the relevant price is that prevailing in the main market of the instrument, or the most advantageous market to which there is access;
- Level 2: Fair value is calculated through valuation techniques based on observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and valuation assumptions similar to those that a non-related party would use to estimate the fair value of the same financial instrument. This also includes instruments whose valuation is obtained through listed prices disclosed by independent entities, but whose markets show less liquidity; and,
- Level 3: Fair value is determined based on data not observable in active markets, using techniques and assumptions that the market participants would use to assess the same instruments, including hypotheses about the inherent risks, the assessment method and inputs used, entailing process of review of the accuracy of the values obtained in this manner.

The Bank considers a market active for a particular financial instrument, on the measurement date, according to the turnover and liquidity of the operations carried out, the relative volatility of the listed prices, and the promptness and availability of the information, where the following minimum conditions must be met:

- Existence of frequent daily prices of trading in the last year;
- The prices mentioned above change regularly;
- Existence of enforceable prices of more than one entity.

A parameter used in the valuation method is considered to be observable market data if the following conditions are met:

- If its value is determined in an active market;
- If there is an OTC market and it is reasonable to assume that active market conditions are met, except for the condition of trading volumes; and,
- The value of the parameter can be obtained by the inverse calculation of the prices of the financial instruments and/or derivatives where all the other parameters required for the initial assessment are observable in a liquid market or OTC market that complies with the previous paragraphs.

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2022:

(amounts in thousand euros)

2022	Valuation methods			Total
	Level 1	Level 2	Level 3	
Cash and deposits at central banks	64,123	-	-	64,123
Deposits at other credit institutions	59,141	-	-	59,141
Financial assets at amortised cost				
Investments at credit institutions	-	-	460,188	460,188
Loans and advances to customers	-	-	1,775,576	1,775,576
Debt securities	498,547	-	-	498,547
Bonds issued by public entities	498,547	-	-	498,547
Financial assets at fair value through profit or loss				
Derivatives	-	-	26,220	26,220
Investment fund units	-	-	26,479	26,479
Financial assets at fair value through other comprehensive income				
Debt securities	-	-	-	-
Bonds issued by public entities	-	-	-	-
Bonds of other issuers	-	-	-	-
Other (financial) assets	-	-	11,564	11,564
Financial Assets	**621,811**	-	**2,300,027**	**2,921,838**
Financial liabilities at fair value through profit or loss				
Derivatives	-	-	26,345	26,345
Financial liabilities at amortised cost				
Deposits from Customers	-	-	2,280,392	2,280,392
Debt securities issued	-	438,819	-	438,819
Financial liabilities	-	**438,819**	**2,306,737**	**2,745,556**

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2021:

(amounts in thousand euros)

2021	Valuation methods			Total
	Level 1	Level 2	Level 3	
Cash and deposits at central banks	621,470	-	-	621,470
Deposits at other credit institutions	41,252	-	-	41,252
Financial assets at amortised cost				
Investments at credit institutions	-	-	13,771	13,771
Loans and advances to customers	-	-	1,541,382	1,541,382
Debt securities	348,100	382	-	348,482
Bonds issued by public entities	*348,100*	-	-	*348,100*
Bonds of other issuers	-	382	-	382
Financial assets at fair value through profit or loss				
Derivatives	-	-	2,262	2,262
Investment fund units	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income				
Debt securities	849	5,246	-	6,095
Bonds issued by public entities	849	-	-	849
Bonds of other issuers	-	5,246	-	5,246
Other (financial) assets	-	-	12,750	12,750
Financial Assets	**1,004,670**	**5,628**	**1,595,164**	**2,605,462**
Financial liabilities at amortised cost				
Deposits from Customers	-	-	2,121,511	2,121,511
Debt securities issued	-	277,392	-	277,392
Financial liabilities	-	**277,392**	**2,121,511**	**2,398,903**

Sensitivity analysis

The item Loans and advances to customers which, as at 31 December 2022, has a fair value of 1,775,576 thousand euros has a sensitivity of +8,526 thousand euros and -7,775 thousand euros for an interest rate change of -10% and +10%, respectively.

The item Loans and advances to customers which, as at 31 December 2021, has a fair value of 1,541,382 thousand euros has a sensitivity of +9,170 thousand euros and -26,042 thousand euros for an interest rate change of -10% and +10%, respectively.

The main methods and assumptions used to estimate the fair value of the financial assets and liabilities recorded in the balanced sheet are analysed as follows:

Cash and deposits at Central Banks, Deposits at other credit institutions and Investments at Central Banks and at other credit institutions

These financial instruments are very short-term and therefore their book value is a reasonable estimate of their fair value.

Other (financial) assets

Fair value is estimated based on the discount of the expected future cash flows of capital and interest for these instruments.

Loans and Advances to Customers

Loans and advances to customers with defined maturity date

Fair value is calculated by discounting, at the average rates of the production of December, the expected cash flows throughout the life of the contracts considering the historical pre-payment rates.

Loans and advances to customers without defined maturity date

Considering the short-term nature of this type of instrument, the conditions of this portfolio are similar to those prevailing at the reporting date, and so its book value is considered a reasonable estimate of its fair value.

Financial assets at fair value through profit or loss (except derivatives)

These financial assets are accounted for at fair value. Fair value is based on market prices, when available. If these are not available, the calculation of the fair value is based on i) the use of numerical models, namely discounted cash flows of expected future capital and interest for these instruments or ii) the Net Asset Value (NAV) provided by the fund management companies.

Financial assets at fair value through profit or loss (Derivatives)

All derivatives are accounted for at their fair value. In the case of those that are quoted on organised markets, the respective market price is used. In the case of over-the-counter (OTC) derivatives, numerical models based on discounted cash flow techniques and option valuation models considering market and other variables are applied.

Financial assets at fair value through other comprehensive income

The fair value of these instruments is estimated based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Amounts Owed to Central Banks and Other Credit Institutions

These financial instruments are very short-term and therefore their book value is a reasonable estimate of their fair value.

Deposits from Customers

The fair value of these financial instruments is estimated based on the discounted expected principal and interest cash flows. The discount rate used is that which reflects the rates applied for deposits with similar features on the reporting date. Considering that the applicable interest rates are renewed for periods less than one year, there are no materially relevant differences in their fair value.

Debt securities issued

The fair value of these instruments is estimated based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Note 33 – Risk Management

The Group is exposed to various risks during the course of its business activity.

The Group's Policy on Risk Management and Internal Control aims to ensure the effective application of the risk management system, through the ongoing follow-up of its adequacy and efficacy, seeking to identify, assess, monitor and control all the materially relevant risks to which the institution is exposed, both internally and externally.

In this context, it is important to monitor and control the main types of financial risks – credit, liquidity, interest rate, market and operational – faced by the Group's activity.

Credit Risk

Credit risk reflects the degree of uncertainty of the expected returns, due to the inability either of the borrower, or of the counterpart of a contract, to comply with the respective obligations.

At the Group, credit risk management includes the identification, measurement, assessment and monitoring of the different credit exposures, ensuring risk management throughout the successive phases of the life of the credit process.

The monitoring and follow-up of credit risk, in particular with respect to the evolution of credit exposures and monitoring of losses, is regularly conducted by the Risk Department and by the Capital and Risk Committee.

As at 31 December 2022, the exposure of the mortgage loan product (net of impairment and including off-balance sheet exposures) is 658,628 thousand euros (611,167 thousand euros as at 31 December 2021).

Credit in the retail segment, more specifically in motor vehicle credit at the point of sale, is 763,725 thousand euros of exposure (net of impairment and including off-balance sheet exposures) which compares to 653,782 thousand euros in 2021.

The Group is currently exposed to credit risk in other areas of its business activity. These necessarily include direct exposure to credit risk associated to investments and deposits at other credit institutions (counterpart risk), to public debt securities issues by eurozone countries (Portugal, Italy and Spain), debt instruments of other issuers (credit institutions and companies), securitisation operations relative to the tariff deficit and other portfolios of 321 Crédito that are essentially at a run-off stage.

In order to mitigate credit risk, the mortgage lending operations have associated collateral, namely mortgages. Except in situations of default, the Bank, under its activity, does not have permission to sell or pledge this collateral. The fair value of this collateral is determined as at the date of the granting of the loan, with its value being checked periodically.

Auto loans operations are made with reservation of ownership, and the value of the vehicle is assessed at the time of granting the credit.

The acceptance of collateral to secure credit operations requires the need to define and implement techniques to mitigate the risks to which this collateral is exposed. Thus, and as an approach to this matter, the Group has stipulated a series of procedures applicable to collateral (namely real estate properties), that hedge, among others, the volatility of the value of the collateral.

The gross value of the loans and respective fair value of the collateral, limited to the value of the associated loan, are presented below:

(amounts in thousand euros)

	2022		2021	
	Loans and advances to customers	Fair value of the collateral	Loans and advances to customers	Fair value of the collateral
Mortgage loans	659,541	1,128,546	595,420	1,021,371
Auto loans	792,870	825,483	670,594	713,328
Credit cards	373,812	-	298,717	-
Other	6,078	48,213	8,267	23,764
	1,832,301	**2,002,242**	**1,572,998**	**1,758,463**

The following table presents information on the Group's exposures to credit risk (net of impairment and including off-balance sheet exposures) as at 31 December 2022 and 31 December 2021:

(amounts in thousand euros)

	2022	2021
Central Authorities or Central Banks	1,026,811	927,785
Regional governments or local authorities	-	-
Credit institutions	68,143	39,520
Companies	399,764	322,647
Retail customers	324,205	627,393
Loans secured by immovable assets	672,247	610,488
Collective investment undertakings (CIUs)	31,962	24,999
Non-performing loans	47,780	27,808
Shares	14,786	-
Other items	84,669	71,645
Risk Headings	**2,670,367**	**2,652,285**

The information on the risk headings (including off-balance sheet) as at 31 December 2022 and 31 December 2021 is detailed as follows:

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	488,900	-	488,900	593,161	-	593,161
Other financial assets at fair value through other comprehensive income	-	-	-	850	-	850
Investment securities measured at amortised cost	537,912	(1)	537,911	333,895	(121)	333,774
Central Authorities or Central Banks	**1,026,812**	**(1)**	**1,026,811**	**927,906**	**(121)**	**927,785**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Investment securities measured at amortised cost	-	-	-	-	-	-
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	39,413	-	39,413	25,750	-	25,750
Investments at financial institutions	9,940	-	9,940	13,774	(4)	13,770
Other	18,790	-	18,790	-	-	-
Credit institutions	**68,143**	**-**	**68,143**	**39,524**	**(4)**	**39,520**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Other financial assets at fair value through other comprehensive income	-	-	-	5,249	(3)	5,246
Investment securities measured at amortised cost	399,965	(201)	399,764	324,218	(6,817)	317,401
Companies	**399,965**	**(201)**	**399,764**	**329,467**	**(6,820)**	**322,647**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	324,245	(40)	324,205	633,231	(5,838)	627,393
Retail customers	**324,245**	**(40)**	**324,205**	**633,231**	**(5,838)**	**627,393**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	672,255	(8)	672,247	611,134	(646)	610,488
Loans secured by immovable assets	**672,255**	**(8)**	**672,247**	**611,134**	**(646)**	**610,488**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Financial assets at fair value through profit or loss	31,962	-	31,962	24,999	-	24,999
Collective investment undertakings (CIUs)	**31,962**	**-**	**31,962**	**24,999**	**-**	**24,999**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	48,017	(237)	47,780	45,912	(18,104)	27,808
Non-performing loans	**48,017**	**(237)**	**47,780**	**45,912**	**(18,104)**	**27,808**

The exposure to public debt, net of impairment, of eurozone countries is detailed as follows:

(amounts in thousand euros)

	2022			2021		
	Other financial assets at fair value through other comprehensive income	Investment securities measured at amortised cost	Total	Other financial assets at fair value through other comprehensive income	Investment securities measured a amortised cost	Total
Portugal	-	221,627	221,627	849	185,468	186,317
Spain	-	106,421	106,421	-	75,163	75,163
Italy	-	109,840	109,840	-	73,143	73,143
France	-	99,892	99,892	-	-	-
Ireland	-	-	-	-	-	-
	-	**537,780**	**537,780**	**849**	**333,774**	**334,623**

The analysis of the portfolio of financial assets by stages is presented as follows:

(amounts in thousand euros)

	2022					2021				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Deposits at Central Banks and other credit institutions	97,777	–	–	–	97,777	634,412	–	–	–	634,412
Impairment losses	–	–	–	–	–	–	–	–	–	–
Net value	**97,777**	–	–	–	**97,777**	**634,412**	–	–	–	**634,412**
Investments at credit institutions	9,940	–	–	–	9,940	13,775	–	–	–	13,775
Impairment losses	(2)	–	–	–	(2)	(4)	–	–	–	(4)
Net value	**9,938**	–	–	–	**9,938**	**13,771**	–	–	–	**13,771**
Financial assets at fair value through other comprehensive income – Debt securities	–	–	–	–	–	6,098	–	–	–	6,098
Impairment losses	–	–	–	–	–	(3)	–	–	–	(3)
Net value	–	–	–	–	–	**6,095**	–	–	–	**6,095**
Financial assets at amortised cost – Debt securities	537,913	–	–	–	537,913	334,282	–	–	–	334,282
Impairment losses	(132)	–	–	–	(132)	(121)	–	–	–	(121)
Net value	**537,781**	–	–	–	**537,781**	**334,161**	–	–	–	**334,161**
Financial assets at amortised cost – Loans and advances to customers	1,667,898	89,110	75,293	4,173	1,836,474	1,434,762	87,167	51,069	4,173	1,577,171
Perdas por imparidade	(7,514)	(6,954)	(40,268)	(927)	(55,663)	(6,474)	(4,602)	(20,014)	(1,463)	(32,553)
Valor Líquido	**1,660,384**	**82,156**	**35,025**	**3,246**	**1,780,811**	**1,428,288**	**82,565**	**31,055**	**2,710**	**1,544,618**

Liquidity Risk

Liquidity risk reflects the possibility of significant losses being incurred as a result of deterioration of funding conditions (funding risk) and/or sale of assets for less than their market value (market liquidity risk)

Overall, the liquidity risk management strategy is entrusted to the Board of Directors, which delegates it to the Executive Committee, and is carried out by the Treasury Department, based on constant vigilance of exposure indicators, being closely monitored by the Capital and Risk Committee.

The Capital and Risk Committee is responsible for controlling liquidity risk exposure, by analysing liquidity positions and assessing their conformity with the applicable regulatory rules and limitations, as well as with the goals and guidelines defined by the Group.

The Group's liquidity risk is assessed through regulatory indicators defined by the supervision authorities, as well as through other internal metrics.

As at 31 December 2022, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2022						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	64,123	–	–	–	–	–	64,123
Deposits at other credit institutions	59,141	–	–	–	–	–	59,141
Financial assets at amortised cost							
Investments at credit institutions	–	455,572	3,656	962	–	–	460,190
Loans and advances to customers	1,352	400,607	96,867	253,456	1,056,295	23,724	1,832,301
Debt securities	–	4,473	123,928	48,055	361,457	–	537,913
Financial assets at fair value through profit or loss							
Derivatives	–	–	–	52	26,168	–	26,220
Investment fund units	–	–		–	–	26,479	26,479
Financial assets at fair value through other comprehensive income							
Debt securities	–	–	–	–	–	–	–
Total Assets	**124,616**	**860,652**	**224,451**	**302,525**	**1,443,920**	**50,203**	**3,006,367**
Liabilities							
Financial liabilities at fair value through profit or loss							
Derivatives	–	–	–	–	26,345	–	26,345
Financial liabilities at amortised cost							
Deposits from Customers	2,096,365	83,545	100,482	–	–	–	2,280,392
Debt securities issued	–	352	–	–	445,226	–	445,578
Total Liabilities	**2,096,365**	**83,897**	**100,482**	–	**471,571**	–	**2,752,315**
Gap (Assets-Liabilities)	**(1,971,749)**	**776,755**	**123,969**	**302,525**	**972,349**	**50,203**	**254,052**
Accumulated Gap	**(1,971,749)**	**(1,194,994)**	**(1,071,025)**	**(768,500)**	**203,849**	**254,052**	

As at 31 December 2021, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

2021	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	621,470	-	-	-	-	-	621,470
Deposits at other credit institutions	41,252	-	-	-	-	-	41,252
Financial assets at amortised cost							
Investments at credit institutions	-	2,338	6,198	5,239	-	-	13,775
Loans and advances to customers	1,333	330,139	87,596	226,336	915,249	12,345	1,572,998
Debt securities	-	3,921	35,261	49,663	245,437	-	334,282
Financial assets at fair value through profit or loss							
Derivatives	-	-	-	-	2,262	-	2,262
Investment fund units	-	-	-	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income							
Debt securities	-	343	845	4,907	-	-	6,095
Total Assets	**664,055**	**336,741**	**129,900**	**286,145**	**1,162,948**	**37,344**	**2,617,133**
Liabilities							
Financial liabilities at amortised cost							
Deposits from Customers	1,898,444	106,310	116,757	-	-	-	2,121,511
Debt securities issued	-	35	-	-	277,761	-	277,796
Total do Passivo	**1,898,444**	**106,345**	**116,757**	**-**	**277,761**	**-**	**2,399,307**
Gap (Assets-Liabilities)	**(1,234,389)**	**230,396**	**13,143**	**286,145**	**885,187**	**37,344**	**217,826**
Accumulated Gap	**(1,234,389)**	**(1,003,993)**	**(990,850)**	**(704,705)**	**180,482**	**217,826**	

Furthermore, under the periodic monitoring of the liquidity situation, the Group calculates the liquidity mismatch, Additional Liquidity Monitoring Metrics (ALMM), pursuant to the addenda issued in 2018 to Regulation (EU) 680/2014 of the Commission.

ALMM takes into account all the contracted outflows and inflows and uses a maturity ladder which enables confirming the existence or not of the Group's liquidity mismatch, and also enables knowing its capacity to counterbalance any liquidity mismatch.

The liquidity mismatch is calculated for various timeframes, from overnight up to more than five years, taking into account the asset, liability and off-balance sheet positions with expected and estimated financial flows that are scheduled according to the corresponding residual maturities or inflow/outflow date of the monetary flow.

As at 31 December 2022, the ALMM shows a positive liquidity mismatch (difference between contracted outflows and inflows) of 261,695 thousand euros.

Interest Rate Risk

Interest Rate Risk refers to losses arising from the impact that interest rate fluctuations have on balance sheet or off-balance sheet items that are sensitive.

As at 31 December 2022, one of the main instruments in the monitoring of balance sheet interest rate risk is based on the recent Banco de Portugal Instruction 34/2018. This model groups variation-sensitive assets and liabilities into19 fixed timeframes (maturity dates or date of first review of interest rates, when indexed), from which a potential impact on economic value is calculated. Economic value is calculated by the sum of the net present value of the discounted cash flows. This discount is based on an interest rate curve not subject to any type of shock, in which, for discount purposes, the average periods of the timeframes are assumed. As presented in the table below, the two standard scenarios that correspond to a positive and negative shock of 200 basis points are applied to the baseline scenario.

As at 31 December 2022, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2022 Timeframe	Assets	Liabilities	Off-Balance Sheet	Net Position	Economic Value Delta (+200 bps)	Economic Value Delta (-200 bps)
At sight	746,113	759,346	338,410	325,177	(18)	18
At sight – 1 month	117,603	335,600	(185,484)	(403,481)	348	(356)
1 – 3 months	149,619	82,808	8,304	75,115	(242)	247
3 – 6 months	317,599	128,822	15,181	203,958	(1,461)	1,501
6 – 9 months	228,863	88,106	13,314	154,071	(1,812)	1,870
9 – 12 months	568,686	81,443	13,662	500,905	(8,126)	8,427
1 – 1.5 years	114,835	121,496	19,747	13,086	(297)	311
1.5 – 2 years	91,955	119,699	17,748	(9,996)	311	(328)
2 – 3 years	172,516	197,452	31,061	6,125	(264)	282
3 – 4 years	143,415	158,458	25,380	10,337	(599)	654
4 – 5 years	135,995	131,357	19,878	24,516	(1,756)	1,954
5 – 6 years	112,210	108,724	14,987	18,473	(1,554)	1,762
6 – 7 years	87,405	90,470	10,885	7,820	(747)	864
7 – 8 years	71,042	74,760	7,210	3,492	(370)	436
8 – 9 years	58,693	61,782	4,537	1,448	(167)	201
9 – 10 years	57,616	50,203	1,653	9,066	(1,120)	1,373
10 – 15 years	100,393	273,018	118	(172,507)	24,852	(32,289)
15 – 20 years	4,867	-	170	5,037	(851)	1,219
> 20 years	14,014	-	100	14,114	(2,766)	4,592
Total	**3,293,439**	**2,863,544**	**356,861**	**786,756**	**3,361**	**(7,262)**

As at 31 December 2021, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2021						
Timeframe	Assets	Liabilities	Off-Balance Sheet	Net Position	Economic Value Delta (+200 bps)	Economic Value Delta (-200 bps)
At sight	778,434	607,321	471,785	642,898	(36)	8
At sight – 1 month	114,383	350,265	16,063	(219,819)	195	(44)
1 – 3 months	128,357	84,526	487	44,318	(147)	33
3 – 6 months	192,350	104,017	1,931	90,264	(673)	146
6 – 9 months	198,284	86,491	1,699	113,492	(1,405)	397
9 – 12 months	233,016	87,244	2,398	148,170	(2,564)	737
1 – 1.5 years	97,752	90,360	1,853	9,245	(227)	83
1.5 – 2 years	107,562	90,367	-	17,195	(587)	248
2 – 3 years	166,907	169,113	-	(2,206)	106	(53)
3 – 4 years	140,622	142,835	-	(2,213)	147	(80)
4 – 5 years	397,348	119,030	-	278,318	(23,390)	13,200
5 – 6 years	80,540	95,652	-	(15,112)	1,527	(887)
6 – 7 years	63,407	81,611	-	(18,204)	2,133	(1,299)
7 – 8 years	51,813	62,512	-	(10,699)	1,413	(926)
8 – 9 years	41,403	51,844	-	(10,441)	1,521	(1,090)
9 – 10 years	8,756	42,215	-	(33,459)	5,297	(4,069)
10 – 15 years	92,529	201,536	-	(109,007)	21,195	(16,829)
15 – 20 years	3,848	-	-	3,848	(973)	588
> 20 years	2,509	-	-	2,509	(879)	250
Total	**2,899,820**	**2,466,939**	**496,216**	**929,097**	**2,653**	**(9,587)**

In view of the interest rate gaps observed, as at 31 December 2022, the impact on the economic value of instantaneous and parallel shifts of the interest rates by -200 basis points is -8,507 thousand euros (2021: -9,587 thousand euros).

The main assumptions used in 2021 in the Group's analyses were the following:

- For Demand Deposits: 25.21% at sight, 74.79% distributed non-linearly over 15 years, giving rise to a duration of 3.7 years;
- Saving Accounts: 39.49% at sight, 60.51% distributed non-linearly over 15 years, giving rise to a duration of 2.9 years;
- Introduction of an annual mortgage prepayment rate of 8.59%, distributed proportionally by each time bucket interval;

In 2022 they were revised and the following changes were introduced:

- For Demand Deposits: 26.04% at sight, 73.96% distributed non-linearly over 15 years, giving rise to a duration of 3.9 years;
- Saving Accounts: 50.64% at sight, 49.36% distributed non-linearly over 15 years, giving rise to a duration of 2.6 years;
- Introduction of an annual prepayment rate for Term Deposits of 1.27%, distributed proportionally over 12 months.

In addition, the impact on 12-month net interest income of changes in market interest rates is calculated on a monthly basis. This exercise considers all assets, liabilities or off-balance sheet items that generate or pay interest cash flows. The calculation is based on repricing characteristics and maturities considering behavioural models and interest rate transmission coefficients (betas). All

other things being equal, a positive variation in market interest rates of 50 b.p. as at 31 December 2022 would, at the consolidated level, result in a decrease of 264.5 thousand euros in net interest income, whereas a negative variation in market interest rates of 50 b.p. would result in a decrease in net interest income of 1,488.9 thousand euros. The lack of symmetry between the two impacts is explained by the specific circumstances of the market on the reference date, namely by the fact that the remuneration of customer resources has not yet changed significantly and subsequent rises are expected to have high betas.

Market Risk

Market Risk generally represents the possible loss resulting from an adverse change in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, share, commodity, or real estate prices, volatility and credit spreads.

The Group has no trading portfolio, and almost all its debt securities portfolio is recorded as financial assets at amortised cost, with the main risk arising from its investments being credit risk rather than market risk. In addition, the Bank holds participation units totalling 26,479 million euros in a real estate investment fund which is accounted at fair value through profit and loss.

To limit any negative impacts from turmoil in the market, sector or issuer, the Group defined a number of limitations to manage its own portfolio in order to ensure that the risk levels incurred in the Group's portfolio comply with the predefined levels of risk tolerance. These limits are stipulated at least annually and are regularly monitored by the Capital and Risk Committee, Audit Committee and Board of Directors.

Operational Risk

The Group, in view of the nature of its activity, is exposed to potential losses or reputational risk, as a result of human errors, failures of systems and/or processing, unexpected stoppage of activity or failures on the part of third parties in terms of supplies, provisions or execution of services.

The approach to operational risk management is underpinned by the end-to-end structure, ensuring the effective adequacy of the controls involving functional units that intervene in the process. The Group identifies and assesses the risks and controls of the processes, ensuring their compliance with the requirements and principles of the Internal Control System.

Encumbered Assets

Pursuant to Banco de Portugal Instruction 28/2014, which addresses the guidance of the European Banking Authority relative to the disclosure of encumbered assets and unencumbered assets (EBA/GL/2014/3), and considering the recommendation issued by the European Systemic Risk Board, the following information is presented in relation to the assets and collateral:

(amounts in thousand euros)

2022	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Equity instruments	-	-	26,479	26,479
Debt securities	40,985	39,766	816,572	458,650
Other assets	295,888	n/a	1,924,990	n/a
	336,873		**2,768,041**	

(amounts in thousand euros)

2021	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Equity instruments	-	-	24,999	24,999
Debt securities	17,845	19,206	322,411	329,622
Other assets	276,464	n/a	2,062,267	n/a
	294,309		**2,409,677**	

(amounts in thousand euros)

	Fair value of the encumbered collateral received or own debt securities issued		Fair value of the encumbered collateral received or own debt securities issued and able to be encumbered	
	2022	2021	2022	2021
Collateral received	**719,241**	**406,367**	**1,267,439**	**1,156,138**
Debt securities	-	-	-	-
Other collateral received	719,241	406,367	1,267,439	1,156,138
Own Debt Securities Issued other than Covered Own Bonds or ABS	-	-	-	-

(amounts in thousand euros)

	Book value of the selected financial liabilities	
	2022	2021
Associated liabilities, contingent liabilities and loaned securities	-	-
Assets, collateral received and own debt securities issued other than covered own bonds or ABS that are encumbered	26,040	-

The encumbered assets relate primarily to guarantees provided to the Central Bank (Debt securities) and to the value of the contracts securitised under the securitisation operations (Other Assets).

The encumbered collateral received essentially refers to the collateral of the securitised contracts under securitisation operations.

The collateral received that is able to be encumbered essentially refers to the collateral received in non-securitised credit operations, namely in mortgage loan and motor vehicle credit contracts.

Of the total unencumbered total assets of the value of 1,723,574 thousand euros (2021: 1,777,800 thousand euros), approximately 5% (2021: 5%) refer to items that cannot be encumbered (other tangible assets, intangible assets, current and deferred taxes).

Note 34 – Capital Management and Solvency Ratio

The main objective of capital management is to ensure compliance with the Group's strategic goals concerning capital adequacy, respecting and assuring compliance with the minimum requirements for own funds defined by the supervision entities.

In calculating capital requirements, the Group used the standard approach for credit and counterparty risk, the basic indicator method for operational risk and the standard approach based on maturity for market risk.

The capital, calculated pursuant to Directive 2013/36/EU and Regulation (EU) 575/2013 approved by the European Parliament and the Council, and Banco de Portugal Notice 10/2017, includes core own funds (tier 1 capital) and supplementary own funds (tier 2 capital). Tier 1 includes core own funds (Common Equity Tier 1 – CET1) and tier 1 additional capital.

The Group's Common Equity Tier 1 includes: a) paid-up capital, reserves and retained earnings; b) regulatory deductions related to intangible assets, goodwill and losses relative to the year in progress; and c) prudential filters. The Group does not have any additional tier 1 capital or tier 2 capital.

The legislation in force establishes a transition period between capital requirements pursuant to national legislation and that calculated pursuant to Community legislation in a phased fashion both for the non-inclusion/exclusion of items considered previously (phased-out) and the inclusion/deduction of new items (phased-in). At a prudential framework level, institutions should report Common Equity Tier 1, tier 1 and totals not below 7%, 8.5% and 10.5%, respectively, including a conservation buffer of 2.5% and a countercyclical buffer of 0%, in the case of the Bank, 0%.

In order to promote the banking system's capacity to adequately perform this function, and cumulatively with monetary policy measures, the financial regulatory and supervisory authorities introduced a wide range of measures. These measures included the relaxation of a wide range of requirements usually required of institutions. In the case of the banking system, the European Central Bank and Banco de Portugal allowed the institutions directly supervised by them to operate temporarily with a level below the own funds guidance and the combined own funds buffer, and with liquidity levels below the liquidity coverage requirement.

In the course of 2020, several measures were disclosed - by the national supervisor and the European Union - easing regulatory and supervisory requirements to alleviate the contingency situation arising from the Covid-19 outbreak, by reducing regulatory capital requirements, including macro-prudential capital buffers.

Banco de Portugal Notice 10/2017 regulates the transitional arrangement established in the CRR concerning own funds, namely with respect to deductions related to deferred taxes generated before 2014 and to subordinated debt and hybrid instruments that are not eligible, both non-applicable to Banco CTT. With the introduction of IFRS 9, the Bank opted for the phased recognition of the respective impacts of the static component pursuant to Article 473-A of the CRR.

As at 31 December 2022 and 31 December 2021, the Group presented the following capital ratios, calculated in accordance with the transitional provisions established in the CRR:

(amounts in thousand euros)

	2022		2021		
	CRR Phased-in	CRR Fully Implemented	CRR Phased-in	CRR Fully Implemented	Notes
Own funds					
Share capital	**296,400**	**296,400**	**296,400**	**296,400**	29
Retained earnings	**(59,348)**	**(59,348)**	**(73,954)**	**(73,954)**	30
Legal reserve	**1,571**	**1,571**	**29**	**29**	
Eligible results [1]	**14,716**	**14,716**	**16,148**	**16,148**	
Other reserves	**347**	**347**	**(126)**	**(126)**	
Prudential Filters	-	-	21	21	30
Fair value reserves [2]	-	-	27	27	
Additional Valuation Adjustment (AVA) [3]	-	-	(6)	(6)	
Deductions to common equity tier 1	**(68,810)**	**(76,172)**	**(71,406)**	**(79,117)**	
Losses for the period	-	-	-	-	
Intangible assets	(14,796)	(14,796)	(17,336)	(17,336)	22
Goodwill	(60,679)	(60,679)	(61,085)	(61,085)	
Adoption of IFRS 9	6,667	(695)	7,016	(69)	
Securitisation deduction (1250%)	(2)	(2)	(1)	(1)	
Items not deducted from Equity pursuant to article 437 of the CRR	**1,732**	**1,732**	**1,817**	**1,817**	
Deferred tax assets	1,732	1,732	1,817	1,817	23
Common Equity Tier 1	**184,876**	**177,514**	**167,112**	**159,401**	
Tier 1 Capital	**184,876**	**177,514**	**167,112**	**159,401**	
Total Own Funds	**184,876**	**177,514**	**167,112**	**159,401**	
RWA	**1,182,594**	**1,176,298**	**1,043,231**	**1,036,419**	
Credit Risk	1,000,303	1,000,303	918,727	918,727	
Operational Risk	148,925	148,925	124,504	124,504	
Market Risk	-	-	-	-	
CVA	33,366	33,366	-	-	
IFRS 9 adjustment	-	(6,296)	-	(6,812)	
Capital Ratios					
Common Equity Tier 1	15.63%	15.09%	16.02%	15.38%	
Tier 1 Ratio	15.63%	15.09%	16.02%	15.38%	
Total Capital Ratio	15.63%	15.09%	16.02%	15.38%	

[1] *Includes net income for the year in 2021 and 2022.*
[2] *Fair value reserve relative to gains or losses of financial assets stated at fair value.*
[3] *Additional value adjustments required to adjust the assets and liabilities stated at fair value.*

Note 35 – Employee Benefits

As mentioned in Note 2.16, pursuant to the collective bargaining agreement (ACT) of the banking sector, published in the Bulletin of Work and Employment (BTE) number 38/2017 of 15 October, the Group, at the company 321 Crédito undertook the following commitments in relation to the payment of benefits, which are described as follows:

Benefits

Career Bonus

The Career Bonus is established in Clause 69 of the collective bargaining agreement (ACT), where the content of numbers one state that on the date of moving into a situation of retirement, due to disability or old age, the employee shall be entitled to a bonus of the value equal to 1.5 times the effective monthly retribution earned on that date. In the event of death while actively employed, a bonus shall be paid calculated under the terms of number 1 and with reference to the effective monthly retribution that the deceased employee earned on the date of death.

Allowance due to Death Arising from a Work Accident

In the event of death of a Participant arising from a work accident, this shall give rise to the payment of a capital sum – death allowance – as defined in Clause 72 of the collective bargaining agreement referred to above.

Post-Retirement Medical Care (SAMS)

Medical care is provided by the Social Medical Assistance Service (SAMS) whose post-retirement costs to the Member are defined are Clause 92 of the collective bargaining agreement referred to above.

The calculation considers the figures of Annex III of the collective bargaining agreement, covering the growth rate of the salary table.

321 Crédito is liable for the payment of the aforesaid costs for all its employees as soon as they move into a situation of retirement and for the costs related to survivors' pensions.

The counting of time of service considered the seniority date in the Group.

Actuarial Assumptions

In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is performed by an independent entity every year, based on the "Projected Unit Credit" method, and according to assumptions that are considered appropriate and reasonable, with an actuarial study having been conducted as at 31 December 2022 and 2021.

The main actuarial assumptions used in the calculation of the liabilities are as follows:

	2022	2021
Financial assumptions		
Discount rate	3.60%	1.42%
Salary growth rate (considering progressions)	1.25%	1.25%
Average inflation rate	1.00%	1.00%
Demographic assumptions		
Rate of death due to work accidents	0.000035	0.000035
Mortality table	Homens: TV 88 / 90 Mulheres: TV 88 / 90 (-1)	Homens: TV 88 / 90 Mulheres: TV 88 / 90 (-1)
Disability table	Swiss RE	Swiss RE
Retirement Age	67*	67*

*The normal retirement age is in line with the provisions in Decree-Law 167-E/2013, of 31 December and with the forecasts carried out in the study entitled "2014 Ageing Working Group pension forecast exercise" produced by the Planning, Strategy, Assessment and International Relations Office (GPEARI) of the Ministry of Finance of Portugal

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the balance sheet and with a duration equivalent to that of the liabilities with healthcare.

The discount rate is determined according to the Group's analysis of the evolution of the macroeconomic context and constant need to adjust the actuarial and financial assumptions to that context, which laid the grounds for the adjustment of the rate to 3.60% (2021: 1.42%).

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

Liabilities

The evolution of the Group's liabilities related to healthcare and other post-employment benefits during the period ended on 31 December 2022 and 2021, is presented below:

(amounts in thousand euros)

	2022			2021		
	Healthcare – SAMS	Other post-employment benefits	Total	Healthcare – SAMS	Other post-employment benefits	Total
Opening balance	**1,468**	**204**	**1,672**	**1,432**	**216**	**1,648**
Cost of the current service	110	15	125	107	14	121
Cost of Interest	21	3	24	19	3	22
Benefits paid	(1)	-	(1)	(1)	-	(1)
Actuarial gains and losses for the year	(645)	(49)	(694)	(89)	(29)	(118)
Closing balance	**953**	**173**	**1,126**	**1,468**	**204**	**1,672**

The best estimate that the Group has at this date for expenses to be recognised in 2023 with employee benefits is about -645 thousand euros for Health Care (SAMS) and about -49 thousand euros with other post-employment benefits.

In the period ended on 31 December 2022 and 2021, the expenses related to employee benefits recognised in the consolidated income statement and the actuarial deviations recorded under the balance sheet heading "Other changes in equity" were as follows:

(amounts in thousand euros)

	2022	2021
Expenses recognised in the income statement		
Healthcare – SAMS	131	126
Other post-retirement benefits	18	16
	149	**142**
Actuarial deviations recorded under the balance sheet heading "Other changes in equity"		
Healthcare – SAMS	(572)	73
Other post-retirement benefits	14	14
	(558)	**87**

The average duration of the liabilities related to Healthcare (SAMS) and other employee benefits is approximately 21.25 years (2021: 24.55 years).

Sensitivity Analysis

The analysis of sensitivity to change in assumptions, pursuant to IAS 19, is as follows:

Discount rate:

(amounts in thousand euros)

2022	Discount rate		Δ	
	3.60%	3.85%	Valor	%
Liabilities	**1,126**	**1,069**	**(57)**	**-5.1%**

(amounts in thousand euros)

2021	Discount rate		Δ	
	1.42%	1.67%	Valor	%
Liabilities	**1,672**	**1,574**	**(98)**	**-5.9%**

Analysis of the table above enables us to conclude that an increase of 25 b.p.in the discount rate, ceteris paribus, could be reflected in a reduction of the liabilities due to past services by approximately 5.1%. (2021: 5.9%).

Inversely, a reduction of 25 b.p.in the discount rate, could be reflected in an increase of the liabilities due to past services by approximately 5.3% (2021: 6.2%).

Mortality table:

Sensitivity analysis was also carried out with a view to measuring the impact on liabilities of a variation of the mortality table in which mortality table TV 73/77 (-2) was considered for men and TV 88/90 (-3) for women. This change of the tables could be reflected in an increase of liabilities due to past services by approximately 1.5% (2021: 2.3%), increasing to 1,143 thousand euros (2021: 1,711 thousand euros).

(amounts in thousand euros)

2022	Mortality Table		Δ	
	Men: TV 88/90 Women: TV 88/90 (-1)	Men: TV 73/77 (-2) Women: TV 88/90 (-3)	Value	%
Liabilities	1,126	1,143	17	1.5%

(amounts in thousand euros)

2021	Tábua de Mortalidade		Δ	
	Men: TV 88/90 Women: TV 88/90 (-1)	Men: TV 73/77 (-2) Women: TV 88/90 (-3)	Value	%
Liabilities	1,672	1,711	39	2.3%

Note 36 – Asset Securitisation

As at 31 December 2022 and 2021, the Group had in progress the following securitisation operations:

(amounts in thousand euros)

2022						
Issue	Securitised asset	Issue date	Redemption date	Initial value of the credit	Initial withheld interest	Current value of the credit
Ulisses Finance No.1	Consumer credit	jul/17	mar/33	141,300	10,600	20,345
Chaves Funding No.8	Consumer credit	nov/19	nov/34	310,500	16,025	184,551
Ulisses Finance No.2	Consumer credit	sep/21	sep/38	250,000	1,500	230,137
Next Funding No.1	Consumer credit	apr/21	dec/33	104,118	104,118	372,746
Ulisses Finance No.3	Consumer credit	jun/22	jun/39	200,000	1,800	196,149
				1,005,918	**134,043**	**1,003,928**

(amounts in thousand euros)

2021						
Issue	Securitised asset	Issue date	Redemption date	Initial value of the credit	Initial withheld interest	Current value of the credit
Ulisses Finance No.1	Consumer credit	jul/17	mar/33	141,300	10,600	20,345
Chaves Funding No.8	Consumer credit	nov/19	nov/34	310,500	16,025	184,551
Ulisses Finance No.2	Consumer credit	sep/ 21	sep/38	250,000	1,500	230,137
Next Funding No.1	Consumer credit	apr/21	dec/33	104,118	104,118	372,746
				805,918	**132,243**	**873,537**

Ulisses Finance No.1

This securitisation operation was originated in July 2017 and issued by Sagres - Sociedade de Titularização de Créditos, S.A., and corresponds to a public programme of credit securitisation (Ulisses), with the Ulisses No.1 operation having been placed on the market. The assembly of the operation was carried out with the collaboration of Citibank and Deutsche Bank and included a Consumer Credit portfolio originated by 321 Crédito. The structure of the operation included five Tranches from A to E. The A to C Tranches are dispersed in the market while the D and E Tranches were withheld. This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, Tranches A, B and C.

This operation includes an optional early repayment clause which enables the issuer to redeem the notes of all the classes issued, when the residual value of the credit represents 10% or less than the value of the Credit Portfolio on the date of the assembly of the securitisation operation.

The operation incorporates an interest rate cap, which is a mechanism to mitigate interest rate risk for the operation and its investors, among which the Group is included, but that was not contracted directly by the Group, but rather by the issuer of the securitisation operation (Sagres – STC, S.A.).

The Group guarantees the debt service (servicer) of the traditional securitisation operations, undertaking the collection of the credit that has been granted and channelling the residual values, by making the respective deposit at the credit securitisation firm.

The underlying assets of the Ulisses Finance No.1 operations were not derecognised from the Statement of Financial Position as the Group substantially retained the risks and rewards associated with holding them.

Chaves Funding No.8

This private securitisation operation was issued in November 2019 by Tagus, Sociedade de Titularização de Créditos, S.A., and included a Consumer Credit portfolio originated by 321 Crédito. The setting up of the operation was carried out with the collaboration of the law firm PLMJ. The structure of the operation includes a Tranche A and a Tranche B in the notes issued, both being entirely held by the Group.

This operation includes an optional early repayment clause which enables the issuer to redeem the notes of all the Classes issued, when the residual value of the credit represents 10% or less than the value of the Credit Portfolio on the date of the setting up of the securitisation operation.

The underlying assets of the Chaves Funding No.8 transaction were not derecognised from the Statement of Financial Position as the Group substantially retained the risks and rewards associated with holding them.

Ulisses Finance No.2

This securitisation operation was created in September 2021 and issued by Tagus - Sociedade de Securitização de Créditos, S.A. and corresponds to a public credit securitisation program (Ulisses) with the Ulisses Finance No.2 operation being placed on the market. The operation was set up with the collaboration of the PLMJ Law Firm and Deutsche Bank and included a consumer credit portfolio originated by 321 Crédito, whose initial total value was 250,000 thousand euros, to be maintained over the 12 months of the revolving period.

The structure of the Operation includes six collateralised Tranches from A to F, in addition to tranches G and Z. All tranches are dispersed on the capital market with the exception of class Z, whose initial value was 1.5 million euros and which presents a value of 1,000 euros on 30 June 2022.

This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, i.e., Tranches A to G.

Operation Ulisses Finance No.2 has the characteristics of a STS (simple, transparent and standardized) operation.

For the purpose of calculating the capital ratio, due to the fact that the Ulisses Finance No. 2 operation complies with Article 244.1(b) of European Regulation 575/2013 (full capital deduction), the company decreased its 'Risk Weight Assets' in respect of the contracts securitised under this operation.

The operation incorporates an interest rate cap, which is a mechanism to mitigate interest rate risk for the operation and its investors, among which the Group is included, but that was not contracted directly by the Group, but rather by the issuer of the securitisation operation (Tagus – STC, S.A.).

The underlying assets of the Ulisses Finance No. 2 transaction were not derecognised from the Statement of Financial Position as the Group substantially retained the risks and rewards associated with holding them.

Next Funding No.1

The Next Funding No.1 operation, issued by Tagus - STC, S.A. in April 2021 and in which Banco CTT is the sole investor, has as its underlying asset the credit card balances originated by the Universo credit card issued by Sonae Financial Services. Additionally, Banco CTT grants the operation an overdraft line (Liquidity Facility) for the sole purpose of acquiring receivables (credit card balances) between the interest payment dates. At each interest payment date (IPD) the Liquidity Facility balance will be settled by converting it to the value of the note.

In the consolidated accounts, subject to the conditions set out in IFRS 10 (Consolidated Financial Statements), the securitisation operation is consolidated, insofar as Banco CTT substantially holds all the risks and rewards associated with the underlying assets and has the capacity to affect these risks and benefits.

Ulisses Finance No.3

This securitisation operation was created in June 2022 and issued by Tagus - Sociedade de Securitização de Créditos, S.A. and corresponds to a public credit securitisation programme (Ulisses) with the Ulisses Finance No. 3 operation being placed on the market. The operation was set up with the collaboration of the Law Firm VdA – Vieira de Almeida and Deutsche Bank and included a consumer credit portfolio originated by 321 Crédito, whose initial total value was 200,000 thousand euros, to be maintained over the 12 months of the revolving period.

The structure of the Operation includes six collateralised Tranches from A to F, in addition to tranches G and Z. All Tranches are dispersed on the capital market with the exception of class Z, whose initial value was 1.8 million euros.

This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, i.e., Tranches A to G.

Operation Ulisses Finance No.3 has the characteristics of a STS (simple, transparent and standardized) operation.

For the purpose of calculating the capital ratio, due to the fact that the Ulisses Finance No. 3 operation complies with Article 244.1(b) of European Regulation 575/2013 (full capital deduction), the company decreased its 'Risk Weight Assets' in respect of the contracts securitised under this operation.

The operation incorporates an interest rate cap, which is a mechanism to mitigate interest rate risk for the operation and its investors, among which the Group is included, but that was not contracted directly by the Group, but rather by the issuer of the securitisation operations (Tagus – STC, S.A.).

The underlying assets of the Ulisses Finance No.3 transaction were not derecognised from the Statement of Financial Position as the Group substantially retained the risks and rewards associated with holding them.

The main features of these operations, with reference to 31 December 2022 and 2021, are analysed as follows:

(amounts in thousand euros)

2022												
	Nominal Value		Redemption date	Remuneration	Initial Rating				Current Rating			
	Initial	Current			Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Ulisses Finance No.1												
Class A	120,100	0	Mar 2033	Euribor 1M + 85 bps	-	A2	-	A	-	Aa2	-	AAA
Class B	7,000	4,233	Mar 2033	Euribor 1M + 160 bps	-	Baa3	-	BBB	-	Aa2	-	AAA
Class C	7,100	7,100	Mar 2033	Euribor 1M + 375 bps	-	Ba2	-	BB(low)	-	Aa2	-	AA
Class D	7,100	7,100	Mar 2033	Euribor 1M + 400 bps	-	-	-	-	-	-	-	-
Class E	3,500	3,500	Mar 2033	-	-	-	-	-	-	-	-	-
Chaves Funding No.8												
Class A	294,975	149,833	Nov 2034	Euribor 1M + 125 bps	-	-	-	-	-	-	-	-
Class B	16,025	26,991	Nov 2034	-	-	-	-	-	-	-	-	-
Ulisses Finance No.2												
Class A	203,700	189,826	Sep 2038	Euribor 1M + 70 bps	-	Aa3	-	AA(low)	-	Aa2	-	AA(low)
Class B	10,000	9,319	Sep 2038	Euribor 1M + 80 bps	-	A2	-	A(low)	-	Aa3	-	A(low)
Class C	20,000	18,638	Sep 2038	Euribor 1M + 135 bps	-	Baa2	-	BBB(low)	-	Baa1	-	BBB(low)
Class D	11,300	10,530	Sep 2038	Euribor 1M + 285 bps	-	Ba2	-	BB(low)	-	Ba1	-	BB(low)
Class E	3,700	3,448	Sep 2038	Euribor 1M + 368 bps	-	B1	-	B(low)	-	Ba3	-	B(low)
Class F	1,300	1,211	Sep 2038	Euribor 1M + 549 bps	-	-	-	-	-	-	-	-
Class G	1,500	375	Sep 2038	Euribor 1M + 500 bps	-	-	-	-	-	-	-	-
Class Z	1,500	1	Sep 2038	-	-	-	-	-	-	-	-	-
Next Funding No.1												
Class A	112,118	335,544	Dec 2033	*indexed to portfolio performance*	-	-	-	-	-	-	-	-
Ulisses Finance No.3												
Class A	168,000	168,000	Jun 2039	Euribor 1M + 90 bps	-	Aa2	-	AA	-	Aa2	-	AA
Class B	8,000	8,000	Jun 2039	Euribor 1M + 200 bps	-	A1	-	A(high)	-	A1	-	A(high)
Class C	12,000	12,000	Jun 2039	Euribor 1M + 370 bps	-	Baa1	-	BBB	-	Baa1	-	BBB
Class D	6,000	6,000	Jun 2039	Euribor 1M + 525 bps	-	Ba1	-	BB	-	Ba1	-	BB
Class E	5,000	5,000	Jun 2039	Euribor 1M + 650 bps	-	Ba3	-	B	-	Ba3	-	B
Class F	1,000	1,000	Jun 2039	Euribor 1M + 850 bps	-	B1	-	B(low)	-	B1	-	B(low)
Class G	1,500	600	Jun 2039	Euribor 1M + 785 bps	-	-	-	-	-	-	-	-
Class Z	1,800	1	Jun 2039	Euribor 1M + 750 bps	-	-	-	-	-	-	-	-
	1,024,218	**968,250**										

(amounts in thousand euros)

2021												
	Nominal Value		Redemption date	Remuneration	Initial Rating				Current Rating			
	Initial	Current			Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Ulisses Finance No.1												
Class A	120,100	10,421	Mar 2033	Euribor 1M + 85 bps	-	A2	-	A	-	A1	-	AA
Class B	7,000	7,000	Mar 2033	Euribor 1M + 160 bps	-	Baa3	-	BBB	-	Aa3	-	A
Class C	7,100	7,100	Mar 2033	Euribor 1M + 375 bps	-	Ba2	-	BB(low)	-	A3	-	BBB
Class D	7,100	7,100	Mar 2033	Euribor 1M + 400 bps	-	-	-	-	-	-	-	-
Class E	3,500	3,500	Mar 2033	-	-	-	-	-	-	-	-	-
Chaves Funding No.8												
Class A	294,975	270,526	Nov 2034	Euribor 1M + 125 bps	-	-	-	-	-	-	-	-
Class B	16,025	27,096	Nov 2034	-	-	-	-	-	-	-	-	-
Ulisses Finance No.2												
Class A	203,700	203,700	Sep 2038	Euribor 1M + 70 bps	-	Aa3	-	AA(low)	-	Aa3	-	AA(low)
Class B	10,000	10,000	Sep 2038	Euribor 1M + 80 bps	-	A2	-	A(low)	-	A2	-	A(low)
Class C	20,000	20,000	Sep 2038	Euribor 1M + 135 bps	-	Baa2	-	BBB(low)	-	Baa2	-	BBB(low)
Class D	11,300	11,300	Sep 2038	Euribor 1M + 285 bps	-	Ba2	-	BB(low)	-	Ba2	-	BB(low)
Class E	3,700	3,700	Sep 2038	Euribor 1M + 368 bps	-	B1	-	B(low)	-	B1	-	B(low)
Class F	1,300	1,300	Sep 2038	Euribor 1M + 549 bps	-	-	-	-	-	-	-	-
Class G	1,500	1,275	Sep 2038	Euribor 1M + 500 bps	-	-	-	-	-	-	-	-
Class Z	1,500	1	Sep 2038	-	-	-	-	-	-	-	-	-
Next Funding No.1												
Class A	112,118	264,794	Dec 2033	*indexed to portfolio performance*	-	-	-	-	-	-	-	-
	820,918	**848,813**										

Furthermore, as at 31 December 2022, the Group, through 321 Crédito, maintained the Fénix operation as the only outstanding derecognised securitisation operation. The Group's only involvement in this operation was to provide serving for this operation.

Note 37 – Provision of Insurance or Reinsurance Mediation Services

As at 31 December 2022 and 2021, the remunerations derived from the provision of insurance and reinsurance mediation services were broken down as follows:

(amounts in thousand euros)

	2022	2021
Life Business	6,977	5,300
Non-Life Business	696	669
	7,673	**5,969**

The values receivable and payable associated to the insurance mediation activity are presented as follows:

(amounts in thousand euros)

	2022	2021
Values receivable	915	1,193
Values payable	1,458	1,718

Note 38 – Standards, Interpretations, Amendments and Revisions that Entered into Force in the Financial Year

The following standards, interpretations, amendments and revisions adopted ("endorsed") by the European Union are mandatory for the first time in the financial year beginning on 1 January 2022:

Amendments to IFRS 3 - Reference to the Conceptual Framework

This amendment updates references to the Conceptual Framework in the text of IFRS 3, with no changes made to the accounting requirements for business combinations. The accounting treatment for liabilities and contingent liabilities under IAS 37 and IFRIC 21 is also clarified, distinguishing those incurred separately from those included in a business combination.

The amendment is to be applied prospectively.

Amendments to IAS 16 - Proceeds before Intended Use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Amendments to IAS 37 - Onerous Contracts – Costs of Fulfilling a Contract

This amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards (included in the annual improvements for the 2018-2020 cycle)

The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

Amendments to IFRS 9 - Fees in the '10 per cent' test for derecognition of financial liabilities (included in the annual improvements for the 2018-2020 cycle)

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Amendments to IAS 41 - Taxation in fair value measurements (included in the annual improvements for the 2018-2020 cycle)

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

Amendments to IFRS 16 – Leases – Concessions related to COVID-19 at the level of rents beyond 30 June 2021

On May 28, 2020, the amendment to IFRS 16 entitled 'COVID-19 related concessions' was issued, which introduced the following practical expedient: a lessee may choose not to assess whether a concession of income related to Covid-19 is a lease modification.

Lessees who elect to apply this expedient account for a change in rent payments resulting from a COVID-19-related concession in the same way that they account for a change that is not a lease modification under IFRS 16.
Initially, the practical expedient applied to payments originally due by June 30, 2021, however, due to the prolonged impact of the pandemic, on March 31, 2021, it was extended to payments originally due by June 30, 2022. The change applies to annual reporting periods beginning on or after April 1, 2021.

In short, the practical expedient can be applied as long as the following criteria are met:

- the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change;
- the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change; and
- there are no material changes to other terms and conditions of the lease.

These standards and changes had no material impact on the consolidated financial statements of the Grupo Banco CTT.

Note 39 – Standards, Interpretations, Amendments and Revisions that come into force in future years

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have, up to the date of approval of these financial statements, been adopted ("endorsed") by the European Union:

IFRS 17 – Insurance Contracts

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

Amendments to IFRS 17 – Insurance Contracts – First time adoption of IFRS 17 and IFRS 9 – Comparative Information

This amendment to IFRS 17 refers to the presentation of comparative information on financial assets in the initial application of IFRS 17.

The amendment adds a transition option that allows an entity to apply an 'overlay' in the classification of a financial asset in the comparative period(s) presented in the initial application of IFRS 17. The 'overlay' allows all financial assets, including those serviced in relation to non-contract activities within the scope of IFRS 17, to be classified, instrument by instrument, in the comparative period(s) in a recorded manner with the way in which the entity expects these assets to be classified in the initial application of IFRS 9.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

Amendments to IAS 1 - Disclosure of Accounting Policies

The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

Amendments to IAS 8 - Definition of Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The Group did not early apply any of these standards in the financial statements for the twelve months period ended 31 December 2022.

No significant impacts on the financial statements are expected as a result of its adoption.

Note 40 – Standards, Interpretations, Amendments and Revisions not yet adopted by the European Union

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have not yet been adopted ("endorsed") by the European Union, at the date of approval of these financial statements:

Amendments to IAS 1 - Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

This amendment intends to clarify the classification of liabilities as current or non-current balances according to the rights that an entity has to defer payment at the end of each reporting period.

The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether or not the entity will exercise such a right), or by events occurring after the reporting date, such as the default of a "covenant".
However, if the right to postpone settlement for at least twelve months is subject to the fulfillment of certain conditions after the balance sheet date, these criteria do not affect the right to defer settlement whose purpose is to classify a liability as current or non-current.

This amendment also includes a new definition of the "settlement" of a liability and is retrospectively applicable.

Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback

This amendment specifies the requirements related to the subsequent measurement of lease liabilities, related to sale and leaseback transactions ("sale & leaseback") that qualify as a "sale" in accordance with the principles of IFRS 15, with a focus on lease payments of lease variables that do not depend on an index or a rate.

In subsequent measurement, seller-lessees shall determine "lease payments" and "revised lease payments".

In subsequently measuring lease liabilities, seller-lessees shall determine the "lease payments" and "revised lease payments" in such a way as not to recognize any gain or loss relating to the retained right of use. Application of these requirements does not preclude the seller-lessee from recognizing, in the income statement, any gain or loss related to the partial or total "sale", as required by paragraph 46(a) of IFRS 16.

This amendment applies retrospectively.

These standards have not yet been adopted ("endorsed") by the European Union and, as such, have not been applied by the Group in the twelve-month period ending on 31 December 2022. No significant impacts on the financial statements are expected as a result of its adoption.

Note 41 – Subsequent Events

As disclosed in Note 22 - Taxes, on 1 March 2023, the decision of the ANI (National Innovation Agency) was issued in relation to the application process of Banco CTT, S.A. to SIFIDE II of 2021, consisting of the total deferment of the tax credit requested in the amount of 454,612 euros.

Apart from the above, no other events with a relevant impact on the Group's Financial Statements have occurred up to the date of this report and after the end of the 2022 financial year.

Accounts and Notes to the Individual Accounts of 2022

Individual Financial Statements

Individual Income Statements for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	2022	2021
nterest and similar expenses	4	38,185	23,681
Interest and similar expenses	4	(1,729)	(1,470)
Net Interest Income	4	**36,456**	**22,211**
Net fee and commission income	5	19,175	15,474
Net gains/(losses) of assets and liabilities at fair value through profit or loss	6	(11,634)	(1)
Net gains/(losses) of other financial assets at fair value through other comprehensive income		(1)	-
Results from financial assets and liabilities at amortised cost	7	-	17,777
Other operating income/(expenses)	8	1,868	(262)
Operating Income		**45,864**	**55,199**
Staff costs	9	(18,458)	(17,087)
General administrative expenses	10	(26,308)	(24,243)
Amortisation and depreciation for the year	20 and 21	(6,334)	(6,328)
Operating Costs		**(51,100)**	**(47,658)**
Operating Profit/(Loss) Before Provisions and Impairment		**(5,236)**	**7,541**
Credit impairment	15	(1,819)	(1,106)
Impairment of other financial assets	14, 16 and 18	(11,848)	(5,652)
Impairment of other assets	21 and 23	(3)	(112)
Provisions	27	(128)	(118)
Operating Profit/(Loss)		**(19,034)**	**553**
Results of Investments in Subsidiaries and Associates		**29,141**	**14,689**
Profit/(Loss) Before Tax	22	**10,107**	**15,242**
Taxes			
Current	23	4,754	26
Deferred	23	(205)	156
Net Income for the Year		**14,656**	**15,424**
Earnings per share (in euros)			
Basic	11	0.05	0.05
Diluted	11	0.05	0.05

The accompanying notes form an integral part of these financial statements.

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

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Maria Rita Mégre de Sousa Coutinho

Individual Comprehensive Income Statements for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	2022	2021
Net Income for the Year		**14,656**	**15,424**
Comprehensive income recognized directly in Equity after taxes		**446**	**9**
Items that may be reclassified to the income statement			
Fair value reserve	29	(27)	(56)
Items that shall not be reclassified to the income statement			
Actuarial gains/(losses) for the year			
Employee benefits	29	473	65
Total Comprehensive Income for the Year		**15,102**	**15,433**

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Individual Statements of Financial Position as at 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	2022	2021
Assets			
Cash and deposits at central banks	12	48,733	613,012
Deposits at other credit institutions	13	28,010	4,158
Financial assets at amortised cost			
Investments at credit institutions	14	592,860	69,898
Loans and advances to customers	15	700,952	631,673
Debt securities	16	1,007,448	864,041
Financial assets at fair value through profit or loss	17	26,479	24,999
Financial assets at fair value through other comprehensive income			
Debt securities	18	-	6,095
Non-current assets held for sale	19	8,911	8,247
Other tangible assets	20	4,129	4,919
Intangible assets	21	20,221	21,614
Investments in subsidiaries and associates	22	148,024	125,474
Deferred tax assets	23	870	683
Other assets	24	48,404	18,211
Total Assets		**2,635,041**	**2,393,024**
Liabilities			
Financial liabilities at fair value through profit or loss		26,345	-
Financial liabilities at amortised cost			
Amounts owed to other credit institutions	25	15,023	43
Deposits from Customers	26	2,283,288	2,122,817
Provisions	27	477	429
Deferred tax liabilities	23	392	6
Other liabilities	28	57,256	32,571
Total Liabilities		**2,382,781**	**2,155,866**
Equity			
Share capital	29	296,400	296,400
Legal reserves	30	1.571	29
Fair value reserves	30	-	27
Other reserves	30	(347)	(820)
Retained earnings	30	(60,020)	(73,902)
Net income for the year		14,656	15,424
Total Equity		**252,260**	**237,158**

The accompanying notes form an integral part of these financial statements.

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Individual Statements of Changes in Equity for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	Share capital	Fair Value Reserves	Legal Reserves	Other Reserves	Retained earnings	Net Income for the Year	Total Equity
Balance on 31 December 2020		**286,400**	**83**	-	**(884)**	**(74,159)**	**285**	**211,725**
Share capital increase	29	10,000	-	-	-	-	-	10,000
Appropriation of net income		-		29		256	(285)	-
Actuarial gains/(losses)		-	-	-	64	-	-	-
Other variations		-	-	-	-	1	-	-
Comprehensive income for the year		-						
Fair value reserves	30	-	(56)	-	-	-	-	(56)
Net income for the year		-	-	-	-	-	15,424	15,424
Balance on 31 December 2021		**296,400**	**27**	**29**	**(820)**	**(73,902)**	**15,424**	**237,157**
Share capital increase	29	-	-	-	-	-	-	-
Appropriation of net income				1,542	-	13,882	(15,424)	-
Actuarial gains/(losses)		-	-	-	473	-	-	473
Other variations		-	-	-	-	-	-	-
Comprehensive income for the year			-					
Fair value reserves	30	-	(27)	-	-	-	-	(27)
Net income for the year		-	-	-	-	-	14,656	14,656
Balance on 31 December 2022		**296,400**	**-**	**1,571**	**(347)**	**(60,020)**	**14,656**	**252,260**

The accompanying notes form an integral part of these financial statements.

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Individual Cash Flow Statements for the years ended on 31 December 2022 and 2021

(amounts in thousand euros)

	Notes	2022	2021
Cash flow from operating activities		**98,183**	**340,722**
Interest income received		40,025	26,803
Interest paid		(1,657)	(1,457)
Commissions income received		20,615	18,771
Commissions paid		(4,308)	(3,745)
Payments to employees		(16,467)	(15,613)
Income tax payments		4,635	-
Sectoral contributions		(243)	(181)
Other payments and receipts		(25,233)	(25,693)
Variation in operational assets and liabilities		80,816	341,837
Other operational assets and liabilities		*(8,963)*	*14,306*
Loans and advances to customers	*15*	*(70,612)*	*(106,238)*
Deposits from Customers	*26*	*160,391*	*433,769*
Cash flow from investment activities		**(677,247)**	**59,799**
Deposits at Banco de Portugal		(3,248)	(4,142)
Investment in securities		(153,852)	58,362
Investment		*(833,335)*	*(646,572)*
Repayment/Divestment		*679,483*	*704,934*
Investments at the Central Bank	14	(450,200)	-
Investments in other credit institutions	14	(72,175)	(16,855)
Investment		*(377,800)*	*(233,750)*
Redemptions		*305,625*	*216,895*
Acquisitions of tangible fixed assets and intangible assets		(4,172)	(3,291)
Dividends received		6,400	25,725
Cash flow from financing activities		**13,898**	**8,889**
Share capital increases	29	-	10,000
Amounts owed to other credit institutions		14,979	10
Leases		(1,081)	(1,121)
Cash and cash equivalents at the beginning of the year		**596,230**	**186,820**
Net changes in cash and cash equivalents		**(565,166)**	**409,410**
Cash and cash equivalents at the end of the year		**31,064**	**596,230**
Cash and cash equivalents cover:		**31,064**	**596,230**
Cash	12	25,486	28,307
Demand deposits at Banco de Portugal	12	61	564,767
Deposits at credit institutions	13	5,517	3,156

The accompanying notes form an integral part of these financial statements.

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Notes to the Individual Financial Statements

Note 1 – Basis of Presentation

Pursuant to Regulation (EC) 1606/2002 of the European Parliament and Council, of 19 July 2002 and Banco de Portugal Notice 5/2015, the financial statements of Banco.

CTT are prepared in accordance with the International Reporting Financial Standards (IFRS), as endorsed in the European Union (EU) on the reporting date.

IFRS includes accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), and their predecessor bodies.

Banco CTT, S.A. (hereinafter referred to as "Banco CTT" or "Bank") is a credit institution with registered office at Avenida D. João II, nº 13, Edifício Báltico, Piso 11º, 1999-001 Lisboa, controlled by CTT – Correios de Portugal, S.A., having been incorporated in August 2015. The Bank is dedicated to obtaining third party funds, in the form of deposits or other, which the Bank invests, together with its own funds, mostly in the form of loans granted to customers in the individual retail segment or debt securities, while also providing other banking services to its customers.

The Bank's financial statements, presented herein, refer to the year ended on 31 December 2022, and were prepared in accordance with the current IFRS as endorsed in the European Union by 31 December 2022.

The financial statements are expressed in thousands of euros, rounded to the nearest thousand, and have been prepared on a going concern basis and under the historical cost convention, except for assets and liabilities that are stated at fair value. The Bank has no projects or intentions for actions that could jeopardise the continuity of its operations.

The preparation of financial statements in conformity with IFRS requires the Bank to make judgements and use estimates that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes to these assumptions or if they are different from reality could imply that the actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

These financial statements were approved by the Board of Directors in the meeting held on 14 March 2023.

Note 2 – Main Accounting Policies

The main accounting policies used in the preparation of these financial statements are as follows:

2.1 Foreign Currency Transactions

Transactions in foreign currency (a currency different from the Bank's functional currency) are recorded at the exchange rates in force on the transaction date. At each reporting date, the book values of the monetary items in foreign currency are updated at the exchange rates on that date. The book values of non-monetary items recorded at historical cost in foreign currency are not updated.

Favourable and unfavourable currency translation differences arising from the use of different exchange rates in force on the transaction dates and those in force on the recovery, payment or reporting dates are recognised in the profit or loss for the year.

2.2 Financial Instruments – IFRS 9

2.2.1 *Financial assets*

Classification, initial recognition and subsequent measurement

At the time of their initial recognition, the financial assets are classified into one of the following categories.

i) Financial assets at amortised cost;
ii) Financial assets at fair value through other comprehensive income; or
iii) Financial assets at fair value through profit or loss.

The classification takes into account the following aspects:

i) the Bank's business model for the management of the financial asset; and
ii) the features of the financial asset's contractual cash flows.

Assessment of the Business Model

The Bank makes an assessment of the business model in which the financial asset is held, at the portfolio level, as this approach best reflects how the assets are managed and how the information is provided to the management bodies. The information considered in this assessment included:

- the policies and objectives established for the portfolio and the practical operation of these policies, including how the management strategy focuses on the receipt of contractual interest or the realisation of cash flows through the sale of assets;
- the way that the portfolio performance is assessed and reported to the Bank's management bodies;
- the assessment of the risk that affect the performance of the business model (and of the financial assets held under this business model) and how these risks are managed; and
- the frequency, volume and periodicity of the sales in previous periods, the motives for these sales and the expectations on future sales. However, information on sales should not be considered in isolation, but as part of an overall assessment of how the Group sets financial asset management objectives and how cash flows are obtained.
- assessment as to whether the contractual cash flows correspond only to the receipt of principal and interest (SPPI - Solely Payments of Principal and Interest).

For purposes of this assessment, "principal" is defined as the fair value of the financial asset upon initial recognition. "Interest" is defined as compensation for the time value of money, for the credit risk associated to the amount in debt during a particular period of time and for other risks and costs associated to the activity (e.g. liquidity risk and administrative costs), as well as a profit margin.

In the assessment of the financial instruments in which the contractual cash flows refer exclusively to the receipt of principal and interest, the Bank considered the original contractual terms of the instrument. This assessment included analysis of the existence of situations in which the contractual terms could modify the periodicity and the amount of the cash flows so that they do not comply with the SPPI condition. In the assessment process, the Bank took into account:

- contingent events that could modify the periodicity and amount of the cash flows;
- characteristics that give rise to leverage;
- clauses on early payment and extension of maturity;
- clauses that could limit the Bank's right to claim cash flows of specific assets (e.g. contracts with clauses that prevent access to assets in case of default – non-recourse asset); and
- characteristics that could modify the compensation for the time value of money.

Moreover, an early payment is consistent as a SPPI criterion, if:

- the financial asset was acquired or originated with a premium or discount relative to the contractual nominal value;
- the early payment substantially represents the nominal amount of the contract plus the periodic contractual interest, but that has not been paid (it may include reasonable compensation for the early payment); and
- the fair value of the early payment is insignificant upon initial recognition.

Reclassifications between financial instruments categories

If the Bank changes its financial asset management business model, which is expected to take place infrequently and exceptionally, it reclassifies all the financial assets affected, in conformity with the requirements defined in IFRS 9 - "Financial instruments". The reclassification is applied prospectively from the date when it becomes effective. Pursuant to IFRS 9 – "Financial instruments", reclassifications are not permitted for equity instruments with the option of measurement at fair value through other comprehensive income or for financial assets and liabilities classified at fair value under the fair value option.

2.2.1.1 *Ativos financeiros ao custo amortizado*

Classification

A financial asset is classified in the category of "Financial assets at amortised cost" if it cumulatively complies with the following conditions:

- the financial asset is held in a business model whose main objective is the holding of assets for collection of its contractual cash flows; and
- its contractual cash flows occur on specific dates and correspond only to payments of principal and interest of the amount in debt (SPPI).

The category of "Financial assets at amortised cost" includes investments at credit institutions, loans and advances to customers, and debt securities managed based on a business model whose objective is the receipt of their contractual cash flows (public debt bonds and bonds issued by companies).

Initial recognition and subsequent measurement

Investments at credit institutions and loans and advances to customers are recognised on the date when the funds are provided to the counterparty (settlement date). Debt securities are recognised on the trade date, that is, on the date on which the Bank undertakes to acquire them.

Financial assets at amortised cost are initially recognised at their fair value, plus transaction costs, and are subsequently measured at amortised cost. Furthermore, after their initial recognition, they are subject to the estimation of impairment losses due to expected loan losses, which are recorded against the heading "Impairment of other financial assets net of reversals and recoveries".

Interest arising from financial assets at amortised cost is recognised under the heading "Interest and similar income calculated through the effective interest rate", based on the effective interest rate method and pursuant to the criteria described in Note 2.11.

Gains or losses generated at the time of their derecognition are recorded in the heading "Net gains/(losses) of financial assets at amortised cost".

2.2.1.2 *Financial assets at fair value through other comprehensive income*

Classification

A financial asset is classified in the category of "Financial assets at fair value through other comprehensive income" if it cumulatively complies with the following conditions:

- the financial asset is held in a business model where the objective is the collection of its contractual cash flows and the sale of that financial asset;
- its contractual cash flows occur on specific dates and correspond only to payments of principal and interest of the amount in debt (SPPI).

Furthermore, upon the initial recognition of an equity instrument, which is not held for trading, nor for a contingent retribution recognised by an acquiror in a business combination subject to IFRS 3, the Group can irrevocably decide to classify it in a category of "Financial assets at fair value through other comprehensive income" (FVOCI). This option is decided on a case-by-case basis for each investment and is only available for financial instruments that comply with the definition of equity instruments established in IAS 32, and cannot be used for financial instruments whose classification as an equity instrument in the sphere of the issuer is done under the exceptions foreseen in paragraphs 16A to 16D of IAS 32.

Initial recognition and subsequent measurement

Debt instruments at fair value through other comprehensive income are initially recognised at their fair value, plus transaction costs, and are subsequently measured at amortised cost. The fair value variations of these financial assets are recorded through other comprehensive income and, at the time of their divestment, the respective accumulated gains or losses in other comprehensive income are reclassified to a specific income statement heading named "Net gains/(losses) of other financial assets at fair value through other comprehensive income".

Debt instruments at fair value through other comprehensive income are also subject, since their initial recognition, to the calculation of impairment losses due to expected loan losses. The estimated impairment losses are recognised through profit or loss, in the heading "Impairment of other financial assets net of reversals and recoveries", through other comprehensive income, and do not reduce the book value of financial asset on the balance sheet.

The interest, premiums or discounts of financial assets at fair value through other comprehensive income are recognised under the heading "Interest and similar income calculated through the effective interest rate", based on the effective interest rate and pursuant to the criteria described in Note 2.11.

Equity instruments at fair value through other comprehensive income are initially recognised at their fair value, plus transaction costs, and are subsequently measured at fair value. Fair value variations of these financial assets are recorded through other comprehensive income. Dividends are recognised through profit or loss when the right to receive them has been attributed.

Impairment is not recognised for equity instruments at fair value through other comprehensive income, with the corresponding accumulated gains or losses recorded under fair value variations being transferred to Retained earnings upon their derecognition.

2.2.1.3 *Financial assets at fair value through profit or loss*

A financial asset is classified in the category of "Financial assets at fair value through profit or loss" (FVTPL) if the business model defined by the Bank for its management or the characteristics of its contractual cash flow do not meet the conditions described above to be measured at amortised cost (2.3.1.1), nor at fair value through other comprehensive income (FVOCI) (2.3.1.2).

Financial assets held for trading or management whose performance is assessed on a fair value basis are measured at fair value through profit or loss due to neither being held for the collection of contractual cash flow nor for the sale of these financial assets.

Furthermore, the Bank may irrevocably designate a financial asset, that meets the criteria to be measured at amortised cost or fair value through other comprehensive income, at fair value through profit or loss, at the time of its initial recognition, if this eliminates or significantly reduces an incoherence in its measurement or recognition (accounting mismatch), which would otherwise arise from the measurement of assets or liabilities or from the recognition of gains or losses from these assets or liabilities on a different basis..

2.2.1.4 *Derecognition of financial assets*

i) The Bank derecognises a financial asset when, and only when:

- the contractual rights to the cash flows arising from the financial asset expire; or
- it transfers the financial asset as described in points ii) and iii) below and the transfer meets the conditions for derecognition pursuant to point iv).

ii) The Bank transfers a financial asset if, and only if one of the following situations occurs:

- the contractual rights to receive the cash flows arising from the financial asset are transferred; or
- the contractual rights to receive the cash flows arising from the financial asset are withheld, but a contractual obligation is undertaken to pay the cash flows to one or more receivers in an agreement that meets the conditions established in point iii).

iii) When the Bank withholds the contractual rights to receive the cash flows arising from a financial asset (the «original asset»), but undertakes a contractual obligation to pay these cash flows to one or more entities (the «final receivers»), the Bank treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- the Bank has no obligation to pay amounts to the final receivers unless it receives equivalent amounts arising from the original asset. The short-term advances by the entity with the right to total recovery of the loaned amount plus the overdue interest at market rates are not in breach of this condition;
- the Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than to as guarantee to the final receivers for the obligation of paying them cash flows; and
- the Bank has an obligation to send any cash flow that it receives on behalf of the final receivers without significant delays. Moreover, it does not have the right to reinvest these cash flows, except in the case of investments in cash or its equivalents (as defined in IAS 7 Cash Flow Statements) during the short period of settlement between the date of receipt and the required date of delivery to the final receivers, and the interest received as a result of these investments are passed on to the final receivers.

iv) When the Bank transfers a financial asset (see point ii above), it should assess to what extent it retains the risks and benefits arising from the ownership of this asset. In this case:

- if the Bank substantially transfers all the risks and benefits arising from the ownership of the financial asset, it derecognises the financial asset and separately recognises, as assets or liabilities, any rights and obligations created or retained with the transfer;
- if the Bank substantially retains all the risks and benefits arising from the ownership of the financial asset, it will continue to recognise the financial asset.
- if the Bank does not substantially transfer or retains all the risks and benefits arising from the ownership of the financial asset, it should determine whether it retained control of the financial asset. In this case:
  - ◊ if the Bank did not retain control, it should derecognise the financial asset and separately recognise, as assets or liabilities, any rights and obligations created or retained with the transfer;
  - ◊ if the Bank retained control, it should continue to recognise the financial asset in proportion to its continued involvement in the financial asset.

v) The transfer of the risks and benefits referred to in the previous point is assessed by comparison of the Bank's exposure, before and after the transfer, to the variability of the amounts and time of occurrence of the net cash flows arising from the transferred asset.

vi) The question of knowing whether the Bank retained control or not (see point iv above) of the transferred asset depends on the ability of whoever receives the transfer to sell the asset. If whoever receives the transfer has the practical ability to sell the asset as a whole to an unrelated third party and is able to exercise this ability unilaterally and without needing to impose additional restrictions to the transfer, it is considered that the entity did not retain control. In all other cases, it is considered that the entity retained control.

2.2.1.5 *Loans written off from the assets ("write-off")*

The Bank recognises a loan written from the asset when it has no reasonable expectations of recovering an asset totally or partially. This record occurs after all the recovery actions developed by the Group have proved unsuccessful. Loans written off from the assets are recorded in off-balance sheet accounts.

2.2.1.6 *Impairment losses*

The Bank determines the expected loan losses of each operation according to the deterioration of the credit risk observed since its initial recognition. For this purpose, operations are classified in one of the following three stages:

- *Stage 1*: operations in which there has not been a significant increase in credit risk since their initial recognition are classified as being at this stage. The impairment losses associated with operations classified at this stage correspond to the expected credit losses that result from a default event that may occur within a period of 12 months after the reporting date (credit losses expected at 12 months).
- *Stage 2*: operations in which there has been a significant increase in credit risk since their initial recognition, but that are not yet in situations of impairment, are classified as being at this stage. The impairment losses associated with operations classified at this stage correspond to the expected credit losses resulting from default events that may occur over the expected residual life of the operations (lifetime expected credit losses).
- *Stage 3*: operations in a situation of impairment are classified as being at this stage. The impairment losses associated to operations classified in this stage correspond to lifetime expected credit losses. Operations acquired or originated in situations of impairment (Purchased or Originated Credit-Impaired – POCI) are also classified under stage 3.

<u>Forward Looking Information</u>

The Bank's impairment model is constructed so as to be able to use public and other confirmable information from other market participants, where there is no history of default that would allow it to build sophisticated statistical models.

In addition, the Bank follows, whenever applicable and relevant to its circumstances, the provisions of the applicable accounting standards, national and community legislation, the recommendations of the EBA and the provisions and guidelines of Banco de Portugal.

<u>Significant increase of credit risk (SICR)</u>

Significant increase of credit risk (SICR) is mainly determined according to quantitative criteria but also according to qualitative criteria, with a view to detecting significant increases of the Probability of Default (PD), supplemented with other type of information, in particular the behaviour of customers to entities of the financial system. However, regardless of the observation of a significant increase of credit risk in an exposure, it is classified under Stage 2 when any of the following conditions are met:

- Loans with payment in arrears for more than 30 days (backstop);
- Loans with qualitative triggers subject to risk, namely those presented in Circular Letter 02/2014/DSP.

<u>Definition of financial assets in default and in a situation of impairment</u>

Customers who meet at least one of the following criteria are considered in*default* :

- Existence of instalments of principal or interest overdue for more than 90 days;
- Debtors in a situation of bankruptcy, insolvency or liquidation;
- Loans in litigation;
- Cross-default credits;
- Restructured loans due to financial difficulties;
- Default quarantined credits;
- Loans over involving suspected fraud or confirmed fraud.

<u>Estimated expected loan losses – Individual analysis</u>

Customers in any of the following conditions are subject to individual analysis:

- Individual customers with exposures above 500,000 euros,
- Exposures to credit institutions, sovereign entities, central banks or corporations through debt securities that are in *stage* 2 or 3.

<u>Estimated expected loan losses – Individual analysis</u>

Operations that are subject to individual impairment analysis are grouped together according to their risk characteristics and subject to collective impairment analysis. The Bank's loan portfolio is divided by degrees of internal risk and according to the following segments:

Financial Assets	Retail Offer	Mortgage Loans	Consists of the Bank's Mortgage loans lending offer which has residential real estate property as collateral, regardless of the degree of completion of its construction.
		Overdrafts	Includes the Bank's overdraft facilities and credit overrunning.
	Sovereign debt		Eurozone public debt securities and exposures obtained through the credit assignment contract.
	Corporate		Deposits and investments in other credit institutions, other financing granted to other credit institutions and corporate debt securities.

Expected loan losses are estimated loan losses which are determined as follows::

- financial assets with no signs of impairment on the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Bank expects to receive;
- financial assets with signs of impairment on the reporting date: the difference between the gross book value and the present value of the estimated cash flows;
- unused credit commitments: the present value of the difference between the resulting contractual cash flows if the commitment is realised and the cash flows that the Bank expects to receive.

The main inputs used to measure the expected loan losses on a collective basis include the following variables:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are obtained through internal models and other relevant historical data, taking into account existing regulatory models adapted according to the requirements of IFRS 9.

The PDs are calculated based on benchmarks. If the degree of risk of the counterpart or exposure changes, the associated estimated PD will also vary. The PDs are calculated considering the contractual maturities of the exposures.

The Bank gathers performance and default indicators on its credit risk exposures with analyses by type of customer and product. LGD is the magnitude of the expected loss in the event that the exposure enters into default. The Bank estimates the LGD parameters based on benchmarks. In the case of contracts secured by real estate, LTV (loan-to-value) ratios are a highly relevant parameter in determining LGD.

EAD represents the expected exposure in the event that the exposer and/or customer enters into default. The Bank obtains the EAD values based on the current exposure of the counterpart and includes the loans that have not yet fallen due, periodic calculation of interest, overdue interest not annulled and overdue loans. For commitments, the EAD value considers both the value of credit used and the expected future potential value which could be used pursuant to the contract.

As described above, except for financial assets that consider a PD at 12 months due to not having shown a significant increase of credit risk, the Bank calculates the value of the expected loan losses taking into account the risk of default during the maximum contractual maturity period even though, for risk management purposes, a longer period is considered. The maximum contractual period will be considered as the period up to the date when the Bank has the right to demand the payment or terminate the commitment or guarantee.

For financial assets that are "Cash and deposits at other credit institutions", "Investments in other credit institutions" and "Investments in securities" the impairments are calculated by attributing:

i) a probability of default that derives from the external rating of the issuer or counterparty, respectively; and
ii) a Loss Given Default (LGD) defined by the Group, based on data from Moody's rating agency, and depending on whether the entity is Corporate or Sovereign.

2.2.1.7 *Modification of financial assets*

If the conditions of a financial asset are modified, the Bank assesses whether the asset's cash flows are substantially different.

If the cash flows are substantially different, the contractual rights to the cash flows of the original financial asset are considered expired and the principles described in Note 2.2.1.4 Derecognition of financial assets apply.

If the modification of a financial asset measured at amortised cost or fair value through other comprehensive income does not give rise to the derecognition of the financial asset, then the Bank firstly recalculates the gross book value of the financial asset, applying the original effective interest rate of the asset and recognises the adjustment derived thereof as a modification gain or loss through profit or loss. For financial assets with variable rates, the original effective interest rate used to calculate the gain or loss of the modification is adjusted to reflect the current market conditions at the time of the modification. Any costs or commissions incurred and commissions received as part of the modification are incorporated to adjust the gross book value of the modified financial asset and are amortised during the remaining period of the modified financial asset.

2.2.2 *Financial liabilities*

An instrument is classified as a financial liability when there is a contractual obligation of its settlement being made against the submission of cash or another financial asset, irrespective of its legal form.

Non-derivatives financial liabilities essentially include deposits from customers.

These financial liabilities are recorded (i) initially at fair value minus the transaction costs incurred, and (ii) subsequently at amortised cost, based on the effective interest rate method.
The Bank derecognises financial liabilities when these are cancelled, extinguished or expire.

2.2.3 *Derivative Financial Instruments*

Derivative financial instruments are recorded at fair value on the date the Bank negotiates contracts and are subsequently measured at fair value. Fair value is obtained through market prices quoted on active markets, including recent market transactions, and valuation models, namely: discounted cash flow models and options valuation models. Derivatives are considered assets when their fair value is positive and as liabilities when their fair value is negative. Revaluation results are recognised in "Results from assets and liabilities at fair value through profit or loss".

Certain derivatives embedded in other financial instruments, such as the indexation of returns on debt instruments to the value of shares or share indices, are bifurcated and treated as separate derivatives when their risk and economic characteristics are not clearly related to those of the host contract and the host contract is not measured at fair value with changes recognised in profit or loss. These embedded derivatives are measured at fair value, with subsequent changes recognised in the income statement.

Derivatives are also recorded in off-balance sheet accounts at their theoretical value (notional value).

2.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

2.4 Equity Instruments

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

Transaction costs directly attributable to the issue of equity instruments are recognised against equity as a deduction to the value of the issue. Amounts paid or received due to sales or acquisitions of equity instruments are recorded in equity, net of transaction costs. Distributions to holders of equity instruments are debited directly from the equity as dividends when declared.

2.5 Investments in Subsidiaries and Associates

Investments in subsidiaries and associates are recorded by the equity method from the date when the Bank acquires significant influence up to the date when it ends. Associates are entities in which the Bank has significant influence, but does not exercise control over its financial and operating policy. It is assumed that the Bank has significant influence when it has the power to exercise more than 20% of the voting rights of the associate. If the Bank directly or indirectly holds less than 20% of the voting rights, it is presumed that the Bank does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Bank is usually demonstrated by one or more of the following ways:

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

The individual financial statements include the part attributable to the Bank, of the total reserves and profits and losses of the associated company recorded by the equity method. When the Bank's share of losses exceeds its interest in the associate, the book value is reduced to zero and recognition of further losses is discontinued, except to the extent that the Bank has incurred in a legal obligation to assume those losses on behalf of the associate.

2.6 Tangible Assets

Tangible assets are recorded at their acquisition or production cost, minus accumulated depreciation and impairment losses, when applicable. The acquisition cost includes:

i) *the purchase price of the asset;*

ii) the expenses directly imputable to the purchase.

The depreciation of tangible assets, minus their residual estimated value, is calculated in accordance with the straight-line method, from the month when the assets are available for use, over their useful lives, which are determined according to their expected economic utility.

The depreciation rates that are applied correspond, on average, to the following estimated useful lives for the different categories of assets:

	Years of useful life
Works in rented properties	1-10
Security equipment	1-8
Other equipment	1-5

Depreciation terminates when the assets are re-classified as held for sale.

On each reporting date, the Bank assesses whether there is any indication that an asset might be impaired. Whenever such indicators exist, the tangible assets are subject to impairment tests, where any excess of the carrying value relative to the recoverable amount, should this exist, is recognised in the consolidated income statement. The recoverable amount corresponds to the highest figure between the fair value of an asset minus the costs of selling it and its value in use, calculated based on the present value of the future cash flows that are expected to be obtained from its continued use.

Tangible assets in progress correspond to tangible assets that are still under construction/production and are recorded at acquisition or production cost. These assets are depreciated from the month when they fulfil the necessary conditions to be used for their intended purpose.

Costs related to maintenance and repair of current nature are recorded as costs in the period these are incurred. Major repairs which lead to increased benefits or increased in expected useful life are recorded as tangible assets and depreciated at the rates corresponding to their expected useful life. Any replaced component is identified and written off.

Income or expenses derived from the divestment of tangible assets are determined by the difference between the sale value and its book value, being recorded under the heading "Other operating income/(expenses)".

2.7 Intangible Assets

Intangible assets are registered at acquisition cost, minus amortisation and impairment losses, when applicable. Intangible assets are only recognised when it is probable that they will result in future economic benefits for the Bank, and they can be measured reliably.

Intangible assets are essentially composed of expenses related to software (whenever this is separable from the hardware and associated to projects where the generation of future economic benefits is quantifiable), licenses and other rights of use. Also included are expenses related to the development of R&D projects whenever the intention and technical capacity to complete this development is demonstrated, for the purpose of the projects being available for marketing or use. Research costs incurred in the search of new technical or scientific knowledge or aimed at the search of alternative solutions, are recognised through profit or loss when incurred.

Intangible assets are amortised through the straight-line method, as of the month when they are available for use, during their expected useful life, which is situated in a period varying between 3 and 6 years. In the specific case of the base operational system, after analysis of the expected period of its use, it was decided that its amortisation should take place over a period of 15 years.

The Bank performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount, with the difference, when existing, being recognised through profit or loss. The recoverable amount is the higher of net selling price and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

Income or expenses derived from the divestment of intangible assets are determined by the difference between the sale value and its book value, being recorded under the heading "Other operating income/(expenses)".

2.8 Leases

At the beginning of a contract, the Bank assesses whether it is or contains a lease. A contract or part of a contract that transfer the right to use an asset (the underlying asset) during a certain period, in exchange of a retribution. In order to assess whether a contract transfer the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset – which could be specified explicitly or implicitly, and should be physically distinctive or substantially represent all the capacity of a physically distinctive asset. Even if the asset is specified, the Bank does not have the right to use an identified asset if the supplier has the substantive right to replace this asset during its period of use;
- the Bank has the right to substantially receive all the economic benefits from the use of the identified asset, throughout its entire period of use; and
- the Bank has the right to direct the use of the identified asset. The Bank has this right when it has the most relevant decision-making rights to change the way and purpose with which the asset is used throughout its entire period of use. In cases where

the decision on how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if:

◊ The Bank has the right to make use of the asset (or order others to make use of the asset in the manner that the Group determines) throughout its entire period of use, where the supplier does not have the right to change these instructions on the asset's use; or

◊ The Bank designed the asset (or specific aspects of the asset) in a manner that previously determines how and for what purpose the asset shall be used throughout its entire period of use.

The Bank applied this approach to the contracts concluded or amended on or after 1 January 2019.

At the beginning or in the reassessment of a contract that contains a component of the lease, the Bank imputes the retribution in the contract to each component of the lease based on their individual prices. However, for leases of land and buildings in which it is the lessee (tenant), the Bank decided not to separate the components that do not belong to the lease, and to record the lease and non-lease components as a single component.

2.8.1 *As lessee*

The Bank recognises a right-of-use asset and a liability related to the lease on the lease starting date. The right-of-use asset is initially measured at cost, which includes the initial value of the lease liability adjusted for all the expected lease payments on or before the starting date, plus any direct costs incurred and an estimate of the costs for dismantlement and removal of the underlying asset or to restore the underlying asset or the premises on which it is located, minus any lease incentives received.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the starting date to the end of the useful life of the right-of-use asset or to the end of the lease period, according to what ends first. The useful life of right-of-use assets is determined by following the same principles as those applicable to Tangible Assets. Furthermore, the right-of-use asset is periodically deducted impairment losses, if any, and adjusted for particular remunerations of the lease liability.

The lease liability is initially measured at the present value of the lease payments that have not yet been made on that date, discounted by the implicit interest rate in the lease, if this rate can be easily determined. If this rate cannot be easily determined, the Bank's incremental funding rate should be used. As a rule, the Bank uses its incremental funding rate as the discount rate.

The lease payments included in the measurement of the lease liability consist of the following:

- fixed payments (including fixed payments in substance), minus the lease incentives;
- variable payments that depend on an index or rate, initially measured using the existing rate or index on the starting date;
- amounts that are expected to be paid to guarantee the residual value;
- the price of the exercise of a purchase option, if the Bank is reasonably certain that it shall exercise this option; and
- payments of sanctions due to rescission of the lease, if the lease period reflects the exercise of an option for lease rescission by the Bank.

The lease liability is measured at amortised cost using the effective interest rate method. This is remeasured when there is a change to the future lease payments derived from a change in an index or rate, when there is a change in the Bank's estimate of the amount it expects to pay for a residual value guarantee, or whenever the Bank changes its assessment of the expected exercise or not of a purchase, extension or rescission option.

Whenever the lease liability is remeasured, the Bank recognises the remeasurement amount of the lease liability as an adjustment

to the right-of-use asset. However, if the book value of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Bank recognises this reduction in the income statement.

The Bank presents the right-of-use assets that do not correspond to the definition of investment property under "Other Tangible Assets" and the lease liabilities under "Other Liabilities" in the statement of financial position.

Short-term leases and low-value leases

The rules allow a lessee not to recognise right-of-use assets and short-term leases with a lease period of 12 months or less, and leases of low-value assets, where the payments associated to these leases are recognised as an expense by the straight-line method during the enforcement of the contract.

2.8.2 *As lessor*

When the Bank acts as a lessor, at the beginning of the lease it determines whether this lease should be classified as an operating lease or a finance lease.

In order to classify each lease, the Bank makes an overall assessment as to whether the lease substantially transfers all the risks and benefits inherent to the ownership of the underlying asset. If the lease substantially transfers all the risks and benefits inherent to the ownership of the underlying assets, this entails a finance lease, otherwise it shall be considered an operating lease. As part of this assessment, the Bank considers various indicators such as whether the lease is conducted for the majority of the asset's economic life.

When the Bank is an intermediary lessor, the Bank records its interests in the main lease and in the sublease separately. The classification of the sublease is made by reference to the right-of-use asset derived from the original lease, and not by reference to the underlying asset. If the original lease is a short-term lease contract to which the Bank applies the exemption of recognition described above, the Bank classifies the sublease as an operating lease.

If a contract contains lease and non-lease components, the Bank shall apply IFRS 15 to impute the retribution established in the contract.

2.9 Income Tax

Corporate income tax corresponds to the sum of current taxes and deferred taxes. Current taxes and deferred taxes are recorded under net income, unless they refer to items recorded directly in equity. In these cases, deferred taxes are also recorded under equity.

Current tax payable is based on the taxable profit for the period, calculated in accordance with the tax laws in force on the reporting date. Taxable income differs from accounting income, since it excludes various costs and revenues which will only be deductible or taxable in other financial years. Taxable income also excludes costs and revenues which will never be deductible or taxable.

Deferred taxes refer to temporary differences between the amounts of assets and liabilities for accounting purposes and the corresponding amounts for tax purposes.
Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences. However, this recognition only takes place when there are reasonable expectations of sufficient future taxable profits to use these deferred tax assets, or when there are deferred tax liabilities whose reversal is

expected in the same period that the deferred tax assets may be used. On each reporting date, a review is made of these deferred tax assets, which are adjusted according to expectations on their future use.

Deferred tax assets and liabilities are measured using the tax rates which are in force on the date of the reversal of the corresponding temporary differences, based on the taxation rates (and tax legislation) which are enacted, formally or substantially, on the reporting date.

The Bank and its subsidiaries – more than 75% held directly or indirectly, and for more than 1 year by the parent company CTT – are covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 75% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, and until 2020 inclusive, Banco CTT and its subsidiaries, eligible to application of the RETGS, receive from CTT the value relative to the tax loss which they contribute to the consolidated corporate income tax of the CTT Group and, likewise, pay to CTT the value relative to their positive contribution to the consolidated corporate income tax of the CTT Group. As of 2021, the Banco CTT Group is considered to be a "tax sub-consolidated" entity within the Regime in which CTT - Correios de Portugal, S.A. is the dominant company. In this way, Banco CTT's subsidiaries make corporate income tax (IRC) settlements to Banco CTT, and Banco CTT pays or receives the net amount determined for the Banco CTT Group to/from that dominant company. In the event that there are historical amounts receivable from CTT by the Group, any corporate income tax payments to CTT are settled through the use/reduction of the amount receivable, with effective payment only after there are no historical amounts receivable.

2.10 Provisions

Provisions are recognised when, cumulatively: (i) the Bank has a present obligation (legal or implicit) arising from a past event, (ii) it is probable that its payment will be demanded, and (iii) there is a reliable estimate of the value of this obligation. The amount of the provisions corresponds to the present value of the obligation, with the financial updating being recorded as a financial cost under the heading "Interest and similar expenses".

The provisions are reviewed on every reporting date and are adjusted in order to reflect the best estimate at that date.

2.11 Recognition of Interest

The net gains/(losses) of financial instruments measured at amortised cost and at fair value through other comprehensive income are recognised in the headings "Interest and similar income" or "Interest and similar expenses", using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net book value of the financial asset or financial liability. The effective interest rate is established upon the initial recognition of the financial assets and liabilities and us not reviewed subsequently.

When calculating the effective interest rate, the future cash flows are estimated considering all the contractual terms of the financial instrument but not considering possible future loan losses. The calculation includes all fees and commissions that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts directly related to the transaction. In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, the interest recorded in "Interest and similar income" is calculated using the interest rate used to measure the impairment loss.

The Bank does not recognise interest for financial assets in arrears for more than 90 days.

2.12 Recognition of Income of Services, Fees and Commissions

The income from services, fees and commissions is recognised as follows:

- Fees and commissions that are earned in the execution of a significant act, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period that the services are provided; and
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recorded through profit or loss using the effective interest rate method.

2.13 Earnings per Share

Basic earnings per share are calculated by dividing the net income by the weighted average number of ordinary shares in circulation during the year.

The earnings by diluted share are calculated by adjusting the effect of all the potential ordinary diluting shares to the weighted average number of ordinary shares in circulation.

2.14 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balance sheet items with less than three months' maturity counted from the acquisition/contracting date, including cash and deposits at other credit institutions.

Cash and cash equivalents exclude restricted balances with central banks.

2.15 Provision of Insurance Mediation Services

Banco CTT is an entity authorised by the Insurance and Pension Fund Supervision Authority ("ASF") to conduct the activity of insurance mediation in the category of Linked Insurance Broker, in accordance with article 8, subparagraph a), item i) of Decree-Law 144/2006, of July 31, developing the activity of insurance intermediation in the life and non-life insurance business.

Under the insurance mediation services, Banco CTT sells insurance contracts. As remuneration for the insurance mediation services rendered, Banco CTT receive commissions for insurance contract mediation, which are defined in the agreements / protocols established with the Insurance Companies.

The commissions received for the insurance mediation services are recognised in accordance with the accrual principle. Therefore, commissions received at a different period from that to which they refer are recorded as an amount receivable under "Other Assets".

2.16 Employee Benefits

<u>Variable remunerations of the employees</u>

Pursuant to IAS 19 – Employee benefits, the variable remunerations (profit-sharing, bonuses and other) attributed to the employees and, possibly, to executive members of the management bodies are recorded under profit or loss for the year to which they refer.

Note 3 – Main Estimates and Judgements Used in the Preparation of the Financial Statements

The IFRS establish a series of accounting treatments and require the Board of Directors to make the necessary judgments and estimates in deciding which treatment is most appropriate. The main accounting estimates and judgements used in the application of the accounting principles are discussed in this note in order to improve the understanding on how their application affects the results reported by the Bank and their disclosure.

A broad description of the main accounting principles used by the Bank is presented in Note 2 to the financial statements.

Considering that in some cases there are several alternatives to the accounting treatment chosen by Board of Directors, the results reported by the Bank could differ if a different treatment were chosen.

The Board of Directors believes that the choices made are appropriate and that the financial statements present the Bank's financial position and the results of its operations fairly in all material aspects.

3.1 Financial instruments – IFRS 9

3.1.1 *Classification and measurement*

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of the contractual cash flows, to conclude on whether they correspond only to payments of principal and interest on the principal in debt) and the business model test.

The Bank determine the business model taking into account the manner in which the groups of financial assets are managed as a whole to achieve a specific business goal. This assessment requires judgement, as the following aspects must be considered, among others: the way that asset performance is assessed; and the risks that affect the performance of the assets and how these risks are managed.

The Bank monitors the financial assets measured at amortised cost and at fair value through other comprehensive income that are derecognised before their maturity, in order to understand the reasons underlying their divestment and to determine if they are consistent with the objective of the business model defined for these assets. This monitoring is inserted within the Group's process of continuous assessment of the business model of the financial assets that remain in the portfolio, in order to determine whether it is appropriate, and if it not, whether there has been a change of the business model and consequently a prospective change of the classification of these financial assets.

3.1.2 *Impairment losses on financial assets at amortised cost and debt instruments at fair value through other comprehensive income*

The determination of the impairment losses of financial instruments involves judgements and estimates relative to the following aspects, among others:

Significant increase of credit risk

Impairment losses correspond to the expected losses in case of default over a time horizon of 12 months for assets at stage 1, or the estimated maturity if lower, and the expected losses considering the probability of occurrence of a default event any time up to the maturity date of the financial instrument for assets at stage 2 and 3. An asset is classified at stage 2 whenever there has not been a significant increase in its credit risk since its initial recognition. The Bank's assessment of the existence of a significant increase of credit risk considers qualitative and quantitative, reasonable and sustainable information.

Definition of group of assets with common credit risk features

When the expected loan losses are measured on a collective basis, the financial instruments are grouped together based on common risk features. This procedure is necessary to ensure that, in case there is a change of the credit risk features, the segmentation of the assets is reviewed. This review can give rise to the creation of new portfolios or to the transfer of the assets to existing portfolios, which better reflect their credit risk features.

Probability of default

The probability of default represents a determinant factor in the measurement of the expected loan losses. The probability of default corresponds to an estimate of the probability of default in a given period of time, which is calculated on the basis of benchmarks or through market data.

Loss given default

Corresponds to an estimated loss in a default scenario. This is based on the difference between the contractual cash flows and those that the Bank expects to receive, via cash flows generated by the business of the client or credit collateral. Loss given default is calculated based on, among other aspects, the different scenarios of recovery, market information, the costs involved in the recovery process and the estimated valuation of the collateral associated to credit operations.

3.1.3 *Fair value of derivative financial instruments*

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions, time value, yield curve and volatility factors. These methodologies may require the use of assumptions or judgements in estimating fair value. Consequently, the use of different methodologies or of different assumptions or judgements in applying a particular model could give rise to results different from those reported.

3.2 Provisions

The Bank exercises considerable judgement in the measurement and recognition of provisions. Due to the uncertainties inherent to the process of assessment, actual losses might be different from those originally estimated in the provision. These estimates are subject to changes as new information becomes available. Reviews to the estimates of these losses might affect future results.

When relevant, judgement includes assessment of the probability of a litigation having a successful outcome. Provisions are constituted when the Bank expects that the ongoing lawsuits will lead to the outflow of funds, the loss is probable and may be estimated reasonably.

3.3 Impairment Investments in Subsidiaries and Associates

The Bank tests investments in subsidiaries and associates for impairment, in accordance with the policy described in Note 2.2.1.6. The calculation of the recoverable amounts of the cash generating units involves a judgment and substantially relies on the analysis of the Management related to the future developments of the respective subsidiary. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment. The variations of these assumptions can influence the results and consequent recording of impairments.

3.4 Economic environment

The year 2022 was marked above all by the armed conflict in Ukraine, with economic and social consequences at global level. The effects, in the banking sector, can be divided into three: (i) first-order, through exposures to counterparties in any of the countries in conflict; (ii) second-order, through exposures to counterparties with investment or commercial dependence in the countries in conflict; (iii) lastly, and thirdly, through the propagation of effects associated with the increase in inflation, namely at the macroeconomic level. The first and second order effects on Banco CTT's loan portfolio are, if any, absolutely residual. At the macroeconomic level, the Bank of Portugal's forecasts for 2023 indicate a slowdown in the growth of the Portuguese economy to 1.5%, with the maintenance of a relatively low unemployment rate of 5.9%. It will, however, be a challenging and uncertain year, with the economy constrained by high inflation, more adverse financial conditions and great geopolitical uncertainty. In this context of uncertainty, and in order to meet supervisors' expectations, in 2022, the Group recorded additional impairments in relation to the current models for calculating collective impairment (overlays) in the credit portfolios, namely by increasing the PD parameters in stage 1. However, the high degree of geopolitical instability means that the magnitude of the economic impact of the conflict is uncertain, involving the risk of more adverse scenarios materialising in the evolution of the economy.

Note 4 – Net Interest Income

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Interest and similar expenses	**38,185**	**23,681**
Interest on deposits at Central Banks and credit institutions	1,945	-
Interest on financial assets at amortised cost		
Investments at credit institutions	2,248	579
Loans and advances to customers	5,822	4,048
Debt securities	27,950	18,954
Interest on financial assets at fair value through other comprehensive income		
Debt securities	34	102
Other interest	186	(2)
Interest and similar expenses	**1,729**	**1,470**
Interest on financial liabilities at amortised cost		
Amounts owed to other credit institutions	-	-
Deposits from Customers	493	472
Interest on deposits at Banco de Portugal (assets)	1,184	979
Other interest	52	19
Net Interest Income	**36,456**	**22,211**

The heading "Interest and similar income" for the year ended on 31 December 2021 presents a total of 39 thousand euros (2021: 44 thousand euros) related to impaired financial assets (Stage 3) as at the reference date.

The heading "Interest on loans and advances to customers" includes the amount of -988 thousand euros (2021: -655 thousand euros) related to commissions and other expenses and income recorded according to the effective interest method, as referred in the accounting policy described in Note 2.11.

The item Interest on deposits at Banco de Portugal (assets) has a value of 1,184 thousand euros (2021: 979 thousand euros) which represents interest expenses for amounts deposited with the Central Bank that exceed the minimum reserve requirements. From the reserve counting period beginning on 30 October 2019, the ECB has introduced the tiering regime, whereby the balance with the Central Bank in excess of the minimum cash reserves, up to a calculated maximum of 6 times the reserves, is remunerated at a rate that is the minimum between the deposit facility rate and 0%. This tiering regime ceased to apply on 27 July 2022, following the decision of the Governing Council to raise the deposit facility rate to a non-negative value.

Note 5 – Net Fee and Commission Income

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Fees and commissions received	**23,484**	**19,219**
Due to banking services provided	14,498	12,250
Due to credit intermediation services	2,741	1,766
Due to insurance mediation services	6,079	4,634
Due to commitments to third parties	137	540
Due to guarantees provided	29	29
Other fees and commissions received	-	-
Fees and commissions paid	**4,309**	**3,745**
Due to banking services provided by third parties	4,148	3,602
Dues to operations with securities	108	117
Other fees and commissions paid	53	26
Net Fee and Commission Income	**19,175**	**15,474**

Note 6 – Results from Assets and Liabilities at Fair Value Through Profit or Loss

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Earnings on transactions with assets and liabilities at fair value through profit or loss	**1,479**	**-**
Investment fund units	1,479	-
Losses on transactions with assets and liabilities at fair value through profit or loss	**(13,113)**	**(1)**
Derivatives	(13,113)	-
Investment fund units	-	(1)
Results from Assets and Liabilities at Fair Value Through Profit or Loss	**(11,634)**	**(1)**

The fair value of the assets and liabilities at fair value through profit and loss is presented in Note 17.

Note 7 - Results from Financial Assets and Liabilities at Amortised Cost

This heading is composed of:

(amounts in thousand euros

	2022	2021
Earnings on operations with financial assets and liabilities at amortised cost	**-**	**17,916**
Debt securities	-	17,916
Losses on operations with financial assets and liabilities at amortised cost	**-**	**(139)**
Debt securities	-	(139)
Results from Financial Assets and Liabilities at Amortised Cost	**-**	**17,777**

During 2021, the Bank made sales of securities at amortised cost, resulting in a gain of 17.777 thousand euros. These sales of securities resulted from the Group's balance sheet management in the context of the entry into a new business segment (credit cards) resulting from the partnership with Universo, IME, S.A..

Note 8 – Other Operating Income/(Expenses)

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Operating income	**2,468**	**208**
Other operating income	2,468	208
Operating expenses	**600**	**470**
Levies and donations	40	34
Contribution of the banking sector	111	87
Contribution to the Single Resolution Fund	53	48
Contribution to the Resolution Fund	38	32
Annual supervisory fees (SSM)	13	7
Taxes	178	154
Annual supervisory fees (ASF)	3	3
Contribution to the Deposit Guarantee Fund	27	4
Other operating expenses	137	101
Other Operating Income/(Expenses)	**1,868**	**(262)**

The Single Supervisory Mechanism (SSM) is one of the three pillars of the Banking Union (the Single Supervisory Mechanism, the Single Resolution Mechanism and a Common System for Deposit Protection). The SSM model distinguishes between significant credit institutions (under direct supervision of the ECB) and less significant credit institutions (under indirect supervision of the ECB and direct supervision of the competent national authorities, with articulation and reporting to the ECB), based on quantitative and qualitative criteria. Banco CTT is classified as a Less Significant Entity (LSE).

The "Contribution of the banking sector" is calculated in accordance with the provisions in Law 55-A/2010, with the amount determined based on: (i) the annual average liability stated on the balance sheet, minus core own funds (Tier 1 Capital) and supplementary own funds (Tier 2 Capital) and the deposits covered by the Deposit Guarantee Fund; and (ii) the notional value of the derivative financial instruments.

The heading "Contribution to the Single Resolution Fund" refers to the ex-ante contribution to the Single Resolution Fund, under the Single Resolution Mechanism and pursuant No. 2 of article 70 of Regulation (EU) 806/2014 of the European Parliament and of the Council, of 15 July 2014.

The heading "Contribution to the Resolution Fund" corresponds to mandatory periodic contributions to the Fund, pursuant to Decree-Law 24/2013. The periodic contributions are calculated according to a basic rate applicable every year, determined by Banco de Portugal, by instruction, which can be adjusted according to the institution's risk profile, on the objective basis of assessment of these contributions. The periodic contributions are incident on the liabilities of the institutions participating in the Fund, defined under the terms of article 10 of the aforesaid Decree-Law, minus the liability items that are part of the of the core own funds (Tier 1 Capital), supplementary own funds (Tier 2 Capital) and deposits covered by the Deposit Guarantee Fund.

The heading "Other operating income" includes 1,930 thousand euros related to the compensation due by Universo, IME, S.A. under the termination agreement of the Universo partnership, to be paid at the end of the partnership.

Note 9 – Staff Costs

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Remuneration	10,453	9,751
Social charges on remunerations	2,455	2,334
Employees with a multiple employer arrangement	2,510	3,328
Incentives and performance bonuses	2,668	1,460
Occupational accident and disease insurance	145	122
Other costs	227	92
Staff Costs	**18,458**	**17,087**

The total amount of fixed remunerations attributed to the Management and Supervisory Bodies of Banco CTT, during 2022, recorded in the heading "Remunerations", reached 1,652 thousand euros (2021: 1,640 thousand euros). During 2022, costs

related to Social Security contributions of the Management and Supervisory Bodies were also paid of the value of 403 thousand euros (2021: 388 thousand euros). As at 31 December 2022, the heading "Incentives and performance bonuses" includes 1,065 thousand euros of bonuses attributable to the Management Bodies (2021: 689 thousand euros). In 2022, the Bank recorded under the heading "Other costs" 35 thousand euros of costs related to retirement savings plans attributed to Management Bodies (2021: 35 thousand euros).

The employees of the retail network are under a multiple employer arrangement, as established in article 101 of the Labour Code, accumulating positions with the CTT postal service. In 2022 the cost related to these employees shared with CTT amounted to 2,438 thousand euros (2021: 2,380 thousand euros).

In 2022 the Management Bodies were paid 290 thousand euros of variable remuneration (2021: 226 thousand euros).

On the date of the end of 2022 and 2021, the permanent staff, excluding employees under the multiple employer arrangement, distributed by major professional category, was as follows:

	2022	2021
Administration	12	12
Executive	5	5
Non-executive	7	7
of which: Audit Committee	3	3
Heads of functional areas	37	37
Technical and secretarial staff	244	202
	293	**251**

Note 10 – General Administrative Expenses

This heading is composed of:

(amounts in thousand euros)

	2022	2021
Water, electricity and fuel	138	92
Consumables	60	40
Hygiene and cleaning supplies	-	(2)
Rental and hire charges	65	122
Communications	1,223	1,219
Travel, hotel and representation costs	36	68
Advertising	1,725	1,489
Maintenance and related services	6	3
Training costs	107	85
Insurance	110	114
IT	9,392	9,163
Consulting and advisory services	1,511	1,587
Other specialised services	3,064	2,868
Other supplies and services	8,871	7,395
General Administrative Expenses	**26,308**	**24,243**

The heading "IT" records the costs incurred with the implementation and maintenance of information technology systems and infrastructure of the Bank.

The heading "Advertising" records the costs incurred with advertising and communication of the brand and products of Banco CTT.

The heading "Other specialised services" records the costs incurred with the banking and transaction operative.

The heading "Other supplies and services" records, among others, costs related to the use of the CTT Retail Network, servicing of banking operations and use of payments networks. The cost of using the physical and technical resources of the CTT Post Office Network amounted to 4,697 thousand euros (2021: 3,713 thousand euros).

The costs incurred with services provided by the Statutory Audit Firm are as follows:

(amounts in thousand euros)

	2022	2021
Legal certification	207	201
Other assurance services	57	93
Other services	76	-
	331	**294**

Note 11 – Earnings per Share

Earnings per share are calculated as follows:

	2022	2021
Net income for the year (thousand euros)	14,656	15,424
Average number of shares	296,400,000	295,742,466
Basic earnings per share (euros)	0.05	0.05
Diluted earnings per share (euros)	0.05	0.05

The Bank's share capital stands at 296,400,000 euros, represented by 296,400,000 ordinary shares without nominal value, and is fully paid-up.

Basic earnings per share are calculated by dividing the net income by the weighted average number of ordinary shares in circulation during the year.

The earnings by diluted share are calculated by adjusting the effect of all the potential ordinary diluting shares to the weighted average number of ordinary shares in circulation.

As at 31 December 2022 and 2021, the Bank did not hold potential dilutive ordinary shares: hence, the diluted earnings per share are the same as the basic earnings per share.

Note 12 – Cash and Deposits at Central Banks

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Cash	25,486	28,307
Demand deposits at Bank of Portugal	23,247	584,705
Cash and Deposits at Central Banks	**48,733**	**613,012**

The heading "Cash" is represented by notes and coins denominated in euros.

The heading "Demand deposits at Bank of Portugal" includes mandatory deposits with a view to meeting the minimum cash reserve requirements. As at 31 December 2022, the amount of the minimum cash reserves was 23,186 thousand euros (2021: 19,938 thousand euros).

Pursuant to Regulation (EU) 1358/2011 of the European Central Bank, of 14 December 2011, the minimum cash requirements kept as demand deposits at Banco de Portugal correspond to 1% of the deposits and other liabilities.

From the reserve-counting period beginning on 30 October 2019, the ECB introduced the tiering regime, which exempted part of the excess reserves deposited by credit institutions with the central bank from the negative remuneration then associated with the deposit facility rate. Tiering ceased to apply on 27 July 2022, following the decision of the Governing Council to raise the deposit facility rate to a non-negative value.

Within the tiering system, all credit institutions subject to the minimum reserve system have a limit on excess reserves which is effectively remunerated at 0%. This limit is based on a multiple applied to the amount of minimum reserves to be held, adopted by decision of the Governing Council of the ECB, and subject to change by it.

The tiering system came into effect with a multiple of six. At its meeting on 8 September 2022, the Governing Council decided to suspend this system, setting the multiplier at zero.

Note 13 – Deposits at Other Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Credit institutions in Portugal	5,517	3,156
Cheques for collection	22,493	1,002
Deposits at Other Credit Institutions	**28,010**	**4,158**

The heading "Cheques for collection" represents drawn by third parties at other credit institutions, which are pending collection. The increase in collections is due to the increase in the volume of cheques cleared during 2022, essentially through the agreement with CTT - Correios de Portugal, S.A. to clear cheques.

Note 14 – Financial Assets at Amortised Cost – Investments at Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Investments in Central Banks		
Bank of Portugal	450,250	-
Investments in other credit institutions in Portugal		
Term deposits	4,701	2,350
Loans	137,924	67,558
Impairment for investments in credit institutions	(15)	(10)
Investments at Credit Institutions	**592,860**	**69,898**

The heading "Investments in Central Banks" includes very short-term (overnight) deposits with Bank of Portugal. As at 31 December 2022, these investments amounted to 450,250 thousand euros.

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2022	2021
Up to 3 months	455,573	2,337
3 to 12 months	3,656	6,198
1 to 3 years	133,646	61,373
More than 3 years	-	-
Investments at Credit Institutions	**592,875**	**69,908**

The heading "Investments at credit institutions" showed an annual average rate of 2.583% in 2021 (2019: 1.379%).

Impairment of investments in credit institutions for the Bank is analysed as follows:

(amounts in thousand euros)

	2022	2021
	Stage 1	*Stage 1*
Opening balance	**10**	**29**
Movement for the period:		
Financial assets originated or acquired	14	7
Variations due to change in exposure or risk parameters	(1)	(1)
Derecognised financial assets excluding write-offs	(8)	(25)
Impairment of investments in credit institutions	**15**	**10**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2022	2021
	Stage 1	Stage 1
Opening balance	**10**	**29**
Movement for the period:		
Variations in expected credit loss	5	(19)
Impairment of investments in credit institutions	**15**	**10**

Note 15 – Financial Assets at Amortised Cost – Loans and Advances to Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Mortgage loans	659,529	595,420
Other loans	42,941	36,183
Overdrafts	1,351	1,331
Outstanding loans	**703,821**	**632,934**
Overdue loans - less than 90 days	29	59
Overdue loans - more than 90 days	1,455	1,220
Overdue loans	**1,484**	**1,279**
Impairment for credit risk	**(4,353)**	**(2,540)**
Loans and Advances to Customers	**700,952**	**631,673**

The heading "Other loans" in the amount of 42,941 thousand euros (2021: (36,183 thousand euros) represents the credit granted (Liquidity Facility) to the Next Funding No. 1 securitisation operation, in which Banco CTT is the sole investor, with the sole purpose of acquiring receivables (credit card balances) between the interest payment dates. At each interest payment date (IPD) the Liquidity Facility balance will be settled by converting it to the value of the note (see Note 16).

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

2022	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage loans	-	4,636	12,112	33,651	609,130	12	659,541
Other loans	42,941	-	-	-	-	-	42,941
Overdrafts	1,351	-	-	-	-	1,472	2,823
Loans and Advances to Customers	**44,292**	**4,636**	**12,112**	**33,651**	**609,130**	**1,484**	**705,305**

(amounts in thousand euros)

2021	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage loans	-	4,529	13,058	35,360	542,472	-	595,419
Other loans	36,183	-	-	-	-	-	36,183
Overdrafts	1,331	-	-	-	-	1,280	2,611
Loans and Advances to Customers	**37,514**	**4,529**	**13,058**	**35,360**	**542,472**	**1,280**	**634,213**

The distribution of this heading by type of rate is presented as follows:

(amounts in thousand euros)

	2022	2021
Fixed rate	65,974	38,793
Variable rate	639,331	595,420
Loans and Advances to Customers	**705,305**	**634,213**

The analysis of this heading by type of collateral is presented as follows:

(amounts in thousand euros)

2022	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Asset-backed loans	659,529	12	659,541	(914)	658,627
Unsecured loans	44,292	1,472	45,764	(3,439)	42,325
	703,821	**1,484**	**705,305**	**(4,353)**	**700,952**

(amounts in thousand euros)

2021	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Asset-backed loans	595,420	-	595,420	(596)	594,824
Unsecured loans	37,514	1,279	38,793	(1,944)	36,849
	632,934	**1,279**	**634,213**	**(2,540)**	**631,673**

The analysis of this heading by type of loan is presented as follows:

(amounts in thousand euros)

2022	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Mortgage loans	659,529	12	659,541	(914)	658,627
Other loans	42,941	-	42,941	(2,269)	40,672
Overdrafts	1,351	1,472	2,823	(1,170)	1,653
	703,821	**1,484**	**705,305**	**(4,353)**	**700,952**

(amounts in thousand euros)

2021	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Mortgage loans	595,420	-	595,420	(596)	594,824
Other loans	36,183	-	36,183	(796)	35,387
Overdrafts	1,331	1,279	2,610	(1,148)	1,462
	632,934	**1,279**	**634,213**	**(2,540)**	**631,673**

The analysis of this heading by activity sector is presented as follows:

(amounts in thousand euros)

2022	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Companies					
Financial and insurance sector	42,941	-	42,941	(2,269)	40,672
Individuals					
Mortgage	659,529	12	659,541	(914)	658,627
Consumer	1,351	1,472	2,823	(1,170)	1,653
	703,821	**1,484**	**705,305**	**(4,353)**	**700,952**

(amounts in thousand euros)

2021	Outstanding loans	Overdue loans	Gross amount	Impairment	Net amount
Companies					
Financial and insurance sector	36,183	-	36,183	(796)	35,387
Individuals					
Mortgage	595,420	-	595,420	(596)	594,824
Consumer	1,331	1,279	2,610	(1,148)	1,462
	632,934	**1,279**	**634,213**	**(2,540)**	**631,673**

The movement of credit impairment in the period is detailed as follows:

(amounts in thousand euros)

2022	*Stage 1*	*Stage 2*	*Stage 3*	Total
Opening balance	**1,389**	**57**	**1,094**	**2,540**
Movement for the period:				
Financial assets originated or acquired	27	50	48	125
Variations due to change in exposure or risk parameters	1,618	22	162	1,802
Derecognised financial assets excluding write-offs	(63)	(9)	(36)	(108)
Transfers to:				
Stage 1	15	(5)	(10)	-
Stage 2	(3)	9	(5)	1
Stage 3	(3)	(23)	26	-
Other movements	-	-	-	-
Credit impairment	**2,980**	**101**	**1,272**	**4,353**
Of which: POCI	-	-	-	-

(amounts in thousand euros)

2021	Stage 1	Stage 2	Stage 3	Total
Opening balance	**609**	**87**	**908**	**1,604**
Movement for the period:				
Financial assets originated or acquired	823	20	43	886
Variations due to change in exposure or risk parameters	99	13	172	284
Derecognised financial assets excluding write-offs	(38)	(7)	(19)	(64)
Transfers to:				
Stage 1	45	(35)	(10)	-
Stage 2	(2)	13	(11)	-
Stage 3	(3)	(26)	29	-
Other movements	(144)	(8)	(18)	(170)
Credit impairment	**1,389**	**57**	**1,094**	**2,540**
Of which: POCI	-	-	-	-

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

2022	*Stage 1*	*Stage 2*	*Stage 3*	Total
Opening balance	**1,389**	**57**	**1,094**	**2,540**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	1,582	63	174	1,819
Transfers of Stage (net)	9	(19)	11	1
Write-offs	-	-	(7)	(7)
Credit impairment	**2,980**	**101**	**1,272**	**4,353**

(amounts in thousand euros)

2021	*Stage 1*	*Stage 2*	*Stage 3*	Total
Opening balance	**609**	**87**	**908**	**1,604**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	884	26	196	1,106
Transfers of Stage (net)	40	(48)	8	-
Other movements	(144)	(8)	(18)	(170)
Credit impairment	**1,389**	**57**	**1,094**	**2,540**

The credit portfolio detailed by stage as defined in IFRS 9 is presented as follows:

(amounts in euros)

	2022	2021
Stage 1	**695,289**	**629,707**
Gross Value	698,269	631,096
Impairment	(2,980)	(1,389)
Stage 2	**4,964**	**1,702**
Gross Value	5,065	1,759
Impairment	(101)	(57)
Stage 3	**699**	**264**
Gross Value	1,971	1,358
Impairment	(1,272)	(1,094)
	700,952	**631,673**

Note 16 – Financial Assets at Amortised Cost – Debt Securities

This heading is analysed as follows:

(amounts in euros)

	2022	2021
Public debt securities		
Portuguese	221,694	185,545
Foreign	316,218	148,350
Bonds of other issuers		
Portuguese	487,458	536,222
Impairment	(17,922)	(6,076)
Financial Assets at Amortised Cost – Debt Securities	**1,007,448**	**864,041**

As at 31 December 2022, the heading "Bonds from other national issuers" includes 337,505 thousand euros (2021: 265,217 thousand euros) referring to the note of the Next Funding No.1 securitisation operation.

The Next Funding No.1 operation, issued by Tagus - STC, S.A. in April 2021 and in which Banco CTT is the sole investor, has as its underlying asset the credit card balances originated by the Universo credit card issued by Sonae Financial Services. Additionally, Banco CTT grants the operation an overdraft facility (Liquidity Facility) for the sole purpose of acquiring receivables (credit card balances) between the interest payment dates (see Note 15). At each interest payment date (IPD) the Liquidity Facility balance will be settled by converting it to the value of the note.

During 2021, sales amounting to 204 million euros (nominal value) were made, resulting in a gain of 17,777 thousand euros (Note 7).

The financial assets in this portfolio are managed based on a business model whose objective is the receipt of its contractual cash flows (Note 2.2.1.1).

The analysis of investments in securities as at 31 December 2022 and 2021, by residual maturity, is as follows:

(amounts in thousand euros)

2022	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	3,011	17,990	38,028	162,665	221,694
Foreign	1,462	105,938	10,027	198,791	316,218
Bonds of other issuers					
Portuguese	2,081	-	-	485,377	487,458
Financial Assets at Amortised Cost – Debt Securities	**6,554**	**123,928**	**48,055**	**846,833**	**1,025,370**

(amounts in thousand euros)

2021	Até 3 meses	De 3 a 12 meses	De 1 a 3 anos	Mais de 3 anos	Total
Public debt securities					
Portuguese	2,521	22,264	38,565	122,195	185,545
Foreign	1,013	12,997	11,098	123,242	148,350
Bonds of other issuers					
Portuguese	1,177	-	-	535,045	536,222
Financial Assets at Amortised Cost – Debt Securities	**4,711**	**35,261**	**49,663**	**780,482**	**870,117**

The movement of the impairment of debt securities at amortised cost is analysed as follows:

(amounts in thousand euros)

	2022	2021
	Stage 1	*Stage 1*
Opening balance	**6,076**	**399**
Movement for the period:		
Financial assets originated or acquired	27	5,856
Variations due to change in exposure or risk parameters	11,828	(161)
Derecognised financial assets excluding write-offs	(9)	(18)
Impairment of debt securities at amortised cost	**17,922**	**6,076**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2022	2021
	Stage 1	*Stage 1*
Opening balance	**6,076**	**399**
Movement for the period:		
Variations in expected credit loss	11,846	5,677
Impairment of debt securities at amortised cost	**17,922**	**6,076**

Note 17 - Financial Assets and Liabilities at Fair Value Through Profit or Loss

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Investment fund units	26,479	24,999
Real-estate Investment Funds	26,479	24,999
Financial Assets at Fair Value Through Profit or Loss	**26,479**	**24,999**
Derivatives	26,345	-
Financial Liabilities at Fair Value Through Profit or Loss	**26,345**	**-**

The heading Derivatives represents the fair value of derivative financial instruments contracted in the context of the Group's interest rate risk management.

The heading "Real Estate Investment Funds" in the amount of 26,479 thousand euros (31 December 2021: 24,999 thousand euros) relates to an investment in an open-ended real estate investment fund domiciled in Portugal, representing 10.4% of the total units issued on 31 December 2022 (31 December 2021: 10.7%).

Associated to the derivative contracts, Banco CTT has, as at 31 December 2022, a captive amount of 26,040 thousand euros in cash accounts with other financial institutions as margin call, which are disclosed in the heading "Other assets" (Note 24).

The movement of the heading "Derivatives" is presented as follows:

(amounts in thousand euros)

	2022			2021		
	Notional	Notional		Notional	Notional	
		Notional	Liabilities		Notional	Liabilities
OTC Market						
Interest rate contracts						
Interest Rate Swaps						
Purchase	-	-	-	-	-	-
Sale	200,000	-	12,810	-	-	-
Interest Rate Options						
Purchase	-	-	-	-	-	-
Sale	237,003	-	13,535	-	-	-
Derivatives		**-**	**26,345**		**-**	-

The impact on the income statement of financial assets and liabilities at fair value through profit or loss is presented in Note 6.

Note 18 – Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities

This heading is analysed as follows:

(vamounts in thousand euros)

	2022	2021
Public debt securities		
Portuguese	-	849
Bonds of other issuers		
Portuguese	-	5,246
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	-	**6,095**

Changes in fair value are reflected in other comprehensive income as described in Note 2.2.1.2. (see Note 30).

The impairment of these assets is reflected in other comprehensive income, as described in Note 2.2.1.2. (see Note 30).

Note 19 – Non-Current Assets Held for Sale

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Payshop (Portugal), S.A.	8,911	8,247
Non-current assets held for sale	**8,911**	**8,247**

Payshop (Portugal), S.A.

In the context of a corporate reorganisation underway in the Group, on 8 July 2022 the Board of Directors of Banco CTT approved the sale, and its terms, to CTT - Correios de Portugal, S.A., and its completion is still dependent on the non-opposition of the regulator, which is expected to occur during 2023.

As at 30 June 2022 the assets and liabilities of Payshop (Portugal), S.A. were reclassified to Non-current assets held for sale, as the company was being sold and was considered a "major line of business" within the Group, due to, among others, its contribution to the income statement.

Note 20 – Other Tangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Acquisition Cost	**6,098**	**7,297**
Real estate properties	141	102
Works in rented properties		
Equipment	389	385
Furniture	793	640
Machinery and tools	550	362
Computer equipment	1	1
Interior installations	68	68
Security equipment	9	9
Other equipment		
Rights of use	2,978	4,812
Real estate properties	1,169	918
Motor vehicles		
Accumulated Depreciation	**(1,969)**	**(2,378)**
Related to previous years	(756)	(1,168)
Related to the current year	(1,213)	(1,210)
Other Tangible Assets	**4,129**	**4,919**

The movement of the heading "Other Tangible Assets" during 2022 is analysed as follows:

(amounts in thousand euros)

	2022					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other variations	Balance on 31 December
Acquisition cost	**7,297**	**3,351**	-	**(4,550)**	-	**6,098**
Real estate properties						
Works in rented properties	102	39	-	-	-	141
Equipment						
Furniture	385	4	-	-	-	389
Machinery and tools	640	153	-	-	-	793
Computer equipment	362	188	-	-	-	550
Interior installations	1	-	-	-	-	1
Security equipment	68	-	-	-	-	68
Other equipment	9	-	-	-	-	9
Rights of use						
Real estate properties	4,812	2,653	-	(4,487)	-	2,978
Motor vehicles	918	314	-	(63)	-	1,169
Accumulated depreciation	**(2,378)**	**(1,213)**	-	**1,622**	-	**(1,969)**
Real estate properties						
Works in rented properties	(79)	(4)	-	-	-	(83)
Equipment						
Furniture	(337)	(10)	-	-	-	(347)
Machinery and tools	(88)	(39)	-	-	-	(127)
Computer equipment	(354)	(20)	-	-	-	(374)
Interior installations	(1)	-	-	-	-	(1)
Security equipment	(47)	(7)	-	-	-	(54)
Other equipment	(9)	-	-	-	-	(9)
Rights of use						
Real estate properties	(1,182)	(898)	-	1,597	-	(483)
Motor vehicles	(281)	(235)	-	25	-	(491)
Other Tangible Assets	**4,919**	**2,138**	-	**(2,928)**	-	**4,129**

The movement of the heading "Other Tangible Assets" during 2021 is analysed as follows:

(amounts in thousand euros)

2021	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other variations	Balance on 31 December
Acquisition cost	**3,066**	**4,388**	-	**(157)**	-	**7,297**
Real estate properties						
Works in rented properties	102	-	-	-	-	102
Equipment						
Furniture	384	1	-	-	-	385
Machinery and tools	292	348	-	-	-	640
Computer equipment	329	33	-	-	-	362
Interior installations	1	-	-	-	-	1
Security equipment	68	-	-	-	-	68
Other equipment	6	3	-	-	-	9
Rights of use						
Real estate properties	1,212	3,600	-	-	-	4,812
Motor vehicles	672	403	-	(157)	-	918
Accumulated depreciation	**(1,320)**	**(1,210)**	-	**152**	-	**(2,378)**
Real estate properties						
Works in rented properties	(76)	(3)	-	-	-	(79)
Equipment						
Furniture	(326)	(11)	-	-	-	(337)
Machinery and tools	(54)	(34)	-	-	-	(88)
Computer equipment	(314)	(40)	-	-	-	(354)
Interior installations	(1)	-	-	-	-	(1)
Security equipment	(40)	(7)	-	-	-	(47)
Other equipment	(6)	(3)	-	-	-	(9)
Rights of use						
Real estate properties	(266)	(916)	-	-	-	(1,182)
Motor vehicles	(237)	(196)	-	152	-	(281)
Other Tangible Assets	**1,746**	**3,178**	-	**(5)**	-	**4,919**

Note 21 – Intangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Acquisition Cost	**45,709**	**42,042**
Software in use	45,297	41,702
Other intangible assets	16	16
Software in progress	396	324
Impairment	-	(61)
Accumulated Amortisation	**(25,488)**	**(20,367)**
Related to previous years	(20,367)	(15,249)
Related to the current year	(5,121)	(5,118)
Intangible Assets	**20,221**	**21,614**

Intangible assets essentially include expenses with the acquisition and development of software, including the core banking system, implementation projects and their customisation.

The movement of the heading "Intangible assets" during 2022 is analysed as follows:

(amounts in thousand euros)

2022	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Acquisition Cost	**42,042**	**3,728**	-	**(61)**	**45,709**
Software in use	41,702	-	3,595	-	45,297
Other intangible assets	16	-	-	-	16
Software in progress	324	3,728	(3,595)	(61)	396
Impairment	**(61)**	-	-	**61**	-
Accumulated Amortisation	**(20,367)**	**(5,121)**	-	-	**(25,488)**
Software in use	(20,356)	(5,119)	-	-	(25,475)
Other intangible assets	(11)	(2)	-	-	(13)
Intangible Assets	**21,614**	**(1,393)**	-	-	**20,221**

The movement of the heading "Intangible assets" during 2021 is analysed as follows:

(amounts in thousand euros)

	2021				
	Balance on 1 Januarya	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Acquisition Cost	**39,484**	**2,558**	-	-	**42,042**
Software in use	38,952	13	2,737	-	41,702
Other intangible assets	16	-	-	-	16
Software in progress	516	2,545	(2,737)	-	324
Impairment	-	**(61)**	-	-	**(61)**
Accumulated Amortisation	**(15,248)**	**(5,118)**	**(1)**	-	**(20,367)**
Software in use	(15,239)	(5,116)	(1)	-	(20,356)
Other intangible assets	(9)	(2)	-	-	(11)
Intangible Assets	**24,236**	**(2,621)**	**(1)**	-	**21,614**

Note 22 – Investments in Subsidiaries and Associates

Esta rubrica é analisada como segue:This heading is analysed as follows:

(amounts in thousand euros)

	2022		2021	
	Holding (%)	Book Value	Holding (%)	Book Value
Payshop (Portugal), S.A.	100%	-	100%	-
321 Crédito - Instituição Financeira de Crédito, S.A. (321 Crédito)	100%	148,024	100%	125,474
Investments in Subsidiaries and Associates		**148,024**		**125,474**

Payshop (Portugal), S.A.

In the context of a corporate reorganisation underway in the Group, on 8 July 2022 the Board of Directors of Banco CTT approved the sale, and its terms, to CTT - Correios de Portugal, S.A., and its completion is still dependent on the non-opposition of the regulator, which is expected to occur during 2023.

As at 30 June 2022 the assets and liabilities of Payshop (Portugal), S.A. were reclassified to Non-current assets held for sale, as the company was being sold and was considered a "major line of business" within the Group, due to, among others, its contribution to the income statement.

The financial data relative to the more important associates are presented in the following table:

(amounts in thousand euros)

	Assets		Liabilities		Equity		Net Income	
	2022	2021	2022	2021	2022	2021	2022	2021
Payshop (Portugal), S.A.	17,275	15,070	7,809	7,230	9,466	7,840	1,625	1,918
321 Crédito - Instituição Financeira de Crédito, S.A. (321 Crédito)	808,599	679,101	739,787	614,368	68,812	64,733	10,006	12,799

The detail of Investments in Subsidiaries and Associated Companies is presented as follows:

(amounts in thousand euros)

	2022	2021
Payshop (Portugal), S.A.	665	1,918
321 Crédito - Instituição Financeira de Crédito, S.A. (321 Crédito)	10,006	12,799
Adjustments to the Equity Method	18,470	(28)
Results of Investments in Subsidiaries and Associates	**29,141**	**14,689**

Adjustments to the equity method result mainly from the appropriation of results generated in the sphere of structured entities (securitisation vehicles) controlled by 321 Crédito, in accordance with paragraph 27 of IAS 28. The amount of 18,470 thousand euros results mainly from the recognition of the fair value of derivative financial instruments contracted by the structured entities to hedge the interest rate risk.

The dividends received by Banco CTT are as follows:

(amounts in thousand euros)

	2022	2021
Payshop (Portugal), S.A.	-	1,725,000
321 Crédito - Instituição Financeira de Crédito, S.A. (321 Crédito)	6,400,000	24,000,000

Impairment

The recoverable amount of investments in subsidiaries and associates is assessed annually or whenever there is indication of a possible loss of value. The recoverable amount is determined based on the value in use of the assets, computed using calculation methodologies supported by discounted cash flow techniques, considering the market conditions, the time value and business risks.

In order to determine the recoverable amount of its investments, impairment tests were carried out, as at 31 December 2022 and 31 December 2020, based on the following assumptions:

Corporate Name	2022			
	Basis of determination of recoverable amount	Explicit period for cash flows	Discount rate	Growth rate in perpetuity
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	10 years	10.0%	1.5%

Denominação Social	2021			
	Basis of determination of recoverable amount	Explicit period for cash flows	Discount rate	Growth rate in perpetuity
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	9 years	10.0%	1.5%

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

Cash flows were estimated on the basis of forecasts of results and of evolution of activity based on the entity's business plan. This business plan covers a period up to 2032 and considers an annual compound growth rate of 4.4% of assets over this period.

The valuation was based on the Dividend Discount Model methodology common in the banking sector. The logic of the methodology is that the investor observes two types of flows when valuing the asset, dividend/equity enhancement binomial and the value of future dividends in perpetuity.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) reduction/increase of 0.5% in the target of the CET1 ratio (ii) an increase of 50 points in the different discount rates used.

As a result of the impairment test performed, as well as the sensitivity analyses carried out, no impairment loss was identified in the goodwill recorded on 31 December 2022.

Note 23 – Income Tax

The Bank is subject to Corporate Income Tax (IRC) and corresponding Surcharge.

Income tax (current or deferred is reflected in the net income for the year, except in cases in which the transactions that originated this tax have been reflected in other equity headings. In these situations, the corresponding tax is likewise reflected through equity, not affecting the net income for the year.

The calculation of the current tax for 2022 and 2021 was based on a nominal corporate income tax rate of 21% pursuant to Law 107-B/2003, of 31 December, and Law 2/2007, of 15 January.

Deferred tax is calculated based on the tax rates that are expected to be applicable on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the reporting date.

As mentioned in Note 2.9, the Bank is covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 90% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC).

Reconciliation of the Income Tax Rate

The reconciliation of the income tax rate, in the portion relative to the amount recognised through profit or loss, may be analysed as follows:

(amounts in thousand euros)

	2022	2021
Profit/(Loss) before tax	10,107	15,242
Current tax rate	21.0%	21.0%
Expected income tax	**2,122**	**3,201**
Surcharges	-	8
Total Expected Tax	**2,122**	**3,209**
Elimination of the equity method of accounting	(6,120)	(3,085)
Accruals/(deductions) for calculation purposes	(74)	117
Autonomous tax	17	15
Recorded current tax for the year	**(4,055)**	**256**
Recorded deferred tax	**205**	**(156)**
Recorded total tax	**(3,850)**	**100**
Effective Rate	**-38.1%**	**0.7%**
Effective Rate (except equity method)	**20.2%**	**18.1%**
Corrections relative to previous years	**(699)**	**(282)**
Taxes *	**(4,549)**	**(182)**

**negative values represent tax to be recovered.*

Current tax

Pursuant to the accounting policy described in Note 2.9, the value related to tax is recorded as a value receivable by the shareholder CTT (see Note 24).

Deferred tax

The movement of the deferred tax assets in the period is presented as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**683**	**526**
Recognised through profit or loss	187	156
Other	-	1
Deferred Tax Assets	**870**	**683**

The value of deferred tax assets as at 31 December 2022 and 2021 primarily arises from temporary differences derived from variable remunerations not deductible for tax purposes.

The movement of the deferred tax liabilities in the period is presented as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**6**	**20**
Recognised through profit or loss	392	-
Recognised through other reserves	(6)	(14)
Deferred Tax Liabilities	**392**	**6**

Tax regime for impairment losses

In 2019 the Bank exercised the option to definitively adopt the tax system applicable to the impairment losses of credit institutions and other financial institutions subject to the supervision of Banco de Portugal, established by articles 2 and 3 of Law 98/2019, of 4 September, under the terms stipulated in number 1 of article 4 of this same Law, taking effect from the tax period started on 1 January 2019 (inclusively).

Special Regime applicable to the Taxation of Groups of Companies (RETGS)

The Bank and its subsidiaries – more than 75% held directly or indirectly, and for more than 1 year by the parent company CTT – are covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 75% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, and until 2020 inclusive, Banco CTT and its subsidiaries, eligible to application of the RETGS, receive from CTT the value relative to the tax loss which they contribute to the consolidated corporate income tax of the CTT Group and, likewise, pay to CTT the value relative to their positive contribution to the consolidated corporate income tax of the CTT Group. As of 2021, the Banco CTT Group is considered to be a "tax sub-consolidated" entity within the Regime in which CTT - Correios de Portugal, S.A. is the dominant company. In this way, Banco CTT's subsidiaries make corporate income tax (IRC) settlements to Banco CTT, and Banco CTT pays or receives the net amount determined for the Banco CTT Group to/from that dominant company. In the event that there are historical amounts receivable from CTT by the Group, any corporate income tax payments to CTT are settled through the use/reduction of the amount receivable, with effective payment only after there are no historical amounts receivable.

As at 31 December 2022 the heading "Other Assets" includes the amount of 12,412 thousand euros (31 December 2021: 11,796 thousand euros) to be received from CTT through this mechanism.

SIFIDE

Until 2021, the Bank recognised the tax credit related to SIFIDE upon effective receipt of the declaration from the certifying commission of the eligibility of expenses presented in the application.

Currently, and considering the history associated to this reality, the Bank started to recognise in the period to which the investments refer, an estimate of the tax credit that was submitted for certification by the competent authority (ANI - National Innovation Agency). The amount of corrections relating to previous years relates to differences in tax estimates, mainly arising from the recognition of tax credits relating to SIFIDE 2020 and 2021, amounting to 628,468 euros, which are shown below:

<u>SIFIDE 2020</u>

In the financial year 2020, the Group incurred R&D expenses for which it will benefit - deferred in 2022 - from a Corporate Income Tax (IRC) tax credit amounting to 310,239 euros.

<u>SIFIDE 2021</u>

In the financial year 2021, the Group incurred R&D expenses for which it estimates a tax credit on Corporate Income Tax (IRC) of 318,229 euros.

In the financial year 2021 the Group incurred R&D expenses for which it will benefit - deferred in 2023 - from a Corporate Income Tax (IRC) tax credit amounting to 454,612 euros (of which 318,229 euros were recognised in results in the financial year 2022).

Note 24 – Other Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
IRC RETGS	13,796	13,677
Receivables from the shareholder	12,412	11,796
Receivables from the subsidiaries	1,384	1,881
Operations to be cleared	1,967	1,212
Escrow accounts	26,577	272
Other receivables	5,472	2,430
Expenses with deferred charges	646	750
Administrative Public Sector	212	163
Values receivable from subsidiaries	30	-
Impairment of other assets	(296)	(293)
Other assets	**48,404**	**18,211**

The heading "Escrow Accounts" includes the amount of 26,040 thousand euros by way of margin call related to the derivatives contracted by the Bank.

The heading "Other Assets" includes the amount of 13,796 thousand euros (2021: 13.677 thousand euros) under corporate income tax (IRC) resulting from the application of the Special Corporate Group Taxation Regime (RETGS), in accordance with point 2.9 of Note 2, of which 12,412 thousand euros are amounts receivable from the dominant company CTT (2021: 11,796 thousand euros) and 1,384 thousand euros from the Bank's subsidiaries (2021: 1,881 thousand euros).

The item "Other debtors" mainly records the commission amounts to be received from partners, within the scope of the credit intermediation and insurance mediation activity.

The item Transactions to be settled records amounts of banking operations awaiting financial settlement.

The movement of impairment of other assets is analysed as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**293**	**252**
Charge for the period	3	51
Reversal for the period	-	-
Uses for the period	-	(10)
Impairment of other assets	**296**	**293**

Note 25 – Financial Liabilities at Amortised Cost – Amounts owed to Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Amounts owed to credit institutions in Portugal		
Demand deposits	15,023	43
Financial liabilities at Amortised Cost – Amounts owed to Credit Institutions	**15,023**	**43**

Note 26 – Financial Liabilities at Amortised Cost – Deposits from Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Demand deposits	1,646,281	1,487,276
Term deposits	184,027	223,067
Saving accounts	452,980	412,474
Financial Liabilities at Amortised Cost – Deposits from Customers	**2,283,288**	**2,122,817**

In 2021, the average rate of return on resources from customers was 0.02% (2021: 0.02%).

The analysis of the heading "Deposits from Customers", by contractual residual maturity, is as follows:

(amounts in thousand euros)

	2022	2021
Demand deposits and saving accounts	2,099,260	1,899,750
Term deposits		
Up to 3 months	83,545	106,310
3 to 12 months	100,483	116,757
Financial Liabilities at Amortised Cost – Deposits from Customers	**2,283,288**	**2,122,817**

Note 27 – Provisions

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Provisions for other risks and charges	353	115
Provisions for commitments	124	314
Provisions	**477**	**429**

Provisions for other risks and charges were established in order to deal with contingencies related to the Bank's activity and whose payment appears to be probable.

Provisions for commitments refer to provisions for indirect credit. In 2021, a credit impairment transfer of 170 thousand euros (Note 15) was made to provisions.

On each reporting date, the Bank revalues the amounts recorded under this heading, so as to ensure that it reflects the best estimate of amount and probability of occurrence.

The movement of the heading "Provisions" in the period is detailed as follows:

(amounts in thousand euros)

	2022	2021
Opening balance	**429**	**165**
Transfers	-	170
Charge for the period	384	242
Reversal for the period	(256)	(124)
Uses for the period	(80)	(24)
Provisions	**477**	**429**

Note 28 – Other Liabilities

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Payables		
Suppliers	3,561	2,006
Related parties	1,185	966
Other payables	2	-
Staff costs	5,207	3,973
Operations to be cleared	43,031	20,486
Administrative Public Sector	676	570
Deferred income	311	286
Lease liabilities	3,283	4,284
Other Liabilities	**57,256**	**32,571**

The heading "Operations to be cleared" primarily records the balance of banking operations pending financial settlement.

The heading "Lease liabilities" corresponds to the lease liabilities recognised under IFRS 16, as described in accounting policy 2.8.

Note 29 – Share Capital

The share capital stands at 296,400,000 euros, represented by 296,400,000 ordinary shares without nominal value, and is fully underwritten and paid-up.

An increase of the Company's share capital was carried out on 25 January 2021 from 286,400,000 euros (two hundred and eighty-six million and four hundred thousand euros) to 296,400,000 euros (two hundred and ninety-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 10,000,000 euros (ten million euros) giving rise to the issue of 10,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

As at 31 December 2021, the Bank's share capital is 100% held by CTT – Correios de Portugal, S.A. (public company).

Note 30 – Fair Value Reserves, Other Reserves and Retained Earnings

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Fair Value Reserves		
Other financial assets at fair value through other comprehensive income	-	27
Legal reserves	407	29
Other reserves	(347)	(820)
of which: equity method	407	(66)
Retained earnings	(60,020)	(73,902)
Reserves and Retained Earnings	**(58,796)**	**(74,666)**

Note 31 – Guarantees and Other Commitments

This heading is analysed as follows:

(amounts in thousand euros)

	2022	2021
Guarantees provided	46,674	23,765
Guarantees received	1,204,263	1,092,909
Commitments to third parties		
Revocable commitments		
Credit lines	33,759	21,403
Irrevocable commitments		
Credit lines	30,620	79,636
Commitments from third parties		
Revocable commitments		
Credit lines	22,575	16,137

The amount recorded as Guarantees Provided primarily includes securities given as collateral to secure the settlement of interbank operations.

The amount recorded as Guarantees Received primarily includes securities given as collateral to secure the settlement of interbank operations.

The revocable and irrevocable commitments present contractual agreements for granting credit to the Bank's customers (for example unused credit lines) which, generally speaking, are contracted for fixed periods or with other expiry requirements. Substantially all the credit granting commitments in force require the customers to maintain certain requirements observed at the time the loans were granted.

As at 31 December 2022, the heading "Irrevocable commitments assumed by Banco CTT" includes the credit line granted to the Next Funding No.1 securitisation operation in the amount of 15,059 thousand euros (2021: 18.818 thousand euros) (see Note 15).

Notwithstanding the particularities of these commitments, the appraisal of these operations follows the same basic principles of any other commercial operation, namely the principle of the customer's solvency, where the Bank requires that these operations should be duly collateralised when necessary. As it is expected that some of them shall expire without having been used, the indicated amounts do not necessarily represent future cash needs.

Provisions for commitments made to third parties are disclosed in Note 26.

Note 32 – Transactions with Related Parties

All the business and operations carried out by the Bank with related parties are cumulatively concluded under normal market conditions for similar operations and are part of the Bank's current activity.

For all due purposes, the concept of related parties is provided in Chapter 4 of the Banco CTT Group's Policy on Transactions with Related Parties (which refers to the provisions of IAS 24, the RGICSF and Banco de Portugal Notice 3/2020), available for consultation at https://www.bancoctt.pt/sobre-o-banco-ctt/governo-da-sociedade/estatutos-e-regulamentos.

As at 31 December 2022, the value of the Bank's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

2022	Balance Sheet		Income Statement	
	Assets	Liabilities	Loss	Profit
CTT - Correios de Portugal, S.A.	12,976	36,061	6,306	220
CTT Expresso – Serviços Postais e Logística, S.A.	-	9	82	-
CTT Contacto, S.A.	-	-	-	-
NewSpring, S.A.	53	83	11	-
Payshop (Portugal), S.A.	289	2,896	-	130
321 Crédito, S.A.	133,862	15,200	-	2,181
Chaves Funding No.8	149,954	-	-	2,575
Next Funding No.1	380,446	-	-	19,510
	677,580	**54,249**	**6,399**	**24,616**

The value of liabilities against CTT - Correios de Portugal S.A. includes 35,062 thousand euros of bank deposits.

As at 31 December 2021, the value of the Bank's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

2021	Balance Sheet		Income Statement	
	Assets	Liabilities	Loss	Profit
CTT - Correios de Portugal, S.A.	12,268	3,671	5,396	-
CTT Expresso – Serviços Postais e Logística, S.A.	-	8	83	-
CTT Contacto, S.A.	-	-	-	-
Payshop (Portugal), S.A.	322	1,306	-	131
321 Crédito, S.A.	57,774	148	-	395
Chaves Funding No.8	270,628	-	-	5,719
Next Funding No.1	301,411	-	-	8,314
	642,403	**5,133**	**5,479**	**14,559**

As at 31 December 2022, the value of the deposits placed by the members of the Corporate Bodies at the Bank amounted to 303 thousand euros (2021: 253 thousand euros).

Note 33 – Fair Value

The fair value of the financial assets and liabilities, as at 31 December 2022, is analysed as follows:

(amounts in thousand euros)

2022	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Book value	Fair Value
Cash and deposits at central banks	-	-	48,733	48,733	48,733
Deposits at other credit institutions	-	-	28,010	28,010	28,010
Financial assets at amortised cost					
Investments at credit institutions	-	-	592,860	592,860	592,860
Loans and advances to customers	-	-	700,952	700,952	701,073
Debt securities	-	-	1,007,448	1,007,448	986,005
Bonds issued by public entities	-	-	*537,780*	*537,780*	*498,547*
Bonds of other issuers	-	-	*469,668*	*469,668*	*487,458*
Financial assets at fair value through profit or loss					
Investment fund units	26,479	-	-	26,479	26,479
Financial assets at fair value through other comprehensive income					
Debt securities	-	-	-	-	-
Bonds issued by public entities	-	-	-	-	-
Bonds of other issuers	-	-	-	-	-
Other (financial) assets	-	-	13,796	13,796	12,583
Financial Assets	**26,479**	-	**2,391,799**	**2,418,278**	**2,396,013**
Financial liabilities at fair value through profit or loss					
Derivatives	26,345	-	-	26,345	26,345
Financial liabilities at amortised cost					
Amounts owed to other credit institutions	-	-	15,023	15,023	15,023
Deposits from Customers	-	-	2,283,288	2,283,288	2,283,288
Financial liabilities	**26,345**	-	**2,298,311**	**2,324,656**	**2,324,656**

The fair value of the financial assets and liabilities, as at 31 December 2021, is analysed as follows:

(amounts in thousand euros)

2021	At fair value through profit or loss	At fair value through other comprehensive income	Amortised cost	Book value	Fair value
Cash and deposits at central banks	-	-	613,012	613,012	613,012
Deposits at other credit institutions	-	-	4,158	4,158	4,158
Financial assets at amortised cost					
Investments at credit institutions	-	-	69,898	69,898	69,898
Loans and advances to customers	-	-	631,673	631,673	635,405
Debt securities	-	-	864,041	864,041	884,318
Bonds issued by public entities	-	-	*333,774*	*333,774*	*348,100*
Bonds of other issuers	-	-	*530,267*	*530,267*	*536,218*
Financial assets at fair value through profit or loss					
Investment fund units	24,999	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income					
Debt securities	-	6,095	-	6,095	6,095
Bonds issued by public entities	-	849	-	*849*	*849*
Bonds of other issuers	-	5,246	-	*5,246*	*5.246*
Other (financial) assets	-	-	13,677	13,677	14.783
Financial Assets	**24,999**	**6,095**	**2,196,459**	**2,227,553**	**2,252,668**
Financial liabilities at amortised cost					
Amounts owed to other credit institutions	-	-	43	43	43
Deposits from Customers	-	-	2,122,817	2,122,817	2,122,817
Financial liabilities	-	-	**2,122,860**	**2,122,860**	**2,122,860**

Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through internal models based on discounted cash flow methods. The generation of cash flow of the different instruments is based on their financial characteristics, and the discount rates used incorporate both the market interest rate curve and the current risk levels of the respective issuer.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model, which necessarily incorporate some degree of subjectivity, and exclusively reflects the value attributed to the different financial instruments.

The Bank uses the following fair value hierarchy, with three levels in the valuation of financial instruments (assets or liabilities), which reflect the level of judgement, the observability of the data, and the importance of the parameters applied in the determination of the assessment of the fair value of the financial instrument, pursuant to IFRS 13:

- Level 1: Fair value is determined based on unadjusted listed prices, captured in transactions in active markets involving financial instruments similar to the instruments to be assessed. Where there is more than one active market for the same financial instrument, the relevant price is that prevailing in the main market of the instrument, or the most advantageous market to which there is access;
- Level 2: Fair value is calculated through valuation techniques based on observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and valuation assumptions similar to those that a non-related party would use to estimate the fair value of the same financial instrument. This also includes instruments whose valuation is obtained through listed prices disclosed by independent entities, but whose markets show less liquidity; and,
- Level 3: Fair value is determined based on data not observable in active markets, using techniques and assumptions that the market participants would use to assess the same instruments, including hypotheses about the inherent risks, the assessment

method and inputs used, entailing process of review of the accuracy of the values obtained in this manner.

The Bank considers a market active for a particular financial instrument, on the measurement date, according to the turnover and liquidity of the operations carried out, the relative volatility of the listed prices, and the promptness and availability of the information, where the following minimum conditions must be met:

- Existence of frequent daily prices of trading in the last year;
- The prices mentioned above change regularly;
- Existence of enforceable prices of more than one entity.

A parameter used in the valuation method is considered to be observable market data if the following conditions are met:

- If its value is determined in an active market;
- If there is an OTC market and it is reasonable to assume that active market conditions are met, except for the condition of trading volumes; and,
- The value of the parameter can be obtained by the inverse calculation of the prices of the financial instruments and/or derivatives where all the other parameters required for the initial assessment are observable in a liquid market or OTC market that complies with the previous paragraphs.

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2022:

(amounts in thousand euros)

2022	Valuation methods			Total
	Level 1	Level 2	Level 3	
Cash and deposits at central banks	48,733	-	-	48,733
Deposits at other credit institutions	28,010	-	-	28,010
Financial assets at amortised cost				
Investments at credit institutions	-	-	592,860	592,860
Loans and advances to customers	-	-	701,073	701,073
Debt securities	498,547	-	487,458	986,005
Bonds issued by public entities	498,547	-	-	*498,547*
Bonds of other issuers	-	-	*487,458*	*487,458*
Financial assets at fair value through profit or loss				
Investment fund units	-	-	26,479	26,479
Financial assets at fair value through other comprehensive income				
Debt securities	-	-	-	-
Bonds issued by public entities	-	-	-	-
Bonds of other issuers	-	-	-	-
Other (financial) assets	-	-	12,853	12,853
Financial Assets	**575,290**	-	**1,820,723**	**2,396,013**
Financial liabilities at fair value through profit or loss				
Derivatives	-	-	26,345	26,345
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	-	-	15,023	15,023
Deposits from Customers	-	-	2,283,288	2,283,288
Financial liabilities	-	-	**2,324,656**	**2,324,656**

Sensitivity analysis

The item Loans and advances to customers which, as at 31 December 2022, has a fair value of 701,073 thousand euros has a sensitivity of -5,933 thousand euros and +6,255 thousand euros for an interest rate change of -10% and +10%, respectively.

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2021:

(amounts in thousand euros)

2021	Valuation methods			Total
	Level 1	Level 2	Level 3	
Cash and deposits at central banks	613,012	-	-	613,012
Deposits at other credit institutions	4,158	-	-	4,158
Financial assets at amortised cost				
Investments at credit institutions	-	-	69,898	69,898
Loans and advances to customers	-	-	635,405	635,405
Debt securities	348,100	382	535,836	884,318
Bonds issued by public entities	*348,100*	-	-	*348,100*
Bonds of other issuers	-	*382*	*535,836*	*536,218*
Financial assets at fair value through profit or loss				
Investment fund units	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income				
Debt securities	849	5,246	-	6,095
Bonds issued by public entities	*849*	-	-	*849*
Bonds of other issuers	-	*5,246*	-	*5,246*
Other (financial) assets	-	-	14,783	14,783
Financial Assets	**966,119**	**5,628**	**1,280,921**	**2,252,668**
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	-	-	43	43
Deposits from Customers	-	-	2,122,817	2,122,817
Financial liabilities	-	-	**2,122,860**	**2,122,860**

Sensitivity analysis

The item Loans and advances to customers which, as at 31 December 2021, has a fair value of 527,915 thousand euros has a sensitivity of +1,816 thousand euros and -9,355 thousand euros for an interest rate change of -10% and +10%, respectively.

The main methods and assumptions used to estimate the fair value of the financial assets and liabilities recorded in the balanced sheet are analysed as follows:

Cash and deposits at Central Banks, Deposits at other credit institutions and Investments at Central Banks and at other credit institutions

These financial instruments are very short-term and therefore their book value is a reasonable estimate of their fair value.

Investment securities measured at amortised cost

The fair value of these financial instruments is based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Loans and Advances to Customers

Loans and advances to customers with defined maturity date

Fair value is calculated by discounting, at the average rates of the production of December, the expected cash flows throughout the life of the contracts considering the historical pre-payment rates.

Loans and advances to customers without defined maturity date

Considering the short-term nature of this type of instrument, the conditions of this portfolio are similar to those prevailing at the reporting date, and so its book value is considered a reasonable estimate of its fair value.

Financial assets at fair value through profit or loss (except derivatives)

These financial assets are accounted for at fair value. Fair value is based on market prices, when available. If these are not available, the calculation of the fair value is based on i) the use of numerical models, namely discounted cash flows of expected future capital and interest for these instruments or ii) the Net Asset Value (NAV) provided by the fund management companies.

Financial assets at fair value through profit or loss (Derivatives)

All derivatives are accounted for at their fair value. In the case of those that are quoted on organised markets, the respective market price is used. In the case of over-the-counter (OTC) derivatives, numerical models based on discounted cash flow techniques and option valuation models considering market and other variables are applied.

Financial assets at fair value through other comprehensive income

The fair value of these instruments is estimated based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Amounts Owed to Central Banks and Other Credit Institutions

These financial instruments are very short-term and therefore their book value is a reasonable estimate of their fair value.

Deposits from Customers

The fair value of these financial instruments is estimated based on the discounted expected principal and interest cash flows. The discount rate used is that which reflects the rates applied for deposits with similar features on the reporting date. Considering that the applicable interest rates are renewed for periods less than one year, there are no materially relevant differences in their fair value.

Debt securities issued

The fair val The fair value of these instruments is estimated based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Note 34 – Risk Management

The Bank is exposed to various risks during the course of its business activity.

The Bank's Policy on Risk Management and Internal Control aims to ensure the effective application of the risk management system, through the ongoing follow-up of its adequacy and efficacy, seeking to identify, assess, monitor and control all the materially relevant risks to which the institution is exposed, both internally and externally.

In this context, it is important to monitor and control the main types of financial risks – credit, liquidity, interest rate, market and operational – faced by the Bank's activity.

Credit Risk

Credit risk reflects the degree of uncertainty of the expected returns, due to the inability either of the borrower, or of the counterpart of a contract, to comply with the respective obligations.

At the Bank, credit risk management includes the identification, measurement, assessment and monitoring of the different credit exposures, ensuring risk management throughout the successive phases of the life of the credit process.

The monitoring and follow-up of credit risk, in particular with respect to the evolution of credit exposures and monitoring of losses, is regularly conducted by the Risk Department and by the Capital and Risk Committee.

In the first quarter of 2017, the Bank launched the granting of the mortgage loan product. As at 31 December 2022, the exposure (net of impairment and including off-balance sheet exposures) to this product was in the amount of 658,628 thousand euros (611,167 thousand euros as at 31 December 2021).

The Bank is currently exposed to credit risk in other areas of its business activity. These necessarily include direct exposure to credit risk associated to investments and deposits at other credit institutions (counterpart risk), to public debt securities issues by eurozone countries (Portugal, Italy, Spain and France), debt instruments of other issuers (credit institutions and companies), securitisation operations relative to the tariff deficit.

In order to mitigate credit risk, the lending operations have associated collateral, namely mortgages. Except in situations of default, the Bank, under its activity, does not have permission to sell or pledge this collateral. The fair value of this collateral is determined as at the date of the granting of the loan, with its value being checked periodically.

The acceptance of collateral to secure credit operations requires the need to define and implement techniques to mitigate the risks to which this collateral is exposed. Thus, and as an approach to this matter, the Bank has stipulated a series of procedures applicable to collateral (namely real estate properties), that hedge, among others, the volatility of the value of the collateral.

The gross value of the loans and respective fair value of the collateral, limited to the value of the associated loan, are presented below:

(amounts in thousand euros)

	2022		2021	
	Loans and advances to customers	Fair value of the collateral	Loans and advances to customers	Fair value of the collateral
Mortgage loans	659,541	1,128,546	595,420	1,021,371
Other	45,764	-	38,793	-
	705,305	**1,128,546**	**634,213**	**1,021,371**

The following table presents information on the Bank's exposures to credit risk (net of impairment and including off-balance sheet exposures) as at 31 December 2022 and 31 December 2021:

(amounts in thousand euros)

	2022	2021
Central Authorities or Central Banks	1,011,291	919,330
Regional governments or local authorities	-	-
Credit institutions	219,347	89,993
Companies	375,445	319,049
Retail customers	6,991	8,525
Loans secured by immovable assets	668,746	606,218
Non-performing loans	681	234
Collective investment undertakings (CIUs)	31,962	24,999
Shares	156,935	133,721
Other items	63,922	63,619
Risk Headings	**2,535,320**	**2,165,688**

The information on the risk headings (including off-balance sheet) as at 31 December 2022 and 31 December 2021 is detailed as follows:

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	473,511	-	473,511	584,705	-	584,705
Other financial assets at fair value through other comprehensive income	-	-	-	850	-	850
Investment securities measured at amortised cost	537,912	(132)	537,780	333,895	(120)	333,775
Central Authorities or Central Banks	**1,011,423**	**(132)**	**1,011,291**	**919,450**	**(120)**	**919,330**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Investment securities measured at amortised cost	-	-	-	-	-	-
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	28,010	-	28,010	4,158	-	4,158
Investments at financial institutions	170,625	(15)	170,610	83,907	(10)	83,897
Other	20,727	-	20,727	1,938	-	1,938
Credit institutions	**219,362**	**(15)**	**219,347**	**90,003**	**(10)**	**89,993**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Investment securities measured at amortised cost	395,505	(20,060)	375,445	325,852	(6,803)	319,049
Companies	**395,505**	**(20,060)**	**375,445**	**325,852**	**(6,803)**	**319,049**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	7,068	(77)	6,991	8,689	(164)	8,525
Retail customers	**7,068**	**(77)**	**6,991**	**8,689**	**(164)**	**8,525**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	669,525	(779)	668,746	606,804	(586)	606,218
Loans secured by immovable assets	**669,525**	**(779)**	**668,746**	**606,804**	**(586)**	**606,218**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	1,971	(1,290)	681	1,360	(1,126)	234
Non-performing loans	**1,971**	**(1,290)**	**681**	**1,360**	**(1,126)**	**234**

(amounts in thousand euros)

	2022			2021		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Financial assets at fair value through profit or loss	31,962	-	31,962	24,999	-	24,999
Collective investment undertakings (CIUs)	**31,962**	**-**	**31,962**	**24,999**	**-**	**24,999**

The exposure to public debt, net of impairment, of eurozone countries is detailed as follows:

(amounts in thousand euros)

	2022			2021		
	Other financial assets at fair value through other comprehensive income	Investment securities measured at amortised cost	Total	Other financial assets at fair value through other comprehensive income	Investment securities measured at amortised cost	Total
Portugal	-	221,627	221,627	849	185,468	186,317
Spain	-	106,421	106,421	-	75,163	75,163
Italy	-	109,840	109,840	-	73,143	73,143
France	-	99,892	99,892	-	-	-
Ireland	-	-	-	-	-	-
	-	**537,780**	**537,780**	**849**	**333,774**	**334,623**

The analysis of the portfolio of financial assets by stages is presented as follows:

(amounts in thousand euros)

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits at Central Banks and other credit institutions	51,257	-	-	51,257	588,863	-	-	588,863
Impairment losses	-	-	-	-	-	-	-	-
Net value	**51,257**	-	-	**51,257**	**588,863**	-	-	**588,863**
Financial assets at amortised cost – Investments at credit institutions	592,875	-	-	592,875	69,908	-	-	69,908
Impairment losses	(15)	-	-	(15)	(10)	-	-	(10)
Net value	**592,860**	-	-	**592,860**	**69,898**	-	-	**69,898**
Financial assets at fair value through other comprehensive income – Debt securities	-	-	-	-	6,098	-	-	6,098
Impairment losses	-	-	-	-	(3)	-	-	(3)
Net value	-	-	-	-	**6,095**	-	-	**6,095**
Financial assets at amortised cost – Debt securities	1,025,370	-	-	1,025,370	870,117	-	-	870,117
Impairment losses	(17,922)	-	-	(17,922)	(6,076)	-	-	(6,076)
Net value	**1,007,448**	-	-	**1,007,448**	**864,041**	-	-	**864,041**
Financial assets at amortised cost – Loans and advances to customers	698,269	5,065	1,971	705,305	631,096	1,759	1,358	634,213
Impairment losses	(2,980)	(101)	(1,272)	(4,353)	(1,389)	(57)	(1,094)	(2,540)
Net value	**695,289**	**4,964**	**699**	**700,952**	**629,707**	**1,702**	**264**	**631,673**

Liquidity Risk

Liquidity risk reflects the possibility of significant losses being incurred as a result of deterioration of funding conditions (funding risk) and/or sale of assets for less than their market value (market liquidity risk)

Overall, the liquidity risk management strategy is entrusted to the Board of Directors, which delegates it to the Executive Committee, and is carried out by the Treasury Department, based on constant vigilance of exposure indicators, being closely monitored by the Capital and Risk Committee.

The Capital and Risk Committee is responsible for controlling liquidity risk exposure, by analysing liquidity positions and assessing their conformity with the applicable regulatory rules and limitations, as well as with the goals and guidelines defined by Banco CTT.

The liquidity risk of Banco CTT is assessed through regulatory indicators defined by the supervision authorities, as well as through other internal metrics.

As at 31 December 2022, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2022						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	48,733	-	-	-	-	-	**48,733**
Deposits at other credit institutions	28,010	-	-	-	-	-	**28,010**
Financial assets at amortised cost							
Investments at credit institutions	-	455,573	3,656	133,646	-	-	**592,875**
Loans and advances to customers	44,292	4,636	12,112	33,651	609,130	1,484	**705,305**
Debt securities	-	6,554	123,928	48,055	846,833	-	**1,025,370**
Financial assets at fair value through profit or loss							
Investment fund units	-	-	-	-	-	26,479	**26,479**
Financial assets at fair value through other comprehensive income							
Debt securities	-	-	-	-	-	-	**-**
Total Assets	**121,035**	**466,763**	**139,696**	**215,352**	**1,455,963**	**27,963**	**2,426,772**
Liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	26,345	-	**26,345**
Derivatives							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	15,023	-	-	-	-	-	**15,023**
Deposits from Customers	2,099,260	83,545	100,483	-	-	-	**2,283,288**
Total Liabilities	**2,114,283**	**83,545**	**100,483**	-	**26,345**	-	**2,324,656**
Gap (Assets-Liabilities)	**(1,993,248)**	**383,218**	**39,213**	**215,352**	**1,429,618**	**27,963**	**102,116**
Accumulated Gap	**(1,993,248)**	**(1,610,030)**	**(1,570,817)**	**(1,355,465)**	**74,153**	**102,116**	

As at 31 December 2021, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

2021	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	613,012	-	-	-	-	-	**613,012**
Deposits at other credit institutions	4,158	-	-	-	-	-	**4,158**
Financial assets at amortised cost							
Investments at credit institutions	-	2,337	6,198	61,373	-	-	**69,908**
Loans and advances to customers	37.514	4,529	13,058	35,360	542,472	1,280	**634,213**
Debt securities	-	4,711	35,261	49,663	780,482	-	**870,117**
Financial assets at fair value through profit or loss							
Investment fund units	-	-	-	-	-	24,999	**24,999**
Financial assets at fair value through other comprehensive income							
Debt securities	-	343	845	4,907	-	-	**6,095**
Total Assets	**654,684**	**11,920**	**55,362**	**151,303**	**1,322,954**	**26,279**	**2,222,502**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	43	-	-	-	-	-	**43**
Deposits from Customers	1,899,750	106,310	116,757	-	-	-	**2,122,817**
Total Liabilities	**1,899,793**	**106,310**	**116,757**	-	-	-	**2,122,860**
Gap (Assets-Liabilities)	**(1,245,109)**	**(94,390)**	**(61,395)**	**151,303**	**1,322,954**	**26,279**	**99,642**
Accumulated Gap	**(1,245,109)**	**(1,339,49)**	**(1,400,894)**	**(1,249,591)**	**73,363**	**99,642**	

Furthermore, under the periodic monitoring of the liquidity situation, the Bank calculates the liquidity mismatch, Additional Liquidity Monitoring Metrics (ALMM), pursuant to the addenda issued in 2018 to Regulation (EU) 680/2014 of the Commission.

ALMM takes into account all the contracted outflows and inflows and uses a maturity ladder which enables confirming the existence or not of the liquidity mismatch of Banco CTT, and also enables knowing its capacity to counterbalance any liquidity mismatch.

The liquidity mismatch is calculated for various timeframes, from overnight up to more than five years, taking into account the asset, liability and off-balance sheet positions with expected and estimated financial flows that are scheduled according to the corresponding residual maturities or inflow/outflow date of the monetary flow.

As at 31 December 2022, the ALMM showed a positive liquidity mismatch (difference between contracted outflows and inflows) of 261,695 thousand euros. 128,810 thousand euros).

Interest Rate Risk

Interest Rate Risk refers to losses arising from the impact that interest rate fluctuations have on balance sheet or off-balance sheet items that are sensitive.

As at 31 December 2022, one of the main instruments in the monitoring of balance sheet interest rate risk is based on the recent

Banco de Portugal Instruction 34/2018, which revokes Instruction 19/2005. This model groups variation-sensitive assets and liabilities into19 fixed timeframes (maturity dates or date of first review of interest rates, when indexed), from which a potential impact on economic value is calculated. Economic value is calculated by the sum of the net present value of the discounted cash flows. This discount is based on an interest rate curve not subject to any type of shock, in which, for discount purposes, the average periods of the timeframes are assumed. As presented in the table below, the two standard scenarios that correspond to a positive and negative shock of 200 basis points are applied to the baseline scenario.

As at 31 December 2022, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2022 Timeframe	Assets	Liabilities	Off-Balance Sheet	Net Position	Economic Value Delta (+200 bps)	Economic Value Delta (-200 bps)
At sight	769,852	733,639	(68,355)	(32,142)	2	(2)
At sight – 1 month	65,060	87,172	(185,490)	(207,602)	(210)	(107)
1 – 3 months	117,191	74,771	8,100	50,520	(923)	361
3 – 6 months	266,823	116,218	14,448	165,053	(2,274)	1,720
6 – 9 months	166,515	76,218	13,139	103,436	(2,250)	1,964
9 – 12 months	542,967	70,181	12,966	485,752	(8,855)	8,995
1 – 1.5 years	111,397	100,514	19,597	30,480	(2,472)	2,430
1.5 – 2 years	63,638	100,523	17,748	(19,137)	(968)	950
2 – 3 years	38,231	164,112	31,061	(94,820)	1,556	(1,790)
3 – 4 years	36,931	131,470	25,380	(69,159)	2,189	(2,514)
4 – 5 years	54,932	110,416	19,878	(35,606)	1,326	(1,563)
5 – 6 years	52,930	93,089	14,987	(25,172)	1,368	(1,600)
6 – 7 years	45,871	79,243	10,885	(22,487)	1,745	(2,041)
7 – 8 years	44,549	67,415	7,210	(15,656)	1,491	(1,766)
8 – 9 years	42,846	57,238	4,537	(9,855)	1,103	(1,326)
9 – 10 years	52,073	48,607	1,653	5,119	(633)	775
10 – 15 years	250,253	273,418	118	(23,047)	3,320	(4,314)
15 – 20 years	4,867	-	170	5,037	(851)	1,219
> 20 years	14,008	-	100	14,108	(2,765)	4,590
Total	**2,740,934**	**2,384,244**	**(51,868)**	**304,822**	**(8,101)**	**5,981**

As at 31 December 2021, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2021						
Timeframe	Assets	Liabilities	Off-Balance Sheet	Net Position	Economic Value Delta (+200 bps)	Economic Value Delta (-200 bps)
At sight	804,879	573.851	(8.445)	222.583	(12)	3
At sight - 1 month	57,729	72.482	15.985	1.232	(1)	-
1 - 3 months	100,832	84.552	128	16.408	(54)	12
3 - 6 months	149,325	104.054	1.749	47.020	(351)	76
6 - 9 months	157,101	86.528	1.642	72.215	(894)	253
9 - 12 months	193,651	87.282	2.390	108.759	(1.882)	541
1 - 1.5 years	49,364	90.424	1.853	(39.207)	963	(354)
1.5 - 2 years	71,666	90.431	-	(18.765)	641	(271)
2 - 3 years	51,967	169.236	-	(117.269)	5.651	(2.809)
3 - 4 years	49,270	142.939	-	(93.669)	6.218	(3.392)
4 - 5 years	331,290	119.117	-	212.173	(17.831)	10.063
5 - 6 years	31,556	95.721	-	(64.165)	6.483	(3.767)
6 - 7 years	30,263	81.671	-	(51.408)	6.022	(3.667)
7 - 8 years	30,728	62.557	-	(31.829)	4.204	(2.753)
8 - 9 years	29,750	51.881	-	(22.131)	3.223	(2.311)
9 - 10 years	4,216	42.245	-	(38.029)	6.021	(4.625)
10 - 15 years	362,987	201.681	-	161.306	(31.363)	24.904
15 - 20 years	3,848	-	-	3.848	(973)	588
> 20 years	2,509	-	-	2.509	(879)	250
Total	**2,512,931**	**2.156.652**	**15.302**	**371.581**	**(14.814)**	**12.741**

In view of the interest rate gaps observed, as at 31 December 2022, the impact on the economic value of instantaneous and parallel shifts of the interest rates by +200 basis points is approximately -8,172 thousand euros (2021: -14,814 thousand euros).

The main assumptions used in 2021 in the Bank's analysis were the following:

- For Demand Deposits: 25.21% at sight, 74.79% distributed non-linearly over 15 years, giving rise to a duration of 3.7 years;
- Saving Accounts: 39.49% at sight, 60.51% distributed non-linearly over 15 years, giving rise to a duration of 2.9 years;
- Introduction of an annual mortgage prepayment rate of 8.59%, distributed proportionally by each time bucket interval;

In 2022 they were revised and the following changes were introduced:

- For Demand Deposits: 26.04% at sight, 73.96% distributed non-linearly over 15 years, giving rise to a duration of 3.9 years;
- Saving Accounts: 50.64% at sight, 49.36% distributed non-linearly over 15 years, giving rise to a duration of 2.6 years;
- Introduction of an annual prepayment rate for Term Deposits of 1.27%, distributed proportionally over 12 months.

Market Risk

Market Risk generally represents the possible loss resulting from an adverse change in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, share, commodity, or real estate prices, volatility and credit spreads.

Operational Risk

The Bank, in view of the nature of its activity, is exposed to potential losses or reputational risk, as a result of human errors, failures of systems and/or processing, unexpected stoppage of activity or failures on the part of third parties in terms of supplies, provisions or execution of services.

The approach to operational risk management is underpinned by the end-to-end structure, ensuring the effective adequacy of the controls involving functional units that intervene in the process. The Bank identifies and assesses the risks and controls of the processes, ensuring their compliance with the requirements and principles of the Internal Control System.

Encumbered Assets

Pursuant to Banco de Portugal Instruction 28/2014, which addresses the guidance of the European Banking Authority relative to the disclosure of encumbered assets and unencumbered assets (EBA/GL/2014/3), and considering the recommendation issued by the European Systemic Risk Board, the following information is presented in relation to the assets and collateral:

(amounts in thousand euros)

2022				
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Equity instruments	-	-	26,479	26,479
Debt securities	40,985	39,766	966,463	928,317
Other assets	31,277	n/a	1,569,837	n/a
	72,262		**2,562,779**	

(amounts in thousand euros)

2021				
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Equity instruments	-	-	24,999	24,999
Debt securities	17,845	19,206	852,291	865,130
Other assets	2,621	n/a	1,495,268	n/a
	20,466		**2,372,558**	

(amounts in thousand euros)

	Fair value of the encumbered collateral received or own debt securities issued		Fair value of the encumbered collateral received or own debt securities issued and able to be encumbered	
	2022	2021	2022	2021
Collateral received	-	-	**1,128,546**	**1,021,371**
Debt securities	-	-	-	-
Other assets	-	-	-	-
Other collateral received	-	-	1,128,546	1,021,371
Own Debt Securities Issued other than Covered Own Bonds or ABS	-	-	-	-

(amounts in thousand euros)

	Book value of the selected financial liabilities	
	2022	2021
Associated liabilities, contingent liabilities and loaned securities	-	-
Assets, collateral received and own debt securities issued other than covered own bonds or ABS that are encumbered	26,040	-

The collateral received that is able to be encumbered essentially refers to the collateral received (mortgages) in mortgage loan contracts.

Of the total unencumbered total assets of the value of 1,569,835 thousand euros (2021: 1,495,268 thousand euros), approximately 11% (2021: 11%) refer to items that cannot be encumbered (investments in subsidiaries and associates, other tangible assets, intangible assets, current and deferred taxes).

Note 35 – Capital Management and Solvency Ratio

The main objective of capital management is to ensure compliance with the Bank's strategic goals concerning capital adequacy, respecting and assuring compliance with the minimum requirements for own funds defined by the supervision entities.

In calculating capital requirements, Banco CTT used the standard approach for credit risk and the basic indicator method for operational risk.

The capital, calculated pursuant to Directive 2013/36/EU and Regulation (EU) 575/2013 approved by the European Parliament and Council, and Banco de Portugal Notice 10/2017, includes core own funds (tier 1 capital) and supplementary own funds (tier 2 capital). Tier 1 includes core own funds (Common Equity Tier 1 – CET 1) and tier 1 additional capital.

The Bank's Common Equity Tier 1 includes; a) paid-up capital, reserves and retained earnings; b) regulatory deductions related to intangible assets and losses relative to the year in progress; and c) prudential filters. The Bank does not have any additional tier 1 capital or tier 2 capital.

The legislation in force establishes a transition period between capital requirements pursuant to national legislation and that calculated pursuant to Community legislation in a phased fashion both for the non-inclusion/exclusion of items considered previously (phased-out) and the inclusion/deduction of new items (phased-in). At a prudential framework level, institutions should report Common Equity Tier 1, tier 1 and totals not below 7%, 8.5% and 10.5%, respectively, including a conservation buffer of 2.5% and a countercyclical buffer of 0%, in the case of the Bank.

In order to promote the banking system's capacity to adequately perform this function, and cumulatively with monetary policy measures, the financial regulatory and supervisory authorities introduced a wide range of measures. These measures included the relaxation of a wide range of requirements usually required of institutions. In the case of the banking system, the European Central Bank and Banco de Portugal allowed the institutions directly supervised by them to operate temporarily with a level below the own funds guidance and the combined own funds buffer, and with liquidity levels below the liquidity coverage requirement.

During 2020, several measures were disclosed - by the national supervisor and the European Union - easing regulatory and supervisory requirements to alleviate the contingency situation arising from the Covid-19 outbreak, by reducing regulatory capital requirements, including macro-prudential capital reserves.

Banco de Portugal Notice 10/2017 regulates the transitional arrangement established in the CRR concerning own funds, namely with respect to deductions related to deferred taxes generated before 2014 and to subordinated debt and hybrid instruments that are not eligible, both non-applicable to Banco CTT.

With the introduction of IFRS 9, the Bank opted for the phased recognition of the respective impacts of the static component pursuant to Article 473-A of the CRR.

As at 31 December 2022 and 31 December 2021, the Bank presented the following capital ratios, calculated in accordance with the transitional provisions established in the CRR:

(amounts in thousand euros)

	2022		2021		Notes
	CRR Phasing in	CRR Fully Implemented	CRR Phasing in	CRR Fully Implemented	
Own Funds					
Share capital	**296,400**	**296,400**	**296,400**	**296,400**	28
Retained earnings	**(60,020)**	**(60,020)**	**(73,902)**	**(73,902)**	29
Legal reserve	**1,571**	**1,571**	**29**	**29**	29
Eligible Results	**14,656**	**14,656**	**15,424**	**15,424**	
Other Reserves	**348**	**348**	**(126)**	**(126)**	
Prudential Filters	**-**	**-**	**21**	**21**	
Fair value reserves	-	-	27	27	29
Additional Valuation Adjustment (AVA)	-	-	(6)	(6)	
Deductions to common equity tier 1	**(2,568)**	**(14,780)**	**(9,948)**	**(15,736)**	
Losses for the period	-	-	-	-	
Intangible assets	(14,085)	(14,085)	(15,041)	(15,041)	20
Adoption of IFRS 9	11,517	(695)	5,093	(695)	
Items not deducted from Own Funds	**157,805**	**157,805**	**134,404**	**134,404**	
Holdings in financial entities	157,805	157,805	134,404	134,404	
Common Equity Tier 1	**250,387**	**238,175**	**227,898**	**222,110**	
Tier 1 Capital	**250,387**	**238,175**	**227,898**	**222,110**	
Total Own Funds	**250,387**	**238,175**	**227,898**	**222,110**	
RWA					
Credit Risk	1,111,805	1,111,805	1,007,363	1,007,363	
Operational Risk	81,483	81,483	64,479	64,479	
Market Risk	-	-	-	-	
CVA	33,366	33,366	-	-	
IFRS 9 adjustments	-	(11,666)	-	(5,182)	
Total RWA	**1,226,654**	**1,214,988**	**1,071,842**	**1,066,660**	
Rácios de Capital					
Common Equity Tier 1	20.41%	19.60%	21.26%	20.82%	
Tier 1 Ratio	20.41%	19.60%	21.26%	20.82%	
Total Capital Ratio	20.41%	19.60%	21.26%	20.82%	

Note 36 – Provision of Insurance or Reinsurance Mediation Services

As at 31 December 2021 and 2020, the remunerations derived from the provision of insurance and reinsurance mediation services were broken down as follows:

(amounts in thousand euros)

	2022	2021
Life Business	5,623	4,210
Non-Life Business	456	424
	6,079	**4,634**

The values receivable and payable associated to the insurance mediation activity are presented as follows:

(amounts in thousand euros)

	2022	2021
Values receivable	86	184
Values payable	-	-

The Bank does not charge insurance premiums on account of the Insurers, nor does it carry out the movement of funds relative to insurance contracts. Therefore, there are no other assets, liabilities, income or expenses to report, relative to the insurance mediation service pursued by the Bank, apart from those already disclosed.

Note 37 - Standards, Interpretations, Amendments and Revisions that Entered into Force in the Financial Year

The following standards, interpretations, amendments and revisions adopted ("endorsed") by the European Union are mandatory for the first time in the financial year beginning on 1 January 2022:

Amendments to IFRS 3 - Reference to the Conceptual Framework

This amendment updates references to the Conceptual Framework in the text of IFRS 3, with no changes made to the accounting requirements for business combinations. The accounting treatment for liabilities and contingent liabilities under IAS 37 and IFRIC 21 is also clarified, distinguishing those incurred separately from those included in a business combination.

The amendment is to be applied prospectively.

Amendments to IAS 16 - Proceeds before Intended Use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Amendments to IAS 37 - Onerous Contracts – Costs of Fulfilling a Contract

This amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards (included in the annual improvements for the 2018-2020 cycle)

The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

Amendments to IFRS 9 - Fees in the '10 per cent' test for derecognition of financial liabilities (included in the annual improvements for the 2018-2020 cycle)

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Amendments to IAS 41 - Taxation in fair value measurements (included in the annual improvements for the 2018-2020 cycle)

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

Amendments to IFRS 16 – Leases – Concessions related to COVID-19 at the level of rents beyond 30 June 2021

On May 28, 2020, the amendment to IFRS 16 entitled 'COVID-19 related concessions' was issued, which introduced the following practical expedient: a lessee may choose not to assess whether a concession of income related to Covid-19 is a lease modification. Lessees who elect to apply this expedient account for a change in rent payments resulting from a COVID-19-related concession in the same way that they account for a change that is not a lease modification under IFRS 16.

Initially, the practical expedient applied to payments originally due by June 30, 2021, however, due to the prolonged impact of the pandemic, on March 31, 2021, it was extended to payments originally due by June 30, 2022. The change applies to annual reporting periods beginning on or after April 1, 2021.

In short, the practical expedient can be applied as long as the following criteria are met:

- the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change;
- the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change; and
- there are no material changes to other terms and conditions of the lease.

These standards and changes had no material impact on the consolidated financial statements of Banco CTT.

Note 38 – Standards, Interpretations, Amendments and Revisions that come into force in future years

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have, up to the date of approval of these financial statements, been adopted ("endorsed") by the European Union:

IFRS 17 – Insurance Contracts

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

Amendments to IFRS 17 – Insurance Contracts – First time adoption of IFRS 17 and IFRS 9 – Comparative Information

This amendment to IFRS 17 refers to the presentation of comparative information on financial assets in the initial application of IFRS 17.

The amendment adds a transition option that allows an entity to apply an 'overlay' in the classification of a financial asset in the comparative period(s) presented in the initial application of IFRS 17. The 'overlay' allows all financial assets, including those serviced in relation to non-contract activities within the scope of IFRS 17, to be classified, instrument by instrument, in the comparative period(s) in a recorded manner with the way in which the entity expects these assets to be classified in the initial application of IFRS 9.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

Amendments to IAS 1 - Disclosure of Accounting Policies

The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

Amendments to IAS 8 - Definition of Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The Bank did not early apply any of these standards in the financial statements for the twelve months period ended 31 December 2022.

No significant impacts on the financial statements are expected as a result of its adoption.

Note 39 – Standards, Interpretations, Amendments and Revisions not yet adopted by the European Union

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have not yet been adopted ("endorsed") by the European Union, at the date of approval of these financial statements:

Amendments to IAS 1 - Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

This amendment intends to clarify the classification of liabilities as current or non-current balances according to the rights that an entity has to defer payment at the end of each reporting period.

The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether or not the entity will exercise such a right), or by events occurring after the reporting date, such as the default of a "covenant".

However, if the right to postpone settlement for at least twelve months is subject to the fulfillment of certain conditions after the balance sheet date, these criteria do not affect the right to defer settlement whose purpose is to classify a liability as current or non-current. .

This amendment also includes a new definition of the "settlement" of a liability and is retrospectively applicable.

Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback

This amendment specifies the requirements related to the subsequent measurement of lease liabilities, related to sale and leaseback transactions ("sale & leaseback") that qualify as a "sale" in accordance with the principles of IFRS 15, with a focus on lease payments of lease variables that do not depend on an index or a rate.

In subsequent measurement, seller-lessees shall determine "lease payments" and "revised lease payments".

In subsequently measuring lease liabilities, seller-lessees shall determine the "lease payments" and "revised lease payments" in such a way as not to recognize any gain or loss relating to the retained right of use. Application of these requirements does not preclude the seller-lessee from recognizing, in the income statement, any gain or loss related to the partial or total "sale", as required by paragraph 46(a) of IFRS 16.

This amendment applies retrospectively.

These standards have not yet been adopted ("endorsed") by the European Union and, as such, have not been applied by the Bank in the twelve-month period ending on 31 December 2022. No significant impacts on the financial statements are expected as a result of its adoption.

Note 40 – Subsequent Events

As disclosed in Note 23 - Taxes, on 1 March 2023, the decision of the ANI (National Innovation Agency) was issued in relation to the application process of Banco CTT, S.A. to SIFIDE II of 2021, consisting of the total deferment of the tax credit requested in the amount of 454,612 euros.

Apart from the above, no other events with a relevant impact on the Bank's Financial Statements have occurred up to the date of this report and after the end of the 2022 financial year.

Declaration of Conformity

The Board of Directors is responsible for drafting the management report and preparing the individual and consolidated financial statements of Banco CTT, S.A. ("Bank"). These must provide a true and fair view of the Bank's financial position and operational results, as well as the adoption of suitable accounting policies and criteria and the maintenance of an appropriate internal control system that enables the prevention and detection of possible errors or irregularities.

We confirm that, to the best of our knowledge and belief:

1. all the financial information contained in the documents presenting the accounts for 2021 was prepared in conformity with the applicable accounting standards, providing a true and fair view of the Bank's assets and liabilities, financial position and results; and
2. the management report faithfully presents the evolution of the business, performance and position of the Bank, in conformity with the legal requirements.

Lisbon, 14 March 2023

The Board of Directors,

Chairman of the Board of Directors
João de Almada Moreira Rato

Member of the Board of Directors and Chairman of the Executive Committee
Luís Maria França de Castro Pereira Coutinho

Member of the Board of Directors and of the Executive Committee
João Maria de Magalhães Barros de Mello Franco

Member of the Board of Directors and of the Executive Committee
Pedro Rui Fontela Coimbra

Member of the Board of Directors and of the Executive Committee
Nuno Carlos Dias dos Santos Fórneas

Member of the Board of Directors and of the Executive Committee
Luís Jorge de Sousa Uva Patrício Paúl

Member of the Board of Directors and Chairman of the Audit Committee
João Manuel de Matos Loureiro

Member of the Board of Directors and of the Audit Committee
António Domingues

Member of the Board of Directors and of the Audit Committee
Ana Maria Machado Fernandes

Member of the Board of Directors
António Pedro Ferreira Vaz da Silva

Member of the Board of Directors
Guy Patrick Guimarães de Goyri Pacheco

Member of the Board of Directors
Maria Rita Mégre de Sousa Coutinho

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Annual Report of the Audit Committee

Report of the Audit Committee Banco CTT, S.A. for the financial year of 2022

1. Introduction

The Audit Committee of Banco CTT, S.A. ("Bank" or "Banco CTT") hereby presents the report on its supervisory activities for the financial year of 2022, pursuant to article 423-F(g) of the Companies Code.

Notwithstanding any further powers bestowed upon it legally and statutorily, the Audit Committee is, in particular, responsible for:

- Monitoring and supervising the activities of the Board of Directors;
- Overseeing compliance with legal and statutory rules governing the Bank's activity;
- Promoting an organisational culture based on high standards of ethical requirements, ensuring the promotion of sound and prudent management;
- Monitoring and ensuring the soundness and effectiveness of the risk management system, the internal control and compliance management system and the Internal Audit Function of the Bank and the Group in particular, and monitoring the Bank's risk strategy and risk appetite;
- Being aware of the irregularities reported, namely through the Ethics Channel, participating in and/or accompanying the corresponding decisions taken by the Ethics Forum;
- Monitoring and supervising the preparation and disclosure of financial information, including the conformity and accuracy of the financial reporting books, records and documents and other accounting documentation, as well as making recommendations to ensure their integrity; and
- Supervising the Statutory Auditor's activities regarding the Bank's financial reporting documents and supervising its independence.

The Audit Committee, as a supervisory body, further acts as Banco CTT's risk committee, pursuant to and for the purposes of article 115-L of the Legal Framework of Credit Institutions and Financial Companies approved by Decree-Law 298/92 of 31 December, in its current wording ("RGICSF"), as extent Banco CTT is not considered a significant credit institution in terms of size, internal organisation and nature, scope and complexity of its activities. As the Risk Committee, it is responsible for, in particular:

- Advising the Board of Directors on the Bank's risk appetite and , general current and future risk strategy;
- Assisting the Board of Directors in overseeing the execution of the Bank's risk strategy by Senior Management;
- Monitoring the Bank's offer to customers, taking into consideration the Bank's business model and risk strategy; and
- Examining whether the incentives set out in the Bank's remuneration policy(ies) take into account risk, capital, liquidity and earnings expectations, including revenue dates.

After the issuance of the corresponding prior authorisation for the exercise of functions by Banco de Portugal, dated 23 November 2022, Banco CTT's sole shareholder elected, on 5 December 2022, by unanimous resolution passed in writing, the members of the Board of Directors to exercise functions during the 2022/2024 term of office. On the same occasion, the sole shareholder elected, from among the members of the Board of Directors, an Audit Committee, composed of three independent non-executive members, to perform duties in that three-year period. At the time of drafting this report, the composition of the Committee elected on that date remains unchanged.

2. Audit Committee operating regulations

On 15 December 2022, the Audit Committee proceeded to the approval of its Internal Regulations, similar to the Regulations in force in the 2019/2021 term of office, noting, however, the inclusion of the possibility of the General Meeting appointing an alternate member of the Audit Committee, who will replace any effective member who is permanently impeded or has ceased functions, in addition to minor drafting adjustments.

3. Supervisory activities carried out in 2022

During 2022, the Audit Committee monitored the management and evolution of the Bank's activity and exercised the powers and performed the duties referred to above, having, in particular:

a. Supervised the approval and implementation process of internal policies and rules, in particular, relating to the internal control environment, the Bank's governance model and its organisational culture;
b. Monitored the developments of the Bank's activity;
c. Monitored the activity of the Bank's subsidiaries;
d. Supervised the conclusion, by the Bank, of transactions with related parties;
e. Supervised the preparation of financial information and verified the adopted accounting policies, in particular regarding the annual financial reporting documents;
f. Supervised the effectiveness of the Bank's risk management, internal control and internal audit systems;
g. Received, namely through the Ethics Forum, reports of irregularities, and participated in or accompanied the decisions taken by the Ethics Forum in relation to these irregularities;
h. Supervised and assessed the Statutory Auditor's activity;
i. Monitoring the institution's risks.

The aforementioned supervisory action was developed namely through (i) the participation of its members in meetings of the Board of Directors; (ii) contacts maintained with the members of the Executive Committee, with the Bank's senior management, including the Directors responsible for control functions, and with the Statutory Auditor in office, Ernst & Young Audit & Associados - SROC, S.A., Statutory Audit Firm ("EY"); and (iii) the analysis of the financial, business and risk information made available, as well as the correspondence exchanged between the Bank and regulatory/supervisory entities, in particular Banco de Portugal.

In exercising these powers and performing these duties, the Committee held 21 formal meetings during 2022, with minutes having been drawn up of all the meetings.

It should be noted that, under the provisions of Article 4.2 of its Internal Regulations, during the year 2022, most of the meetings of the Audit Committee were held through telematic means.

The meetings of the Audit Committee were regularly attended by the Bank's Executive Directors, in particular the Chairman of the Executive Committee (CEO), the Executive Director responsible for the financial area (CFO), the Executive Director responsible for the Compliance, Risk and Security and Data Protection areas and the Executive Director responsible for the Marketing and Commercial areas (CCO).

The Audit Committee also summoned other senior staff to its meetings to clarify and provide relevant information for the performance of the duties entrusted to this body, in particular: (a) the Director of Internal Audit, present at most of the meetings and of the points analysed, with the purpose of closely monitoring the activity of the other areas of the institution and for the purpose of presenting and discussing, among others, the Internal Audit Function Regulation, the multi-annual activities plan, the resources and headcount of the Board and the activity of the internal audit control function; (b) the Compliance Officer and the Risk Officer for the purpose of presenting and discussing, among others, the respective annual activity plans, resources and headcount of the respective Departments and the activities of the compliance control and risk management functions, respectively; (c) the AML Officer for issues related to the Prevention of Money Laundering and Terrorist Financing ("PBCFT"); (d) the Director of Legal Services and Company Secretary to provide various clarifications, namely on the governance model, regulations of the Bank's Corporate Bodies, as well as other legal issues related to the Committee's activities; (e) the Planning and Control Director and the Accounting Director for the purpose of presenting financial information, as well as the respective preparation process; (f) the Director of Human Resources to discuss remuneration matters; and (g) the Bank's Statutory Auditor, who was invited to most meetings, allowing regular interaction and, at the same time, enabling the Audit Committee to accompany its activity and monitor its independence.

a. Supervision of the approval and implementation process of internal policies and rules, namely those relating to the internal control environment, the Bank's governance model and its organisational culture

The Committee monitored the process of approval and review of the Bank's internal control environment and governance model, in particular, assessing the review of the Organisational Structure Model, with a view to formalising, namely (i) the adjustment of the organisation chart in force, namely in the part relating to the internal committees supporting the Executive Committee, in order to reflect the change in the name of one of the committees (namely, the Capital and Risk Committee, which was renamed Capital, Risk and Sustainability Committee) and the establishment of three new committees (namely, the Human Resources and Social Responsibility Committee, the Compliance Committee and the Data Protection Security Committee), whose constitution was subsequently approved on 23 January 2023; (ii) the adjustment of the powers and duties of some internal committees of the Executive Committee; and (iii) the adaptation/updating of the functional descriptions of some Divisions.

The Committee monitored the approval or revision and/or revocation process, in the Bank, of some relevant Policies, Regulations and processes, in particular (i) the Liquidity Management Policy, the Market and Interest Rate Risk Management Policy, the Fraud Risk Management Policy, Banco CTT Group's General Internal Control and Risk Management Policy, the Operational Risk Policy, the Banco CTT Group's Policy on Transactions with Related Parties, Banco CTT Group's Conflict of Interest Prevention, Communication and Sanctioning Policy, the Whistleblowing Policy, the Prevention of Money Laundering and Terrorist Financing Policy, the Policy for the Selection, Appointment and Evaluation of Statutory Auditors (ROC) and Statutory Audit Companies (SROC) and for the Contracting of Services to the ROC/SROC, the Banco CTT Group Remuneration Policy (for the 2023 evaluation cycle), the Employee Remuneration Policy of the Multi-Employer Staff of the Retail Network (also for the 2023 assessment cycle), the Remuneration Policy of Credit Intermediaries for 2023, the Banco CTT Group Outsourcing Policy and the Data Governance Policy; (ii) the Code of Conduct; (iii) the Regulations of the Board of Directors, the Remuneration Committee, the Internal Audit Function, the Ethics Forum and the Audit Committee itself, as described above; and (iv) the delegation of powers of the Board of Directors to the directors with executive functions and to the Executive Committee.

For the performance assessment cycles for 2023, the Audit Committee also considered the proposals for reviewing the performance evaluation model (i) of the Executive Committee Members; (ii) the Relevant Employees; and (iii) the Employees (excluding Relevant Employees and the Multi-Employer Staff of the Retail Network). Also concerning remuneration, the Audit Committee appraised the verification of the adjustment mechanisms for members of the Executive Committee, Relevant Employees and all other Employees (excluding Relevant Employees and Multi-Employer Staff of the Retail Network) that could lead to the reduction or non-attribution of variable remuneration relative to the assessment cycle of 2021 and, when applicable, the deferred component of variable remuneration relative to previous assessment cycles.

In addition, the Audit Committee assessed (i) versions 2.0 and 3.0 of the Manual of Rules for the Identification of Relevant Employees of Banco CTT (individual perspective) - MR0021; and (ii) versions 4.0 and 5.0 of the Manual of Rules for the Identification of Relevant Employees of the Banco CTT Group - MR0020.

Also during 2022, following the entry into force of the Bank of Portugal Notice no. 3/2020, concerning matters of internal control and organisational conduct and culture, the Audit Committee continued to monitor the process of full implementation of the regulatory requirements provided for in the identified regulatory diploma.

Additionally, with reference to 2022, the Audit Committee took note of the activities and self-assessment report of the Bank's Remuneration Committee.

b. Monitoring of developments of the Bank's activity throughout 2022

The Audit Committee monitored the development of the Bank's offer and commercial activity, which was regularly presented at meetings of the Board of Directors, and analysed, discussed and accompanied the Bank's strategic projects.

In particular, the monitoring of the implementation of the following strategic projects, during the 2022 financial year, should be highlighted: (i) the launch of the "Specialised Branches" concept, with a differentiated organisational structure and reinforcement in terms of the skills of its human resources; (ii) the terms for the termination of the partnership established with Universo, IME, S.A. (iii) the structuring and implementation of the project for the potential acquisition of a minority stake in Banco CTT by an entity outside the CTT Group - Generali Seguros S.A.; (iv) the structuring and implementation of the project for the sale of the entire share capital of Payshop (Portugal), S.A. ("Payshop") by Banco CTT to CTT - Correios de Portugal, S.A. ("CTT"); and (v) the evolution of the Bank's stake in the Open Real Estate Investment Fund IMOFID.

c. Monitoring the activity of the Bank's subsidiaries

During 2022, the Audit Committee monitored the activities of Payshop and 321 Crédito, Credit Financial Institution, S.A. ("321 Credit") through financial information submitted on a monthly basis by the CFO, the Director of Planning and Control and the Chief Accounting Officer.

In addition, it held regular (quarterly) meetings with the members of the supervisory bodies of the two subsidiaries.

d. Supervision of the Bank's conclusion of agreements and other transactions with related parties

In accordance with the Policy on Transactions with Related Parties, the Committee assessed and issued a favourable opinion regarding the execution, by the Bank, of transactions with related parties throughout the 2022 financial year, namely the following:

(i) Opening of a bank account, at Banco CTT, in the name of CTT;
(ii) A Service Provision Agreement was signed between Banco CTT and NewSpring Services, S.A., for the processing of letters of credit;
(iii) Opening of two bank accounts at Banco CTT, held by Payshop, to support the Wallet service of CTT lockers;
(iv) Sale, by Banco CTT to CTT, of the entire share capital and respective voting rights of Payshop;
(v) Authorisation of the chain subcontracting by CTT to Newspring, S.A. of the provision of the document dematerialisation and digital archive service of Banco CTT;
(vi) Amendment to the Credit Opening Agreement entered into between Banco CTT and 321 Crédito, in order to adjust the value of the credit contracted;
(vii) Conclusion of the Service Provision Agreement of support to Banco CTT's Home Loans processes and respective administrative tasks between Banco CTT and NewSpring Services, S.A.;

(viii) Conclusion of the Locker Usage Agreement ("Locky") between Banco CTT and CTT;
(ix) Conclusion of the Contract for the Transfer of the Right to Use Space for the Installation of a Banco CTT ATM in the Gestmin - Manuel Champalimaud Group Building;
(x) Conclusion of the Insurance Distribution Agreement (IDA) between Banco CTT, 321 Crédito and Generali Seguros, S.A.;
(xi) Conclusion of the agreement regarding the provision of shared services between CTT and Banco CTT;
(xii) Conclusion of the Agreement for the Provision of Services between Banco CTT and Payshop;
(xiii) Amendment to the Credit Opening Agreement entered into between Banco CTT and 321 Crédito, with a view to revising the respective pricing;
(xiv) Service Provision Agreement for the custody and digitisation of physical documents between Banco CTT and Wolfspring - Agrupamento Complementar de Empresas para Custódia e Gestão de Arquivos, A.C.E. ("Wolfspring");
(xv) Renewal of the Agreement for the Provision of Services of custody of physical documents and digital archive (Filenet) between Banco CTT and CTT, until the completion of the migration plan to Wolfspring;
(xvi) Updating of the contractual conditions of the Chaves 8 securitisation operation with a view to increasing the commitment line limits;
(xv) Conclusion of a Service Provision Agreement for internal auditing of the management systems with a view to obtaining the "Family Responsible Company" certification between Banco CTT and CTT;
(xvi) Shared Services Audit Charter signed between Banco CTT and Payshop;
(xvii) Conclusion of a common compliance services agreement between Banco CTT and Payshop; and
(xviii) Joint provision of risk management services between Banco CTT and Payshop.

During 2022, the Audit Committee was made aware of the quarterly updates to the list of parties related to the Bank approved by the Board of Directors, in compliance with the provisions of paragraphs 1 and 2 of Article 33 of Banco de Portugal Notice No. 3/2020.

e. Supervision of the preparation of financial information and verification of the adopted accounting policies, in particular regarding the annual financial reporting documents

The Audit Committee assessed the financial information and the evolution of the Bank's business on a monthly basis and monitored the main prudential and business indicators, at the individual and consolidated level, provided by the Bank's Chief Financial Officer (CFO), the Planning and Control Directors and the Chief Accounting Officer.

In 2022, but with reference to the financial year 2021, the Audit Committee monitored the preparation of the annual financial statements and assessed their content, analysed the proposal for the appropriation of results contained in the Annual Report, and issued its Opinion thereon. In 2023, the Commission monitored and prepared the annual financial statements for the financial year 2022 and assessed their content, analysed the corresponding proposal for the appropriation of results contained in the Annual Report, and issued its Opinion thereon.

f. Supervision of the effectiveness of the Bank's risk management, internal control and internal audit systems

During the financial year 2022, the Audit Committee continued to monitor the implementation of the defined plan following the entry into force of Banco de Portugal Notice 3/2020 regarding internal control and organisational conduct and culture, with a view to the full adoption of the new measures imposed, at the same time, ensuring the consistency of the internal control and corporate governance systems within the Group, with the intervention of several areas of the Bank, in particular the Control Functions.

Additionally, the Audit Committee assessed (i) the Self-assessment Report on the adequacy and effectiveness of the organisational culture and governance and internal control systems of Banco CTT, S.A.; and (ii) the Self-assessment Report on the adequacy and effectiveness of the organisational culture and governance and internal control systems of Banco CTT, S.A. Group, both for the period between 1 December 2021 and 30 November 2022. In this context, the Audit Committee issued, for the reference period, its opinions on (i) the adequacy and effectiveness of the current organisational culture in force and the governance and internal control systems of Banco CTT, on an individual basis, in accordance with the provisions of Article 55(A) of Banco de Portugal Notice No. 3/2020; and (ii) the adequacy and effectiveness of the Banco CTT Group's internal control system and the consistency between the subsidiaries' internal control systems and the internal control system of the parent company, in accordance with Article 58(1)(b) and (c) of Banco de Portugal Notice No. 3/2020.

Also during the financial year 2022, and in compliance with the provisions of Banco de Portugal Notice No. 2/2018, the Audit Committee issued an opinion on the quality of the internal control system in terms of the prevention of money laundering and terrorist financing, after monitoring the preparation and assessment of the Money Laundering and Terrorist Financing Prevention Report for the financial year 2021.

In 2023, the Audit Committee issued an opinion on the quality of the internal control system in terms of the prevention of money laundering and terrorist financing, after monitoring the preparation and assessment of the Money Laundering and Terrorist Financing Prevention Report for 2022.

The Audit Committee regularly monitored the evolution of internal control deficiencies (including the prevention of money laundering and terrorist financing), namely the implementation of recommendations and action plans aimed at their closure and compliance with the deadlines set for that purpose.

The Audit Committee monitored the activity of the Compliance Department, having assessed its Annual Activity Plan for 2022 and the respective degree of compliance (including the Compliance Plan and the Plan for Money Laundering and Terrorism Financing proposed by that Department), the Function's Activity Report for 2022, and also the Annual Activity Plan for 2023.

The Audit Committee monitored the activity of the Risk Department, having assessed its Annual Activity Plan for 2022 and the respective degree of compliance, the Function's Activity Report for the year 2022 and the Annual Activity Plan for 2023. On a monthly basis, the Risk Department provided the Audit Committee with the necessary information for monitoring the main risk indicators.

The Audit Committee monitored the Internal Audit Department's activity, namely through monthly presentations made by the respective manager, having appraised the degree of compliance with the 2022 Audit Plan and the corresponding reviews in May and October 2022, the Function's Activity Report for 2022, and also the Multi-Annual Audit Plan and the Strategic Plan for 2023-2025.

g. Reception of reports on irregularities (whistleblowing) submitted by shareholders, Bank employees and others

The Bank has a Whistleblowing Policy, which establishes the existence of a specific channel for the communication of irregularities.

Under the terms of the identified Policy, the Audit Committee delegated to the Compliance Department the support functions related to the management of the Ethics Channel and to the Ethics Forum the handling of reports of irregularities in matters of its competence. In any case, it is the Audit Committee's responsibility to receive and register the reports, as well as the final decision as to the measures to be taken, including possible archiving.

The Ethics Forum is composed of the Bank's Compliance, Internal Audit and Risk Managers, as well as a member of the Audit

Committee, appointed by the latter, who chairs the Forum and has a casting vote. In December 2022, the Audit Committee indicated its Member Ana Maria Machado Fernandes as the member of the Audit Committee appointed to join and chair the Ethics Forum.

In December 2022, the Audit Committee approved the Annual Report on Reporting of Irregularities to be submitted to Banco de Portugal under the terms and for the purposes of the provisions of Article 116-AA (7) of the RGICSF and Article 35 of Banco de Portugal Notice No. 3/2020, with reference to the period between 1 December 2021 and 30 November 2022. This Report describes the process of receiving and handling irregularities endorsed by Banco CTT, as well as the irregularities reported in the reference period.

During the aforementioned period, two complaints were received in the Ethics Channel that, not being "irregularities" in the terms described above, were forwarded to the Complaints Management area and treated as such, thus concluding that, during the said reference period, no report of irregularities was received under the terms of the RGICSF, the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2021/05), Notice No. 3/2020, the Bank's Code of Conduct, the Whistleblowing Policy and other applicable regulations.

h. Supervision and assessment of the Statutory Auditor's activity

By resolution passed in writing by the sole shareholder of the Company, on 30 July 2020, Ernst & Young Audit & Associados - SROC, S.A., Statutory Audit Firm No. 178, was elected as the Bank's effective Statutory Auditor for the term of office corresponding to 2021/2023, represented by Sílvia Maria Teixeira da Silva, ROC No. 1636, and Ana Rosa Ribeiro Salcedas Montes Pinto, ROC No. 1230, who was elected as the Bank's Alternate Statutory Auditor, who was in office on 31 December 2022.

Under the provisions of paragraph 3.3 d) of the Policy for the Selection, Appointment and Evaluation of a Statutory Auditor/ Statutory Audit Firm and of Hiring the Services of a Statutory Auditor/Statutory Audit Firm and under the provisions of Article 5.5(5)(c) of the Regulations of the Audit Committee, the Audit Committee proposed to the Selection and Remuneration Committee the approval of the fees to be paid by the Bank to EY for providing the following services, in accordance with the proposal that had been submitted: (a) issuance of the Statutory Auditors' Report, Audit Opinion with reference to 31 December and quarterly monitoring, with presentation to the Audit Committee, on the Separate Financial Statements with reference to the financial years 2021, 2022 and 2023; (b) evaluation of the process of quantification of impairment of the customer loan portfolio, based on the issuance of the half-yearly reports provided for in Banco de Portugal Instruction 5/2013, amended by Banco de Portugal Instruction 18/2018, for the years 2021, 2022 and 2023.

Throughout 2022, the Audit Committee carried out a preliminary assessment of the proposals for the provision of services to be contracted from EY by the companies of the Banco CTT Group and the CTT Group, both for audit services and other non-audit services, having decided, in accordance with the Internal Regulations of the Audit Committee and the Policy for Selection, Appointment and Evaluation of Statutory Auditors (ROC) and Statutory Auditor Firms (SROC) and for the Contracting of Services to the ROC/SROC. It then proceeded to the respective prior approval/authorisation.

Regarding the non-audit services that are not required of the Statutory Audit by law, these were subject to prior approval/ authorisation by the Audit Committee after analysis and confirmation, in particular, of the following aspects, as applicable: (i) that the services concerned do not fall within the list of prohibited services in accordance with the provisions of Article 5 (4) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation") on specific requirements for the statutory audit of public interest entities, and do not pose a threat to the independence and objectivity of the statutory auditor in the context of statutory audit work, to the extent that the provision of such services does not entail any risk of self-review, of personal interest or participation in the management or decision making of any of the companies of the CTT Group subject to the statutory audit work, (ii) that the amounts of fees proposed for such services do not exceed the limits of fees for

non-audit services (not prohibited) provided for in Article 4 of the Regulation, (iii) that the services under analysis are based on the best combination between the price presented and the expected quality of the work, as well as on the appropriate possession of the relevant information for such provision and on the experience in the development of similar work, presenting the necessary conditions to be provided with independence and objectivity.

Throughout 2022, the Audit Committee held meetings with the Statutory Auditor on various occasions and for various purposes. In particular, meetings were held for the presentation by the Statutory Auditor of the conclusions of the audit work, namely with reference to the annual accounts, as well as interim information with reference to 31 March, 30 June and 30 September 2022.

Also the external auditor's reports on the credit portfolio impairment quantification process with reference to 31 December 2021 and 30 June 2022 were presented and discussed in meetings of the Audit Committee.

In 2022, the Audit Committee analysed the conclusions of the review of the individual and consolidated financial statements of the Bank for the year 2021, prepared by EY, having also received the Additional Report prepared by the Statutory Auditor for submission to the supervisory body. On the same occasion, the Commission formalised an assessment of the Statutory Auditor for that year, including the independence aspect, and received a confirmation of independence from him.

In this context, the Statutory Auditor also issued and presented to the Audit Committee the Internal Control Recommendation Letter for the financial year 2021 on the analysis of the accounting and internal control systems carried out by EY within the scope of the audit performed on the individual and consolidated financial statements of Banco CTT and its subsidiaries for the financial year ended on 31 December 2021, presenting a summary of the internal control procedures and other procedures identified by EY as susceptible to improvement, as well as the recommendations issued following the conclusions drawn from the situations analysed.

Also in 2022, the Audit Committee took cognisance of the conclusions resulting from EY's work to support the governing bodies in assessing the quality of the internal control system with regard to the Prevention of Money Laundering and Terrorist Financing, with reference to 2021.

Already in 2023, the Committee analysed the conclusions of the review of the Bank's individual and consolidated financial statements for the year 2022, prepared by EY, having also received the Additional Report that the Statutory Auditor prepared for presentation to the supervisory body. On the same occasion, the Commission formalised an assessment of the statutory auditor for 2022, including the independence aspect, and also received a confirmation of independence from EY.

Also in 2023, the Audit Committee took note of the conclusions resulting from the work of EY to support the governing bodies in assessing the quality of the internal control system with regard to the Prevention of Money Laundering and Terrorist Financing, with reference to 2022.

i. **Monitoring of the institution's risks (in carrying out risk committee duties)**

The Audit Committee monitored the definition of the Bank's risk strategy and risk appetite, and also monitored the risks to which the Bank is exposed (namely, strategic risk, credit and concentration risk, operational risk, market and interest rate risk, liquidity risk, risk of excessive leverage and the evolution of the Bank's own funds and capital requirements), in this way supporting the Board of Directors in the supervision of the execution of the Bank's risk strategy.

In this respect, the Audit Committee took note, appraised favourably and recommended to the Board of Directors the approval of the following items:

(i) The Report on the "Liquidity adequacy self-assessment process (ILAAP)" reported on 31 December 2021;

(ii) The Report on the "Internal Capital Adequacy Assessment Process (ICAAP) reported on 31 December 2021";

(iii) The limited review of indicators and limits of the Risk Appetite Statement for 2022- 2024;

(iv) The revision of the Recovery Plan;

(v) The Risk Appetite Statement for 2023-2025.

4. Conclusions

In exercising its powers and duties, the Committee requested and obtained all the information and clarifications that it considered relevant and did encounter any constraints to its actions and the effective pursuit of its duties.

The Committee received all the information requested from the Executive Committee, all the Bank's Bodies, Committees, structural units and functional areas, as well as from the Statutory Auditor.

The Audit Committee approved, in its meeting held on 23 February 2023, the self-assessment questionnaire, which was answered only by the sole reappointed member in office, considering that two of the new members only took office on 5 December 2023, and therefore at the end of the year under analysis.

The Audit Committee expresses its gratitude to the rest of the corporate bodies and all those involved in its activities for their cooperation.

Lisbon, 14 March 2023

The Chairman of the Audit Committee,
João Manuel de Matos Loureiro

The Members of the Audit Committee,
António Domingues
Ana Maria Machado Fernandes

Opinion of the Audit Committee

Opinion on the Annual Report of Banco CTT, S.A. for the financial year of 2022

The Audit Committee, in light of the powers and duties entrusted to it, examined the Management Report and the Individual and Consolidated Statements of Banco CTT, S.A. ("Bank") relative to the financial year of 2022, which were prepared by the Bank's Executive Committee. It also appreciated the Statutory Auditor's Reports issued by Ernst & Young Audit & Associados — SROC, S.A. ("EY") on the financial statements, on an individual and consolidated basis, which do not contain any reservation or emphasis. The Audit Committee also appraised the Additional Report on the Supervisory Board issued by EY.

The preparation of the Management Report and Financial Statements was followed by the Audit Committee, which attended the meeting of the Executive Committee that approved the respective final version for submission to the Board of Directors. During the preparation of this opinion, the Audit Committee requested all the information and clarifications that it considered relevant, to this end questioning various senior personnel, including the Executive Director responsible for the financial area, the Director of Accounting, the Director of Risk, the Director of Compliance, the Director of Planning and Control, the Company Secretary and the Statutory Auditor of the Bank.

The Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union, where the signatories declare that, to the best of their knowledge, these Financial Statements are compliant with the IFRS, and that the Individual and Consolidated Financial Statements appropriately reflect the net worth, financial position and results of the Bank and of the Group. The Management Report appropriately describes the evolution of the business activities, performance and main risks and uncertainties associated to the activity of the Bank and of all the other companies of the Banco CTT Group.

The Statutory Audit Certifications include the "Relevant Audit Matters" that EY identified, (i) on an individual basis as being (a) the calculation of loan impairment losses and (b) the recoverability of the investment in 321 Crédito; and (ii) on a consolidated basis, as being: (a) ascertainment of loan impairment losses and (b) recoverability of goodwill in 321 Crédito.

All these matters were duly monitored, throughout the year, by the Audit Committee, and were analysed jointly with the Executive Committee, with the Bank's pertinent Departments and with EY.

The Audit Committee, in view of its action, and in compliance with the provisions in Article 420(6) of the Portuguese Companies Code, applicable by reference to Article 423-F(2) of the same Code, agrees with the Management Report and Financial Statements of the Bank and of the Group, for the year ended on 31 December 2022, as well as the Proposed Appropriation of Net Income presented in the Management Report, which are in accordance with the applicable accounting, legal and statutory provisions.

Accordingly, the Audit Committee recommends to the General Meeting of Banco CTT that, with reference to the financial year ended on 31 December 2022, it approve the Annual Report of the Bank and of the Group, as well as the Board of Directors' Proposal for the appropriation of the net profit of 14,655,944.31 euros, determined in the individual balance sheet, as follows: (i) reinforcement of the Legal Reserve, 1,465,594,43 euros and (ii) Retained Earnings, 13,190,349.88 euros.

Lisbon, 14 March 2023

The Chairman of the Audit Committee,
João Manuel de Matos Loureiro

The Members of the Audit Committee,
António Domingues
Ana Maria Machado Fernandes

Summary of the Self-Assessment Report

Summary of the Self-Assessment Report (Group)

Summary of the Self-Assessment Report (Group)

The Self-Assessment Report ('Report') prepared under the provisions of Article 54 of Banco de Portugal Notice 3/2020 ('Notice'), in force since 16 July 2020, and Banco de Portugal Instruction 18/2020 ('Instruction') contains the results of the assessment carried out by the Banco CTT, S.A. Group. regarding the adequacy and effectiveness of the financial group's internal control system to ensure compliance with the requirements set forth in Article 51 of the Notice, as well as regarding the consistency between the internal control systems of the subsidiaries and the internal control system of the parent company, Banco CTT, S.A.

In line with the best practices in these matters, the gap analysis exercise in relation to the requirements of the Notice was reviewed, and the current results, analysed by the Internal Control Committee and reported to the Bank's Management and Supervisory Bodies, as parent company, showed a positive evolution in relation to the compliance of the internal control system and the Group's governance model with most of the requirements. Nevertheless, the residual set of requirements for which gaps have been maintained are duly reflected as internal control deficiencies in the individual self-assessment reports of the Bank as parent company and its subsidiaries.

The Report also includes a description of the Group's organisational structure and governance model, which is considered to be in line with the best market practices in matters of corporate governance.

The organisational structure and governance model of the BCTT Group are complemented by the methodology underlying the continuous monitoring process of the Group's Internal Control System, consisting essentially of the following phases: (i) identification and reporting of deficiencies, (ii) assessment and classification of deficiencies, (iii) prioritisation and decision-making, (iv) definition of action plans and (v) monitoring and reporting. In this regard, and in compliance with the provisions of the aforementioned regulation, the Bank, as the parent company, has defined and has periodically reviewed and updated its taxonomy of risks and the impairment classification model, implemented in the light of the provisions of Annexes I and II of Banco de Portugal Instruction No. 18/2020. The last process of revision of said information, by way of updating the Group's General Policy on Internal Control and Risk Management, took place in March 2022, with a view to the following main changes:

- introduction of the climatic, environmental and social risks component in the Taxonomy of Risks;
- clarification of the definitions of the various categories and subcategories of risks;
- review of the probability and impact matrix in risk assessment;
- review of the deficiency classification model, arising from the practical experience of its application by the Control Functions (Internal Audit, Risk and Compliance) to the deficiencies detected during the period, which enabled opportunities for improvement to be identified.

Additionally, the Report includes a global analysis of the internal control deficiencies, which includes the description and characterisation of the deficiencies open on the reference date. In order to eliminate the effect of duplicating the presentation of the deficiencies reported in the individual self-assessment reports of the Group's entities, only those recommendations whose scope/nature of the process in question is effectively of the Group are presented in the Report.

In preparing the Report, the individual self-assessment reports of the Group entities subject to compliance with the Notice and the Instruction were included, which in turn include the annual self-assessment/independence reports of the persons responsible for the risk management, compliance and internal audit functions, pursuant to Articles 27, 28 and 32 of the Notice, respectively. In these annual self-assessment reports, the independence of each internal control function is confirmed by the respective persons in charge (no record of incidents).

The Report also includes the assessment of the Supervisory and Administrative Bodies of the different entities of the Group concerned, in accordance with Articles 56 and 57 of the Notice, respectively.

Within the context of the Supervisory Body's assessment of the Group's parent company, the Bank's Audit Committee concludes, in the light of the work carried out, the cumulative evidence collected, weighing the current and potential impacts of the deficiencies that remain open, as to the adequacy and effectiveness of the internal control system of the financial group, as well as to the consistency of the internal control systems of the subsidiaries with the internal control system of the parent company, in all material respects, in accordance with the requirements set out in the Notice.

In turn, the Bank's Board of Directors, based on the work carried out and analysing the F3 deficiencies or others that in aggregate could jeopardise the Group's risk profile, concludes that the internal control system of the financial group is adequate and effective, given the requirements defined in the Notice.

Lisbon, 14 March 2023

The Chairman of the Audit Committee,
João Manuel de Matos Loureiro

The Members of the Audit Committee,
António Domingues
Ana Maria Machado Fernandes

Summary of the Self-Assessment Report (Individual Bank)

Summary of the Self-Assessment Report (Individual Bank)

The Self-Assessment Report ('Report') prepared under the provisions of Article 54 of Banco de Portugal Notice No. 3/2020 ('Notice'), in force since 16 July 2020, and Banco de Portugal Instruction No. 18/2020 ('Instruction') contains the results of the assessment carried out by Banco CTT, S.A. regarding the adequacy and efficacy of the organisational culture in place, its governance and internal control systems, including remuneration practices and policies and the other matters addressed in the Notice, with reference to 30 November 2022.

The organisational structure and governance model of BCTT are described and complemented by the methodology underlying the continuous monitoring process of the Bank's Internal Control System, consisting essentially of the following phases: (i) identification and reporting of deficiencies, (ii) assessment and classification of deficiencies, (iii) prioritisation and decision-making, (iv) definition and follow-up of action plans and (v) monitoring and reporting. In compliance with the recommendation of Banco de Portugal expressed in communication ref. CEX/2022/1000098801 of 22 September 2022, the framework of the internal control system was reviewed in 2022 with a view to introducing deadlines for the resolution of deficiencies according to their classification.

Additionally, the Report includes a global analysis of the internal control deficiencies, which includes the description and characterisation of the deficiencies open on the reference date.

As part of the preparation of the report, the annual self-assessment/independence reports of the heads of the Risk Management, Compliance and Internal Audit Functions were also drawn up, pursuant to Articles 27, 28 and 32 of the Notice, respectively, and are included in the Report. In these annual self-assessment reports, the independence of each internal control function is confirmed by the respective persons in charge (no record of incidents). The reports also include a number of open deficiencies classified as F1 ('low') or F2 ('moderate') assigned to the 3 BCTT internal control functions and 2 deficiencies classified as F3 ('high'), assigned to the Compliance Function, with no deficiencies classified as F4 ('severe') open.

The Report also includes the assessment of the Bank's supervisory and management bodies, pursuant to Articles 56 and 57 of the Notice, respectively.

In the context of the assessment of BCTT's Supervisory Body, the Audit Committee concluded, in the light of the work performed, the cumulative evidence gathered, weighing the current and potential impacts of the deficiencies that remain open, except for those deficiencies and the need to develop a resuual set of procedures for full adoption of the provisions of the Notice, on the adequacy and efficacy of the organisational culture in force in the Bank and of its governance and internal control systems, in all materially relevant aspects, in accordance with the requirements defined in the Notice, considering that the Bank's values are conducive to an adequate control culture.

In turn, the Board of Directors concluded, considering these open deficiencies and gaps in the adoption of the Notice, as to the adequacy and effectiveness of BCTT's organisational culture and governance and internal control systems, including the Bank's remuneration practices and policies, in view of the requirements defined in the Notice.

Lisbon, 14 March 2023

O Presidente da Comissão de Auditoria,
João Manuel de Matos Loureiro

Os Vogais da Comissão de Auditoria,
António Domingues
Ana Maria Machado Fernandes

External Auditors Report

Statutory Auditors Report (Consolidated)

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

(Translation from the original document in the Portuguese language.
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Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements Banco CTT, S.A. (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2022 (showing a total of 3.104.914 thousands of euros and a total equity of 252.992 thousands of euros, including a net profit for the year of 14.716 thousands of euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Banco CTT, S.A. as of 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. **Impairment losses on loans to customers**

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As of 31 December 2022, Loans and Advances to Clients amounts to 1.777.565 thousands euros, net of impairment charges amounting to 54.736 thousands of euros (1.541.908 thousands of euros and 31.090 thousands of euros, respectively, as of 31 December 2021,). The detail of impairment on Loans and Advances to clients and the accounting policies, methodologies, concepts and assumptions used are disclosed in the notes to the consolidated financial statements (Notes 2.3.1.6, 3.1.2 and 15). The impairment on Loan and Advances to clients represents Management best estimate of the expected credit loss of Loan and Advances client's portfolio. To calculate this estimate, Management made critical judgments such as the evaluation of the business model, the assessment of the significant increase in credit risk, the classification of exposures in default, the	Our audit approach to impairment on Loans and Advances to clients included (i) an overall response to the way the audit was conducted and (ii) a specific response that resulted in the design, and subsequent implementation, of audit procedures that included, namely: ► obtaining the understanding, assessment of the design and testing of the operational effectiveness of internal control procedures existing in the process of quantifying impairment losses for Loans and Advances to clients; ► conducting analytical review tests on the evolution of the amount of impairment on Loans and Advances to clients, comparing it with the same period and with the expectations, which highlight the understanding of the variations occurred in the loans and advances portfolio and

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
definition of an asset group with similar credit risk characteristics and the use of models and parameters. These parameters are calculated based on historical indicators, when available or benchmarks, in the remaining cases. For relevant individual exposures, the impairment is calculated based on judgments of experts in the credit risk assessment. In addition to the complexity of the models for quantifying impairment losses of loans and advances portfolio ("models"), its use requires the processing of significant data, the availability and quality of which may not be adequate. Given the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the estimated impairment amount, which, together with its materiality, determines that we consider this topic as a key audit matter.	changes in the impairment assumptions and methodologies; ► reading the minutes of the Equity and Risk Committee and Global Risk Committee and correspondence with Banco de Portugal; ► obtaining the understanding and evaluation of the design of the model of the expected loss calculation, test to the calculation, comparison of the information used in the model with source data, through the reconciliations prepared by the Bank, analysis of the assumptions used to fill gaps in the data, comparison of the parameters used with the results of the estimation models and comparison of the results of the models with the values recorded in the financial statements; ► with the support of specialists, we performed tests on the reasonableness of the parameters used in the calculation of the impairment, namely: i. understanding of the methodology formalized and approved by Management and comparison with the one actually used; ii. understanding of the changes to the models used by the Bank to determine the parameters used in the calculation of expected loss and results in the parameters; iii. on a sampling basis, comparison of the data used in the clearance of risk parameters with source information; iv. inquiries to the Bank's experts responsible for the models and inspection of internal audit reports and regulators; and v. inspection of the reports with the results of the operational evaluation of the model (back-testing); ► test the reasonableness of adjustments made to the model and outside the model, in particular those to respond to additional areas of judgment resulting from the increasing in interest rate and inflation and understanding the management process associated with those adjustments; and ► analysis of the disclosures included in the notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

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2. 321 Crédito S.A. Goodwill recoverability

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As of 31 December 2022, goodwill and intangible assets, as described in note 21 of consolidated financial statements include the amount of 60.679 thousands of euros (60.679 thousands of euros as of 31 December 2021), related with the acquisition of the subsidiary 321 Crédito – Instituição Financeira de Crédito, S.A. in May 2019. As referred to in Note 2.1.6, the recoverable amount of Goodwill is analysed on an annual basis in the preparation of financial statements with reference to the end of the financial year or in presence of any indication of potential impairment. The recoverable amount is determined using evaluation methodologies supported by discounted cash flow techniques, considering market conditions, time value, and business risks. The potential impairment of Goodwill was considered a key audit matter given its significant amount and the complexity of impairment evaluation process, including the use of estimates and assumptions, including future market and economic conditions, market share, revenue and margin trends, and uncertainty remains associated with macroeconomic events felt in the market, such as increases in volatility, inflation, and interest rates.	We identified and evaluated the audit risk, which led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) a global response that affected how the audit was conducted and (ii) a specific response that involved the design, and subsequent execution, of additional procedures that included tests of controls and substantive procedures, namely: ▸ We obtained an understanding of the existing internal control procedures in the impairment testing process; ▸ With the support of internal specialists, we evaluated the reasonableness of the assumptions used in the impairment testing, namely: (i) discount rate; (ii) perpetual growth rate; (iii) dividend distribution; ▸ We compared the financial projections with the approved budgets and plans and financial indicators of 2022; ▸ We analysed the financial statements of 321 Crédito - Instituição Financeira de Crédito, SA as of December 31, 2022; ▸ We performed sensitivity analyses of the assumptions; and ▸ We analysed the disclosures included in the notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

Responsibilities of management and the supervisory board for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union;
- the preparation of the Management Report, the Corporate Governance Report, the Non-financial information statement and the Remunerations report, in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will

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always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may lead the Group to discontinue its activities;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion; and
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the consolidated financial statements.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Consolidated Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Consolidated Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of Banco CTT S.A. (Group's Parent Entity) for the first time in the shareholders' general meeting held on 30 July 2020 for a mandate from 2021 to 2023.
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional scepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on this date;
- We declare that we have not provided any prohibited services as described in article 5 of the Regulation (EU) n.º 537/2014 of the European Parliament and the Council, of 16 of April 2014, and we have remained independent of the Group in conducting the audit; and
- We declare that, in addition to the audit, we provided the Group with the following services as permitted by law and regulations in force:
    - Limited review of the interim consolidated financial statements of Banco CTT, S.A., for the six-month period ended 30 June 2022, prepared in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity;
    - Agreed-upon procedures to support supervisory board of Banco CTT and its subsidiaries reporting to Banco de Portugal on the internal control system for the prevention of Money Laundering and terrorism financing, in accordance with No. 1/2022 of Banco de Portugal;
    - Procedures for issuing the semi-annual evaluation report of the process of quantifying the impairment of the Group's loans and advances portfolio pursuant to Banco de Portugal Instruction 5/2013 republished by Banco de Portugal Instruction 18/2018; and
    - Agreed-upon procedures with Management to respond to the supervisory measures of Banco de Portugal related with Anti money laundering and terrorist financing matters

Lisbon, 16 March 2023

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Silvia Maria Teixeira da Silva - ROC n.º 1636
Registered with the Portuguese Securities Market Commission under license nr. 20161246

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External Auditors Report

Statutory Auditors Report (Individual)

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

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Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Banco CTT, S.A. (the Bank), which comprise the Statement of Financial Position as at 31 December 2022 (showing a total of 2.635.041 thousands of euros and a total equity of 252.260 thousands of euros, including a net profit for the year of 14.656 thousands of euros), and the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of the Banco CTT, S.A. as of 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. **Impairment losses on loans to customers**

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As of 31 December 2022, Loans and Advances to clients amounts to 700.952 thousands of euros, net of impairment charges amounting to 4.353 thousands of euros (631.673 thousands and 2.540 thousands of euros, respectively, as of 31 December 2021). The detail of impairment on Loans and Advances to clients and the accounting policies, methodologies, concepts and assumptions used are disclosed in the notes to the consolidated financial statements (Notes 2.2.1.6, 3.1.2 and 15). The impairment on Loan and Advances to clients represents Management best estimate of the expected credit loss of Loan and Advances client's portfolio. To calculate this estimate, Management made critical judgments such as the evaluation of the business model, the assessment of the significant	Our audit approach to impairment on Loans and Advances to clients included (i) an overall response to the way the audit was conducted and (ii) a specific response that resulted in the design, and subsequent implementation, of audit procedures that included, namely: ▶ obtaining the understanding, assessment of the design and testing of the operational effectiveness of internal control procedures existing in the process of quantifying impairment losses for Loans and Advances to clients; ▶ conducting analytical review tests on the evolution of the amount of impairment on Loans and Advances to clients, comparing it with the same period and with the expectations, which highlight the understanding of the variations occurred in the loans and advances

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
increase in credit risk, the classification of exposures in default, the definition of an asset group with similar credit risk characteristics and the use of models and parameters. These parameters are calculated based on historical indicators, when available or benchmarks, in the remaining cases. For relevant individual exposures, the impairment is calculated based on judgments of experts in the credit risk assessment. In addition to the complexity of the models for quantifying impairment losses of the credit portfolio ("models"), its use requires the processing of significant data, the availability and quality of which may not be adequate. Given the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the estimated impairment amount, which, together with its materiality, determines that we consider this topic as a key audit matter.	portfolio and changes in the impairment assumptions and methodologies; ▶ reading the minutes of the Equity and Risk Committee and Global Risk Committee and correspondence with Banco de Portugal; ▶ obtaining the understanding and evaluation of the design of the model of the expected loss calculation, test to the calculation, comparison of the information used in the model with source data, through the reconciliations prepared by the Bank, analysis of the assumptions used to fill gaps in the data, comparison of the parameters used with the results of the estimation models and comparison of the results of the models with the values recorded in the financial statements; ▶ with the support of specialists, we performed tests on the reasonableness of the parameters used in the calculation of the impairment, namely: i. understanding of the methodology formalized and approved by Management and comparison with the one actually used; ii. understanding of the changes to the models used by the Bank to determine the parameters used in the calculation of expected loss and results in the parameters; iii. on a sampling basis, comparison of the data used in the clearance of risk parameters with source information; iv. inquiries to the Bank's experts responsible for the models and inspection of internal audit reports and regulators; and v. inspection of the reports with the results of the operational evaluation of the model (back-testing); ▶ test the reasonableness of adjustments made to the model and outside the model, in particular those to respond to additional areas of judgment resulting from the increasing in interest rate and inflation and understanding the management process associated with those adjustments; and ▶ analysis of the disclosures included in the notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

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2. **Recoverability of investments in associates**

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
Investments in associates, as described in Note 22 of the Annex to the Financial Statements, as of December 31, 2022, includes an amount of 148,024 thousand euros (125,474 thousand euros as of December 31, 2021), corresponding to the subsidiary 321 Crédito - Instituição Financeira de Crédito, S.A., whose acquisition took place in May 2019. As referred in Note 22, the recoverable amount of investments in associates is evaluated annually or in the presence of an objective loss event. Investments in associates recoverability analysis requires Management to define a set of estimates and assumptions based on economic and market forecasts, in particular those relating to the projection of future cash flows, market shares, margin developments and discount rates. The potential impairment in the 321 Crédito Investment was considered a key audit matter given its significant amount and the complexity of impairment evaluation process, including the use of estimates and assumptions, including future market and economic conditions, market share, revenue and margin trends, and uncertainty remains associated with macroeconomic events felt in the market, such as increases in volatility, inflation, and interest rates.	We identified and evaluated the audit risk, which led to the definition of the audit approach to respond to the risk of material misstatement. This approach included (i) a global response that affected how the audit was conducted and (ii) a specific response that involved the design, and subsequent execution, of additional procedures that included tests of controls and substantive procedures, namely: ▸ We obtained an understanding of the existing internal control procedures in the impairment testing process; ▸ With the support of internal specialists, we evaluated the reasonableness of the assumptions used in the impairment testing, namely: (i) discount rate; (ii) perpetual growth rate; (iii) dividend distribution; ▸ We compared the financial projections with the approved budgets and plans and financial indicators of 2022; ▸ We analysed the financial statements of 321 Crédito - Instituição Financeira de Crédito, SA as of December 31, 2022; ▸ We performed sensitivity analyses of the assumptions; and ▸ We analysed the disclosures included in the notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation of financial statements that presents a true and fair view of the Bank's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union;
- the preparation of the Management Report in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Bank's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Banco CTT S.A.
Statutory and Auditor's Report
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In case of doubt, the Portuguese version prevails)
31 December 2022

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may lead the Bank to discontinue its activities;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Bank, we have not identified any material misstatement.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Bank for the first time in the shareholders' general meeting held on 30 July 2020 for a mandate from 2021 to 2023.

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- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional scepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Bank on this date;
- We declare that we have not provided any prohibited services as described in article 5 of the Regulation (EU) n.º 537/2014 of the European Parliament and the Council, of 16 of April 2014, and we have remained independent of the Group in conducting the audit; and
- We declare that, in addition to the audit, we provided the Bank with the following services as permitted by law and regulations in force:
  - Limited review of the interim consolidated financial statements of Banco CTT, S.A., for the six-month period ended 30 June 2022, prepared in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity;
  - Agreed upon procedures to support supervisory body of Banco CTT reporting to Banco de Portugal on the internal control system for the prevention of Money Laundering and terrorism financing, in accordance with No. 1/2022 of Banco de Portugal;
  - Procedures for issuing the semi-annual evaluation report of the process of quantifying the impairment of the Group's loans and advances portfolio pursuant to Banco de Portugal instruction 5/2013 republished by Banco de Portugal Instruction 18/2018; and
  - Agreed-upon procedures with Management to respond to the supervisory measures of Banco de Portugal related with Anti money laundering and terrorist financing matters.

Lisbon, 16 March 2023

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Sílvia Maria Teixeira da Silva - ROC n.º 1636
Registered with the Portuguese Securities Market Commission under license nr. 20161246

Corporate Governance Report

Corporate Governance Report

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Shareholder Structure

I. Capital structure

The share capital of Banco CTT, S.A. ("Bank" or "Banco CTT") is 296,400,000.00 euros, fully underwritten and paid-up, represented by 296,400,000 ordinary shares (there are no different categories), registered, book-entry, with no nominal value.

As mentioned above, the Bank's shares are entirely held by CTT and are not subject to any statutory or legal limitations regarding their transfer or ownership, or the number of votes that may be exercised.

Without prejudice to the free transferability of the shares of the Bank and CTT, their acquisition implies, as of the date of the commercial registration of Banco CTT (credit institution wholly owned by CTT), compliance with the legal requirements regarding direct or indirect qualified holdings, provided for in the General Regime of Credit Institutions and Financial Companies, in the wording currently in force ("RGICSF").

In particular, and in accordance with Article 102 of the RGICSF, natural or legal persons wishing to hold a qualified holding in CTT and, indirectly, in the Bank (i.e., a direct or indirect participation equal to or greater than 10% of the share capital or voting rights or that, for whatever reason make it possible to exert significant influence on management) must previously communicate their project to Banco de Portugal for the purposes of non-opposition. In turn, the acts or facts resulting in the acquisition of a shareholding of at least 5% of the share capital or voting rights of CTT and indirectly of the Bank, must be communicated to Banco de Portugal within 15 days of the respective verification, in accordance with the provisions of Article 104 of the RGICSF.

Without prejudice to the above, we hereby inform that, in November 2022, a strategic partnership between Banco CTT Group and Generali Seguros, S.A. was announced, which includes (i) a long-term agreement for the distribution of life and non-life insurance of Tranquilidade/Generali Seguros, with an exclusivity period renewable every 5 years, and (ii) the subscription by Tranquilidade/Generali Seguros of a reserved share capital increase of 25 million euros in Banco CTT in exchange for a shareholding of approximately 8.71%. The transaction is subject to suspensive conditions, including approvals from banking and insurance regulators, and is expected to be completed before the end of 2023.

As at 31 December 2022 and up to the date of this report, the Bank did not have any of its own shares, with no transactions having been carried out by the Bank relative to its own shares.

II. Shares and Bonds Held

As at 31 December 2022, the members of the Bank's management and supervisory bodies did not hold any shares issued by the Bank, nor did they, during 2022, carry out any transactions in such relevant securities for the purposes of Article 447 of the Commercial Companies Code ("CSC"), in the wording currently in force.

Also in accordance with paragraph 5 of Article 447 of the CSC, during the financial year 2022 and in accordance with the communications made to the Company, the number of shares representing the share capital of companies in a domain or group relationship with the Bank, held by members of the management and supervisory bodies of the Bank and the entities closely related to them in accordance with that provision, as well as all acquisitions, encumbrances or cessations of ownership of said shares, are indicated in the following lists:

Board of Directors (a)	No. of Shares as at 31/12/2021 (b)	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31/12/2022 (b)
João de Almada Moreira Rato	-	-	-	-	-	-	-
Luís Maria França de Castro Pereira Coutinho	500	-	-	-	-	-	500
João Maria de Magalhães Barros de Mello Franco	-	-	-	-	-	-	-
Pedro Rui Fontela Coimbra	-	-	-	-	-	-	-
Nuno Carlos Dias dos Santos Fórneas	-	-	-	-	-	-	-
Luís Jorge de Sousa Uva Patrício Paúl	-	-	-	-	-	-	-
João Manuel de Matos Loureiro	-	-	-	-	-	-	-
Clementina Maria Dâmaso de Jesus Silva Barroso (d)	-	-	-	-	-	-	-
Susana Maria Morgado Gomez Smith (e)	-	-	-	-	-	-	-
António Pedro Ferreira Vaz da Silva	7,000	-	-	-	-	-	7,000
Guy Patrick Guimarães de Goyri Pacheco	8,000	-	-	-	-	-	8,000
António Emídio Pessoa Corrêa d'Oliveira (f)	-	-	-	-	-	-	-
António Domingues (g)	-	(c)	(c)	-	-	(c)	10,000
Ana Maria Machado Fernandes (h)	-	-	-	-	-	-	-
Maria Rita Mégre de Sousa Coutinho (i)	-	(c)	(c)	-	-	(c)	9,000

Statutory Auditor	Nº de Ações a 31/12/2021 (b)	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31/12/2022 (b)
Ernst & Young Audit & Associados – SROC, S.A.	-	-	-	-	-	-	-
Sílvia Maria Teixeira da Silva	-	-	-	-	-	-	-
Ana Rosa Ribeiro Salcedas Montes Pinto	-	-	-	-	-	-	-

a) Includes the members of the Executive Committee and Audit Committee.

b) Transaction in question conducted in a regulated market on shares of CTT – Correios de Portugal, S.A.

c) Annex II presents the details relative to the acquisitions and/or divestments made in 2022, as disclosed to the Company.

d) Clementina Maria Dâmaso de Jesus Silva Barroso performed duties during the financial year of 2022, having ceased to be a Member of the Board of Directors and Audit Committee of Banco CTT on 31 August 2022, and neither said Director, nor any person closely connected thereto communicated to Banco CTT, until such date, any transaction of acquisition, encumbrance or termination of ownership, for any cause, of shares and bonds of the Company or of companies with which Banco CTT is in a control or group relationship, under the terms and for the purposes of Article 447 of the CSC.

e) Susana Maria Morgado Gomez Smith performed duties during the financial year of 2022, having ceased to be a Member of the Board of Directors and Audit Committee of Banco CTT on 5 December 2022, and neither said Director, nor any person closely connected thereto communicated to Banco CTT, until such date, any transaction of acquisition, encumbrance or termination of ownership, for any cause, of shares and bonds of the Company or of companies with which Banco CTT is in a control or group relationship, under the terms and for the purposes of Article 447 of the CSC.

f) António Emídio Pessoa Corrêa d'Oliveira performed duties during the financial year of 2022, having ceased to be a Member of the Board of Directors and Audit Committee of Banco CTT on 5 December 2022, and neither said Director, nor any person closely connected thereto communicated to Banco CTT, until such date, any transaction of acquisition, encumbrance or termination of ownership, for any cause, of shares and bonds of the Company or of companies with which Banco CTT is in a control or group relationship, under the terms and for the purposes of Article 447 of the CSC.

g) Appointed Member of the Board of Directors and of the Audit Committee on 5 December 2022.

h) Appointed Member of the Board of Directors and of the Audit Committee on 5 December 2022.

i) Appointed Member of the Board of Directors and of the Audit Committee on 5 December 2022.

In 2022, neither Banco CTT nor the companies in a domain or group relationship with the Bank issued any bonds.

Corporate Bodies and Committees

I. General Meeting

In accordance with paragraph 1 of Article 12 of the Bank's Articles of Association, the Board of the General Meeting shall consist of a Chairman, elected at the General Meeting. According to the same statutory provision, the Chairman of the Board of the General Meeting is assisted by the Company Secretary, and the respective functions were performed in 2022 by Catarina Morais Bastos Gonçalves de Oliveira, the current Company Secretary. As at 31 December 2022, the Chairman of the Board of the General Meeting was Rui Afonso Galvão Mexia de Almeida Fernandes, having been appointed for the 2022/2024 term of office at the General Meeting on 05 December 2022.

The constitution of the Bank's Selection and Remuneration Committee was approved in the General Meeting of Shareholders held on 5 December 2022, and the following were elected as Chairman and members of the said Selection and Remuneration Committee for the 2022/2024 term of office, respectively: Raúl Catarino Galamba de Oliveira, João Afonso Ramalho Sopas Pereira Bento and Maria da Graça Farinha de Carvalho.

In this context, on 31 December 2022, the Bank's Selection and Remuneration Committee was composed of the following members:

Members	Position
Raúl Catarino Galamba de Oliveira	President
João Afonso Ramalho Sopas Pereira Bento	Member
Maria da Graça Farinha de Carvalho	Member

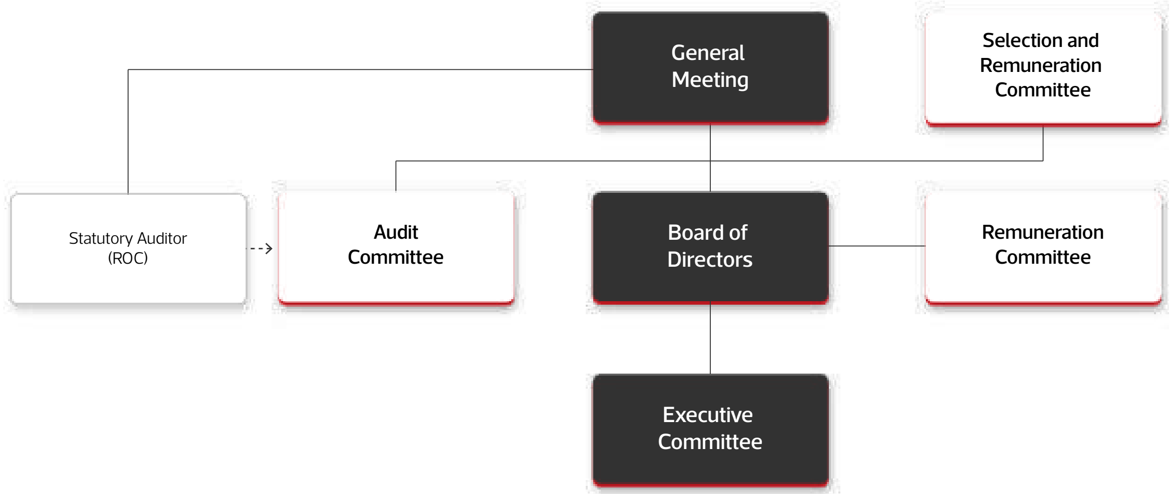
In accordance with the Internal Policy for the Selection and Assessment of the Suitability of Members of the Management and Supervisory Bodies and Holders of Essential Functions, as approved at the General Meeting of 24 August 2015, amended by the same body on 10 March 2016 and subsequently amended by the Board of Directors and the General Meeting on 22 and 24 January 2019, respectively ("Selection Policy"), as well as with the Banco CTT Group Remuneration Policy approved by the Board of Directors and the Selection and Remuneration Committee on 23 December and 22 December 2022, respectively ("Remuneration Policy") and also with the respective Internal Regulation, all in force on 31 December 2022, it is incumbent on the Selection and Remuneration Committee, under powers delegated to it by the General Meeting, in particular:

- ✓ Identifying, selecting and recommending possible members of management and supervisory bodies and holders of key positions, checking whether these candidates meet the necessary adequacy requisites (both individual and collective);
- ✓ Preparing the adequacy assessment and reassessment reports and preparing the instruction of requests for authorisation and registration with Banco de Portugal;
- ✓ Ensuring the representation of men and women and the diversity of qualifications and skills, professional experience, age and geographical origin necessary for the performance of their duties;
- ✓ Periodically reviewing the Selection Policy;
- ✓ Assessing the structure and dimension of the management and supervisory bodies, their suitability, professional qualifications diversity and availability, as well as the performance in terms of suitability of its members and the holders of key positions;
- ✓ Assessing and discussing the annual training plan with the competent bodies and committees;
- ✓ Establishing the remuneration of the members of the Board of the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor; and,
- ✓ Approving and reviewing the Remuneration Policy at least annually, defining, in particular, its various components and possible benefits.

II. Management and Supervision

1) Adopted governance model

Banco CTT has adopted a governance model of Anglo-Saxon nature, according to which the Board of Directors is responsible for the Company's administration, and the Audit Committee (composed of non-executive and independent Directors) and the Statutory Auditor are responsible for its supervision.



This model has implemented a number of good governance practices and an appropriate and effective organisational culture, in line with the Bank's specific characteristics (namely its dimension and activity), as described in this Report, promoting sound and prudent management, the effective performance of functions and coordination of corporate bodies, the smooth operation of a checks and balances system and the accountability of management to its stakeholders.

In this regard, the General Meeting is responsible for: (i) electing the members of the governing bodies (including the members of the Board of the General Meeting, the Board of Directors and the Audit Committee, as well as the Statutory Auditor, the latter following a proposal submitted by the Audit Committee); (ii) assessing the report and accounts of the Board of Directors, as well as the opinion of the Audit Committee; (iii) deciding on the appropriation of results; (iv) deciding on amendments to the Articles of Association; and (v) fixing the remuneration of the members of the governing bodies or, alternatively and for that purpose, setting up a Selection and Remuneration Committee and electing the respective members. In this sense, the General Meeting established, on 05 December 2022, a Selection and Salary Committee composed of three independent members which is also responsible for identifying, selecting and assessing the adequacy of persons to be appointed as members of the management and supervisory bodies and holders of key functions of the Bank (as described in point B.I. above).

The Board of Directors, in turn, delegated, in the context of its administrative functions, day-to-day management powers to the Executive Committee (see section B.II.2. below).

The Audit Committee (currently exclusively composed of independent members), together with the Statutory Auditor, perform the duties of supervision that arise from the applicable legal and regulatory provisions, where the Audit Committee is responsible for promoting the independence of the Statutory Auditor and the company's internal audit function, with view to contributing to the quality of the financial information and the effectiveness of the internal control, risk management and internal audit systems (as described in point B.III. below).

The Remuneration Committee (currently composed of a majority of independent members of the Board of Directors) is responsible for making informed, independent judgements on the Bank's remuneration policy and practices that are consistent with sound and prudent risk management and the incentives created for risk, capital and liquidity management (see point D.II. below).

2) Board of Directors and internal committees

Pursuant to the Bank's Articles of Association, the Board of Directors is composed of 7 to 13 members and the Executive Committee is composed of 3 to 5 Directors, appointed for three-year terms of office.

The Company's Board of Directors in office as at 31 December 2022 was composed of the following 12 Directors, appointed for the 2022/2024 term of office of, whose curricula are presented in Annex I attached herewith:

Members	Board of Directors	Executive Committee	Audit Committee	Independent [1]
João de Almada Moreira Rato	Chairman			Yes
Luís Maria França de Castro Pereira Coutinho	Member	Chairman (CEO)		
João Maria de Magalhães Barros de Mello Franco	Member	Member (CCO)		
Pedro Rui Fontela Coimbra	Member	Member (CFO)		
Nuno Carlos Dias dos Santos Fórneas	Member	Member (CIO)		Yes
Luís Jorge de Sousa Uva Patrício Paúl	Member	Member(CRO)		Yes
João Manuel de Matos Loureiro	Member		Chairman	Yes
António Domingues [2]	Member		Member	Yes
Ana Maria Machado Fernandes [2]	Member		Member	Yes
António Pedro Ferreira Vaz da Silva	Member			
Guy Patrick Guimarães de Goyri Pacheco	Member			
Maria Rita Mégre de Sousa Coutinho [2]	Member			Yes

1) According to the criteria established in paragraph 5 of Article 414 of the CSC (applicable by virtue of paragraph 3 of Article 31-A of the RGICSF).

2) Elected at the General Assembly on 5 December 2022.

The Board of Directors is the governing body responsible for the Company's management and representation, under the legal and statutory terms, being entrusted to practice all acts and operations relative to the corporate object that are outside the competence attributed to other bodies of the Bank.

Pursuant to the Articles of Association and its Internal Regulation, the Board of Directors is responsible, among other aspects, for:

a) Approving the annual, half-yearly and quarterly reports and accounts;

b) Defining the strategic orientation (including the approval of strategic, activity and business plans), policies, as well as the organisational model and corporate structure of the Bank;

c) Approving annual and multi-annual budgets and investment and financial plans, and monitoring their implementation;

d) Passing resolutions on merger, demerger and transformation projects, important expansions or down-sizing of the Bank's operations, the establishment, termination or amendment of any partnership, cooperation, sharing or joint venture agreements that are long-lasting and important;

e) Adopting an organisational culture that promotes a permanent integrated control of the risks to which the Bank and the Banco CTT Group are exposed, a responsible and prudent professional conduct of its employees and members of the management and supervisory bodies, guided by high standards of ethical requirements, and that contribute to the sound and prudent management of the institution and to strengthen the levels of trust and reputation of the Bank and the Group by monitoring and evaluating the adequacy and effectiveness of the organisational culture and of the governance and internal control systems of the Bank and its subsidiaries;

f) Promoting a control environment that values internal control as an essential element for the long-term resilience and good performance of the Bank and the Banco CTT Group, ensuring that the Bank and the Group have an effective internal control system that ensures their sustainability in the medium and long term and the prudent exercise of their activity, consistently applied to the Bank and its subsidiaries, and monitoring their operation;

g) Ensuring the soundness and effectiveness of (i) the processing of information, including the accounting and financial information systems and the processes of disclosure and compliance with reporting duties to Banco de Portugal, and (ii) of the processes of identification, management, control and communication of risks, under the terms of the law and applicable regulations;

h) Implementing and monitoring the operation of the risk management system that allows the identification, assessment, monitoring and control of all risks to which the Bank and its subsidiaries may be exposed, in order to ensure that they remain at the level defined by the Board of Directors and that they do not significantly affect the financial situation of the Bank and the Group, and informing the different areas, through regular communications, of the Bank's and the Group's risk tolerance level, ensuring that all employees are aware of their responsibilities regarding risk taking and controlling;

i) Defining the Bank's internal governance system and organisational structure, to ensure the Bank's effective and prudent management, including the division of powers within the organisation and prevention of conflicts of interest; and

j) Appointing, replacing or dismissing those responsible for the Compliance, Risk Management and Internal Audit Functions of the Bank and Banco CTT Group, upon recommendation of the Selection and Remuneration Committee and after prior review by the Audit Committee;

k) Appointing, pursuant to the provisions of paragraph 4 of Article 13 of Law No. 83/2017 of 18 August and Article 3 of Bank of Portugal Notice No. 2/2018, a member of the management body who is responsible for the implementation of the provisions of that law and the Notice (or diplomas that may replace them) and other relevant regulations concerning the fight against money laundering and financing of terrorism;

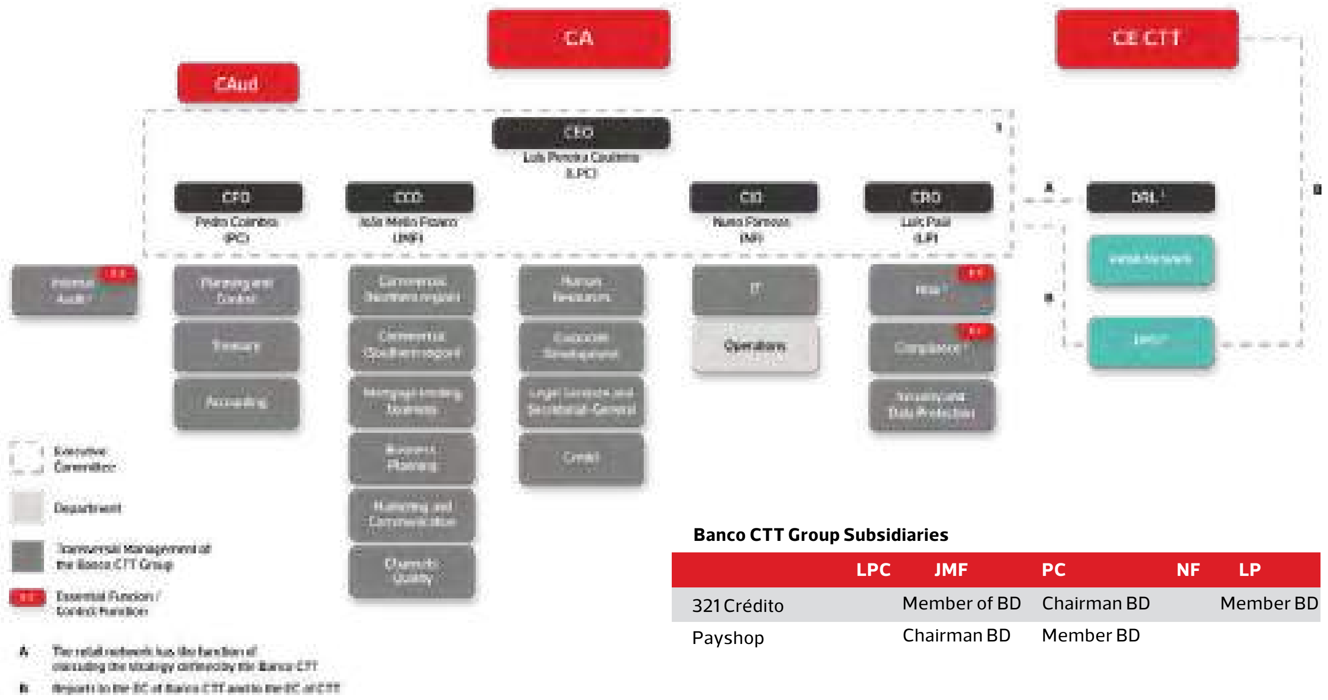
l) Appointing, pursuant to the provisions of paragraph 1 of Article 16 of Law No. 83/2017, of 18 August, and Article 7 of Banco de Portugal Notice No. 2/2018, the person responsible for compliance with the regulatory framework on the prevention of money laundering and terrorist financing ("AML Officer");

m) Appointing the person responsible for regulatory compliance under the General Regime for the Prevention of Corruption for the purposes of paragraph 2 of Article 5 of Decree-Law No. 109-E/2021 of 9 December.

The Board of Directors delegated day-to-day management of the Company to the Executive Committee (having authorised one or more of its members to undertake certain matters and to sub-delegate the exercise of certain powers to one or more of its members).

In line with the law and best corporate governance practices, this delegation excludes, in addition to matters reserved by law and others detailed in the Internal Regulation of the Board of Directors, the matters set out in the subparagraphs of the preceding paragraph, as well as acts and operations that give rise to liabilities/obligations for the Bank above certain thresholds.

As at 31 December 2022, the areas of responsibility of the Bank's Executive Committee and its organisational structure were distributed as follows:



Banco CTT Group Subsidiaries

	LPC	JMF	PC	NF	LP
321 Crédito		Member of BD	Chairman BD		Member BD
Payshop		Chairman BD	Member BD		

[1] Special projects unit may be set up by decision of the EC when projects that are justified by their complexity and duration are approved.

[2] The internal Audit Officer is responsible for the Internal Audit Control Function of the Bank and its subsidiaries, without prejudice to the possible existence of Internal Audit officers at the level of each of the subsidiaries.

[3] The Risk Director is responsible for the Risk Management Control Function of the Bank and its subsidiaries, without prejudice to the possible existence of Risk Management officers at the level of each subsidiaries.

[4] The Compliance officer is responsible for the Compliance Control Function of the Bank and its subsidiaries, without prejudice to the possible existence of Compliance officers at the level of each subsidiaries.

[5] DRL — Store Network Director (s): top of the Store Network structure in plurality of employers, with hierarchical relationship with CEO and functional relationship with all departments within the EC and the Control Functions.

[5] DPO — Data Protection Officer of the CTT Group.

At its meeting of 12 December 2022, the Board of Directors approved its Regulations, as well as the delegation of powers to the Executive Committee, which expressly provides for the possibility of sub-delegating some of the powers delegated to the Executive Committee to specialised committees created by it.

On 13 December 2022, under the powers then delegated, the Executive Committee set up the following six committees to support its management activities: the Capital and Risk Committee, the Commercial and Product Committee, the Credit Committee, the Technology and Operational Efficiency Committee, the Costs and Investments Committee and the Internal Control Committee.

On 23 January 2023, the Executive Committee decided to change the Committees structure to support its management activity, having created the following nine Committees to replace the previously existing six: the Capital, Risk and Sustainability Committee, the Commercial and Product Committee, the Credit Committee, the Technology and Operational Efficiency Committee, the Costs and Investments Committee, the Internal Control Committee, the Security and Data Protection Committee, the Compliance Committee, the Human Resources and Social Responsibility Committee.

With regard to the management of the relationship with CTT, under the contracts signed between CTT and the Bank, on which the respective CTT/Bank contracting model is based, there are three discussion forums external to the Bank and created in the context of these contracts, referring to matters of plurality of employers, the availability of resources within the Retail Network and the CTT Channel partnership, and also the provision of services, namely the Business Coordination Committee, the Shared Services Committee and the Partnership Governance Committee.

As at 31 December 2022, the existing Committee structure, both in terms of the Bank's Executive Committee and regarding governance of the partnership with CTT, was as follows:

Committees supporting the Executive Committee	Capital and Risk Committee
	Commercial and Product Committee
	Credit Committee
	Technology and Operational Efficiency Committee
	Costs and Investments Committee
	Internal Control Committee
Committees governing the partnership with CTT	Partnership Governance Committee
	Business Coordination Committee
	Shared Services Committee

The Bank also has a Remuneration Committee, created and appointed by the Board of Directors, whose composition and powers are presented in section D. II. below.

III. Oversight

In accordance with the Bank's Articles of Association, the Audit Committee is composed of 3 non-executive directors, one of whom is the respective Chairman, all elected in the General Meeting (for the 2022/2024 term of office), together with the other directors, and the lists proposed for the composition of the Board of Directors must list the members intended to form the Audit Committee and indicate the respective Chairman. The General Assembly may appoint an alternate member to replace any full member who is permanently impeded or has ceased functions.

The Bank's Audit Committee, in office as at 31 December 2022, was composed of the following members (appointed for the 2022/2024 term of office):

Members	Position
João Manuel de Matos Loureiro	Chairman
Ana Maria Machado Fernandes	Member
António Domingues	Member

All such members are independent within the meaning of paragraph 5 of Article 414 of the CSC, applicable by reference to paragraph 5 of Article 31-A of the RGICSF, have a university degree appropriate to the exercise of their duties and other qualifications and, as a whole, the experience required by law, as well as by the Articles of Association and the Bank's Selection Policy, with at least one of its members having knowledge of accounting.

The following main powers established by the law, the Articles of Association and the respective Rules of Procedure, in force on 31 December 2022, were assigned to the Audit Committee:

a) Supervising the Bank's management;

b) Promoting an organisational culture based on high standards of ethical requirements and that ensures the promotion of sound and prudent management;

c) Monitoring and ensuring the soundness and effectiveness of the risk management system, the internal control and compliance management system and the Internal Audit Function of the Bank and the Group in particular, and monitoring the Bank's risk strategy and risk appetite;

d) Being informed and taking account of the communications of irregularities presented, namely through the Ethics Channel, and participate in or accompany the decisions taken by the Ethics Forum concerning the same;

e) Monitoring and supervising the preparation and disclosure of financial information, including the conformity and accuracy of the financial reporting books, records and documents and other accounting documentation;

f) Supervising the activity of the Statutory Auditor or the Statutory Audit Firm ("SROC"), as appropriate and monitoring its independence; and,

g) Overseeing the review of accounts of the financial statements of the Bank.

Under these powers, the Audit Committee is particularly responsible for:

a) Assessing the appointment, replacement, dismissal and remuneration of those responsible for the Compliance, Risk Management and Internal Audit functions of the Bank and the Group and participating in the respective performance evaluation process, as applicable;

b) Overseeing the implementation of the Bank's strategic objectives, the strategy on risk and internal governance and, at least annually, assessing their efficacy;

c) Supervising the policy and processes of identification, management, control and communication of risks of the Bank and the Banco CTT Group;

d) Annually assessing and issuing an opinion on the adequacy and efficiency of the organisational culture and the governance and internal control systems of the Bank and the Banco CTT Group, the quality of the performance and adequate independence of the Control Functions, as well as the coherence between the internal control systems of the Bank and its subsidiaries;

e) Monitoring the integrity of the accounting and financial information systems, including financial and operational control and compliance with the laws and regulations applicable to the Bank and the Banco CTT Group, and supervising the process of disclosing and fulfilling the Bank's reporting obligations to Banco de Portugal;

f) Assessing whether the accounting policies and procedures and valuation criteria adopted by the Bank and the Banco CTT Group are consistent with generally accepted accounting principles and appropriate to the correct presentation and assessment of their assets, responsibilities and results;

g) Supervising compliance with and the correct application of the accounting principles and standards in force, the evolution of the relevant financial indicators and significant exposure to contingent risks or liabilities;

h) Preparing the annual activities report and issuing an opinion on the annual management report, the accounts for the financial year, both individual and consolidated, and the proposals submitted by the Board of Directors to the Annual General Meeting;

i) Selecting the Statutory Auditor/Statutory Audit Firm and proposing to the General Meeting its appointment and dismissal;

j) Verifying the appropriateness and giving prior approval to the provision of services other than audit services by the Statutory Auditor/Statutory Audit Firm to the Bank, as well as to the entities under its control and their parent companies identified as Public Interest Entities, and assessing the annual communication that the Statutory Auditor/Statutory Audit Firm makes on this matter; and,

k) Monitoring and supervising the statutory audit of the individual and consolidated annual accounts, namely its execution, and to assess the content of the statutory audit reports of the annual accounts and audit reports.

The Audit Committee, as a supervisory body, also assumes the functions of Risk Committee at Banco CTT, under the terms and for the purposes provided for in Article 115-L of the RGICSF, and is responsible for, in particular:

a) Advising the Board of Directors on risk appetite and on the Bank's general, current and future risk strategies, assisting it in supervising the implementation of the institution's risk strategy;

b) Analysing whether the conditions of the products and services offered by the Bank to its customers take into account the Bank's business model and risk strategy and submitting, when necessary, a correction plan to the Board of Directors; and,

c) Examining if incentives set out in the Bank's remuneration policy take into account risk, capital, liquidity and expectations regarding results.

IV. Statutory Auditor

By resolution passed by the sole shareholder of the Company on 30 July 2020, Ernst & Young Audit & Associados - SROC, S.A. was elected as the Bank's statutory auditor firm for the new mandate corresponding to 2021/2023, with effect from 1 January 2021. ("EY"), Statutory Audit Firm no. 178, represented by Sílvia Maria Teixeira da Silva, Statutory Auditor no. 1636, and as Alternate Statutory Auditor for the Bank, Ana Rosa Ribeiro Salcedas Montes Pinto, Statutory Auditor no. 1230, who were in office on 31 December 2021.

The rules to be observed when hiring audit services and non-audit services / additional to the Statutory Auditor are set out in the Policy for the Selection, Appointment and Evaluation of Statutory Auditors (ROC) and Statutory Audit Firms (SROC) and for the Contracting of Services to the Statutory Auditor/Firm ("Policy for the Selection of the Statutory Auditor"), approved by Banco CTT's General Meeting on 3 July 2020, and amended by the same body on 12 August 2021 and 6 October 2022, in line with the provisions of Regulation (EU) no. No. 537/2014 of the European Parliament and of the Council of 16 April 2014, which determines the requirements applicable to statutory audits of accounts of public interest entities, in Law No. 140/2015 of 7 September, which approved the Statute of the Association of Statutory Auditors, and in Law No. 148/2015 of 9 September, which establishes the Legal System for Audit Supervision.

In 2022, the following non-audit / additional services were contracted/provided to Banco CTT Group by EY, hereinafter the "Non-Audit Services Contracted in 2022":

- Limited review of Banco CTT's financial statements for the period ended on 30 June 2022;
- Assessment of the adequacy of the process of quantification of the impairment of the loan portfolio by the External Auditor, as well as the reporting procedures of Banco CTT and 321 Crédito, Instituição Financeira de Crédito, S.A. ("321 Crédito"), under the terms set forth in Instruction no. 5/2013 of Banco de Portugal, republished by Instruction no. 18/2018 of Banco de Portugal, with reference to June and December of each year of the audit mandate;
- Technical support to the supervisory bodies of the Bank, Payshop (Portugal), S.A. ("Payshop") and 321 Crédito regarding the adequacy and effectiveness of the internal control system for the prevention of money laundering and combating the financing of terrorism, reported to 31 December 2022, as required by Notice no. 2/2018 of Banco de Portugal; and
- Validation of the implementation, by Banco CTT, of the corrective actions arising from the IT audit of the information systems that support payment operations.

Under the terms of the Statutory Auditor Selection Policy, the Bank's Audit Committee is responsible for assessing requests to engage non-audit services from the Statutory Auditor, and their engagement is subject to the prior approval of that body and conditioned, as applicable, to the prior approval by the Supervisory Bodies of its (their) parent company(ies) and the entity(ies) under its control that are Public Interest Entities, procedures that were adopted in the engaging of the non-audit services in 2022 indicated above.

The table below shows the values corresponding to the fees of EY for statutory audit, assurance, tax consultancy and non-audit services hired, accounted for and paid/invoiced in 2022, relative to Banco CTT, Payshop and 321 Crédito, as entities that are fully part of the Group:

(amounts in euros)

	Engaged Services[1]		Accounted Services[2]		Paid Services[3]	
	Amount (€)	%	Amount (€)	%	Amount (€)	%
By the Company	**39,360.00**	**64.0%**	**330,678.28**	**67.2%**	**319,547.85**	**70.6%**
Value of the audit services	-	0.0%	207,113.01	42.1%	191,320.35	42.3%
Value of the reliability assurance services	39,360.00	64.0%	57,088.05	11.6%	93,049.50	20.6%
Value of the tax advisory services	-	0.0%	-	0.0%	-	0.0%
Value of non-audit services	-	0.0%	66,477.22	13.5%	35,178.00	7.8%
By entities that are part of the Group[4]	**22,140.00**	**36.0%**	**161,455.38**	**32.8%**	**132,815.40**	**29.4%**
Value of the audit services	-	0.0%	76,176.04	15.5%	71,438.40	15.8%
Value of the reliability assurance services	-	0.0%	14,638.61	3.0%	24,108.00	5.3%
Value of the tax advisory services	-	0.0%	-	0.0%	-	0.0%
Value of non-audit services	22,140.00	36.0%	70,640.73	14.4%	37,269.00	8.2%
TOTAL	***61,500.00***	***100.00%***	***492,133.66***	***100.0%***	***452,363.25***	***100.00%***
Value of the audit services	***-***	***0.00%***	***283,289.05***	***57.6%***	***262,758.75***	***58.1%***
Value of non-audit services	***22,140.00***	***36.00%***	***137,117.95***	***27.9%***	***72,447.00***	***16.0%***

[1] *Includes VAT at the legal rate in force.*
[2] *Includes invoiced values and specialised values in the year.*
[3] *The paid services refer to services hired in 2022 as well as in previous years whose conditions of payment occurred in 2022.*
[4] *Payshop and 321 Crédito.*

Internal Organisation

I. Articles of Association

The definition of the Bank's Articles of Association (available on the Bank's website www.bancoctt.pt and their amendment are entrusted to the General Meeting.

II. Reporting of irregularities

The RGICSF and the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2021/05) require credit institutions to implement specific, independent and autonomous means to receive, process and file communications of serious irregularities related to their management, accounting organisation and internal oversight, as well as signs of serious breaches of duties related thereto, namely regarding conduct, professional secrecy, capital, risks or disclosure of information.

Consequently, the Bank's Code of Conduct, in section 7.4, provides mechanisms for reporting irregularities on matters of accounting, internal accounting controls, the Bank's internal management or supervision, prudential requirements, risk control, insider dealing, fraud or anti-corruption, banking and financial crime, money laundering or the financing of terrorism, involving shareholders, employees, customers, suppliers, based on the specific rules defined by the Bank, namely in its Whistleblowing Policy.

As at 31 December 2022, the Bank had a Whistleblowing Policy (resulting from the revision, on 2 November 2021, of the former Whistleblowing Policy), amended on 28 February and 30 May 2022, the purpose of which is to define the procedures to receive, process and file communications on the practice of irregularities received by Banco CTT Group entities in matters related to the management, accounting organisation and internal supervision of the Bank and its subsidiaries, as well as in matters related with the infringement of duties incumbent upon Banco CTT Group entities, namely the prevention of money laundering and terrorism financing, insider trading, fraud or corruption in the performance of professional activities by Members of the Corporate Bodies, Employees or any third party that has a commercial, business or partnership relationship with the Group, namely as a service provider or supplier. Pursuant to what is defined in this Policy, any irregularities can be communicated by employees of the Banco CTT Group as well as by any stakeholders, namely shareholders, partners, suppliers, service providers or customers, through the "Ethics Channel". The Whistleblowing Model, through the Ethics Channel, guarantees the confidentiality of the communications received and the protection of the personal data of the whistleblower and suspect, pursuant to applicable legislation. On the other hand, the Group may not dismiss, threaten, suspend, reprimand, harass, withhold or suspend payments of salaries and/or benefits, or take any retaliatory action against anyone legally reporting an irregularity or providing any information or assistance in the investigation of the reports of irregularities presented and these reports may not in themselves serve as grounds for any disciplinary, civil or criminal proceedings against the whistleblower, unless they are deliberate and manifestly unfounded.

In 2019, the Manual for the Treatment of Irregularity Communications - Ethics Channel was also created, which aims to define and detail the process and responsibilities in the context of processing communications of irregularities, and is divided into three parts, the first related to screening, the second referring to processing communications of irregularities relating to harassment and discrimination and the third concerning the treatment of other irregularities covered by the Whistleblowing Policy.

Under the terms of the identified Policy, the Audit Committee delegated to the Compliance Department support functions related to the management of the Ethics Channel and to the Ethics Forum the processing of communications of irregularities in matters of its competence, being, in any case, that supervisory body responsible for the reception and registration of the reports, as well as the final decision regarding the filing the communications or adoption of other measures.

The Ethics Forum is composed of the Directors of Compliance, Internal Audit, Risk and a member of the Audit Committee, appointed by the latter, who chairs the Forum and has a quality vote. On 22 December 2022, the Audit Committee elected Ana Maria Machado Fernandes as the Member of the Audit Committee designated to integrate and chair the Ethics Forum.

The Whistleblowing Policy further establishes, without prejudice to other reporting duties established by law, that: (i) the Audit Committee or any member of the management or supervisory bodies, as well as the holders of qualified holdings, shall immediately report to Banco de Portugal any serious irregularity of which they become aware relating to the management, accounting organisation and internal auditing of the Bank and which is likely to place the Bank in a situation of financial imbalance; and (ii) employees of the areas responsible for control functions (internal audit, risk management and compliance) shall report to the Audit Committee any serious irregularity of which they become aware related to the management, accounting organisation and internal supervision of the Bank or indications of breaches of duties established in the RGICSF or Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June, which is likely to place the Bank in a situation of financial imbalance.

On 15 December 2022, the Audit Committee approved the Annual Report on Reporting of Irregularities to be submitted to Banco de Portugal under the terms and for the purposes of paragraph 7 of Article 116-AA of the RGICSF and Article 35 of Notice no. 3/2020 of Banco de Portugal, with reference to the period between 1 December 2021 and 30 November 2022. This Report describes the process of receiving and processing irregularities endorsed by Banco CTT, as well as the irregularities communicated in the reference period.

During the aforementioned period, two complaints were received through the Ethics Channel, which, not being "irregularities" in the terms previously described, were forwarded to the Complaints Management area and treated as such, thus concluding that, during the aforementioned reference period, no report of irregularities was received under the terms of the RGICSF, the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2021/05), in Notice no. 3/2020, in the Bank's Code of Conduct, in the referred Whistleblowing Policy and other applicable regulations.

III. Internal control and risk management

From the outset, Banco CTT's management and supervisory bodies have attributed a structural importance to its internal control, risk management and internal audit systems. On this issue, please see the section above of this Annual Report entitled "Internal Control System" and "Risk Management".

The Board of Directors ensures the effectiveness of the internal control, risk management and internal audit systems, fomenting a culture of control throughout the organisation. The Audit Committee, as the supervisory body of Banco CTT, is responsible for supervising the effectiveness of these systems, in accordance with the terms described in the respective Internal Regulations.

Within the context of the entry into force of Banco de Portugal Notice 3/2020 and Banco de Portugal Instruction 18/2020, a project was started to implement various measures at Group level with a view to complying with the requirements set out in these regulations, which involved the intervention of various areas of the Bank, in particular the Internal Control Functions, and was closely monitored by the Bank's management and supervisory bodies.

As this is a project promoted by the Group, the Bank, as the parent company, issued the necessary instructions to its subsidiaries to ensure compliance with the provisions of the aforementioned regulation, having continuously monitored the activities developed in order to ensure the consistency of the Group's internal control and corporate governance systems

IV. Investor Support

Because it is not a listed company with shares listed for trading, Banco CTT does not have an investor support office.

In turn, the Bank's sole shareholder, as an issuer of shares admitted to trading on a regulated market, has an Investor Relations Department whose mission is to ensure a solid and lasting relationship between, on the one hand, shareholders, investors and analysts, the Securities Market Commission ("CMVM"), Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A. ("Euronext Lisbon") and the capital markets in general and, on the other, the company and its corporate bodies. It provides timely, clear and transparent information on CTT's current evolution in economic, financial and governance terms. In addition, this department ensures the proactive articulation of the company's strategy with investors and research analysts, and also that the company is aware of the markets' perception of it.

V. Website

Banco CTT's website address is as follows www.bancoctt.pt.

Remuneration

I. Power to establish

Pursuant to the Bank's Articles of Association, the General Meeting or Remuneration Committee elected by the General Meeting are competent to determine the remunerations of corporate body members. At the General Meeting of 5 December 2022, it was resolved to establish a Selection and Remuneration Committee for the Bank.

The General Meeting and the Selection and Remuneration Committee are supported in the performance of their duties by the Remuneration Committee mentioned in section D.II. below.

II. Remuneration Committee

The Remuneration Committee, created within the Board of Directors and whose term of office matches that of the Board of Directors, had the following composition as of 31 December 2022:

Members	Position
João de Almada Moreira Rato	President
António Pedro Ferreira Vaz da Silva	Member
Maria Rita Mégre de Sousa Coutinho	Member

In accordance with the provisions of its Internal Regulations, in force on 31 December 2022, the Remuneration Committee was responsible, among other duties, for:

✓ Prepare proposals and recommendations in the context of decisions on remuneration matters adopted by the General Meeting (without prejudice to its delegation to the Selection and Remuneration Committee) regarding the remuneration of the members of the corporate bodies and by the Board of Directors (without prejudice to its delegation to the Executive Committee) regarding the remuneration of the relevant employees pursuant to Article 115-C of the RGICSF, including, in particular, remuneration policies and decisions with implications for the Bank's risk and risk management;

✓ At least annually, analysing and assessing the remuneration policies applicable to the members of the corporate bodies and relevant employees and their implementation, in particular their effect on risk management, capital and liquidity of the institution, namely with the aim of verifying compliance with the remuneration policies and procedures adopted by the competent corporate body, ensuring that (i) they are effectively applied and comply with the legislation and regulations in force and that (ii) the attribution and payment of remuneration are adequate, prevent the existence of conflicts of interest and that the risk profile and long-term objectives of the institution are adequately reflected;

✓ At least annually, the remuneration policies and remuneration practices applicable to employees involved in the marketing or provision of banking products and services to consumers should be analysed and assessed, namely to verify how the gender neutrality of the remuneration policy is guaranteed and to ensure that the remuneration policies do not prevent employees from acting in an honest, loyal, transparent and professional manner, taking into account the rights and interests of consumers;

✓ At least annually, carry out a centralised and independent internal analysis and assessment of the implementation of the Banco CTT Group Remuneration Policy, in articulation with the Risk Management, Compliance and Internal Audit functions and, if applicable, with the corporate bodies and other structural units of each of the Banco CTT Group's subsidiaries, including the respective control functions, which shall provide all information requested by the Remuneration Committee, whenever it deems necessary or convenient for the proper performance of its duties, with the purpose of verifying compliance with the remuneration policies and procedures adopted by Banco CTT Group;

✓ Preparing proposals and recommendations to the competent bodies regarding the definition, calculation and payment of the fixed and variable remuneration and other benefits of the members of the corporate bodies and relevant employees in accordance with the remuneration policies and the legislation and regulations in force; and,

✓ Preparing and submitting to the competent governing bodies or assessing, as applicable, the performance evaluation model(s) related to the variable component of remuneration and proposals as to the appraisal of the achievement of objectives in the light of said model(s).

During 2022, the Remuneration Committee met 12 times.

III. Remuneration disclosure

The following tables indicate the gross remuneration amounts due, by reference to the period from 1 January to 31 December 2022, to the members of the Board of Directors and the Audit Committee, in an aggregated and individual manner:

Remuneration of the non-executive members of the Board of Directors and Audit Committee

(amounts in euros)

Members	Position	Fixed Remuneration [1]
João Manuel de Matos Loureiro	Non-Executive Director and Chairman of the Audit Committee	89,571.41
Clementina Maria Dâmaso de Jesus Silva Barroso	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee	43,333.36
Susana Maria Morgado Gomez Smith	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee	60,305.59
António Domingues	Non-Executive Director and Member of the Audit Committee	- [2]
Ana Maria Machado Fernandes	Non-Executive Director and Member of the Audit Committee	- [2]
Total of the Audit Committee		193,210.36
João de Almada Moreira Rato	Chairman of the Board of Directors and of the Remuneration Committee	124,999.98
António Pedro Ferreira Vaz da Silva	Non-Executive Director	No remuneration paid by the Bank
Guy Patrick Guimarães de Goyri Pacheco	Non-Executive Director	No remuneration paid by the Bank
António Emídio Corrêa D'Oliveira	Non-Executive Director	46,389.90
Maria Rita Mégre de Sousa Coutinho	Non-Executive Director and Member of the Remuneration Committee	- [2]
Total of the Remuneration of the Non-Executive Directors who are not part of the Audit Committee		**171,388.88**
Total Non-Executive Directors		**364,599.24**

[1] Amount of fixed remuneration of the Non-Executive Directors and members of the Audit Committee, who do not earn any variable remuneration in accordance with the Remuneration Policy in force as at 31 December 2022.
[2] Started functions on 5 December 2022.

Remuneration of Executive Committee members in 2022

(amounts in euros)

Members	Position	Fixed Remuneration [1]	Variable Remuneration paid in 2022 [2]	Deferred Variable Remuneration payable in 2023 [2]	Deferred Variable Remuneration payable in 2024 [2]	Deferred Variable Remuneration payable in 2025 [2]	Total Variable Remuneration awarded in 2022 [2]	Total Fixed Remuneration 2022 and Variable 2021 paid in 2022	Total Remuneration awarded in 2022
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	399,410.16	35,560.00	11,853.33	11,853.33	11,853.33	71,120.00	434,970.16	470,530.16
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	254,822.70	25,400.00	8,466.67	8,466.67	8,466.67	50,800.00	280,222.70	305,622.70
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	256,791.19	25,400.00	8,466.67	8,466.67	8,466.67	50,800.00	282,191.19	307,591.19
Nuno Carlos Dias dos Santos Fórneas	Member of the Executive Committee (CIO)	214,385.32	21,336.00	7,112.00	7,112.00	7,112.00	42,672.00	235,721.32	257,057.32
Luís Jorge de Sousa Uva Patrício Paúl	Member of the Executive Committee (CRO)	216,627.52	13,860.00	4,620.00	4,620.00	4,620.00	27,720.00	216,627.52	216,627.52
Total of the Executive Committee		**1,342,036.89**	**121,556.00**	**40,518.67**	**40,518.67**	**40,518.67**	**243,112.00**	**1,463,592.89**	**1,585,148.89**

[1] Includes fixed basic remuneration, amount for annual meal allowance and, when applicable, the fixed amount paid monthly for allocation to a Retirement Savings Plan (PPR), health insurance, life insurance and personal accident insurance (including travel) and amount of payment in kind relative to permanent vehicle use.
[2] Variable Remuneration relative to 2021.

Variable Remuneration of Executive Committee members relative to 2018

(amounts in euros)

Members	Position	Variable Remuneration paid in 2019	Deferred Variable Remuneration paid in 2020	Deferred Variable Remuneration paid in 2021	Deferred Variable Remuneration paid in 2022	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	53,550.00	17,850.00	17,850.00	17,850.00	107,100.00
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO)	17,992.80	5,997.60	5,997.60	5,997.60	35,985.60
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	39,028.50	13,009.50	13,009.50	13,009.50	78,057.00
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	39,028.50	13,009.50	13,009.50	13,009.50	78,057.00
Total of the Executive Committee		**149,599.80**	**49,866.60**	**49,866.60**	**49,866.60**	**299,199.60**

Variable Remuneration of Executive Committee members relative to 2019

(amounts in euros)

Members	Position	Variable Remuneration paid in 2020	Deferred Variable Remuneration paid in 2021	Variable Remuneration paid in 2022 [2]	Deferred Variable Remuneration paid in 2022	Deferred Variable Remuneration payable in 2023	Deferred Variable Remuneration payable in 2024	Deferred Variable Remuneration payable in 2025	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	-	-	61,225.50	-	20,408.50	20,408.50	20,408.50	122,451.00
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	25,714.71	8,571.57	-	8,571.57	8,571.57	-	-	51,429.42
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	25,714.71	8,571.57	-	8,571.57	8,571.57	-	-	51,429.42
Nuno Carlos Dias dos Santos Fórneas	Member of the Executive Committee (CIO)	8,752.53	2,917.51	-	2,917.51	2,917.51	-	-	17,505.07
Total da Comissão Executiva		**60,181.95**	**20,060.65**	**61,225.50**	**81,286.15**	**40,469.15**	**20,408.50**	**20,408.50**	**242,814.91**

[1] In 2020 the variable remuneration of the Chairman of Banco CTT's Executive Committee in respect of 2019 was attributed, which, given the prudential recommendations regarding the payment of variable remuneration in the context of the pandemic outbreak of COVID-19, was effectively paid only at the beginning of 2022 as regards the non-deferred part, with the remaining amount being deferred over three years counted from the date of payment of the non-deferred part (2022).

Variable Remuneration of Executive Committee members relative to 2020

(valores expressos em euros)

Members	Position	Variable Remuneration paid in 2021	Deferred Variable Remuneration paid in 2022	Deferred Variable Remuneration payable in 2023	Deferred Variable Remuneration payable in 2024	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	35,875.00	11,958.33	11,958.33	11,958.33	71,750.00
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	20,895.00	6,965.00	6,965.00	6,965.00	41,790.00
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	20,895.00	6,965.00	6,965.00	6,965.00	41,790.00
Nuno Carlos Dias dos Santos Fórneas	Member of the Executive Committee (CIO)	20,265.00	6,755.00	6,755.00	6,755.00	40,530.00
Luis Jorge Sousa Uva Patrício Paúl	Member of the Executive Committee (CRO)	13,620.74	4,540.25	4,540.25	4,540.25	27,241.48
Total of the Executive Committee		**111,550.74**	**37,183.58**	**37,183.58**	**37,183.58**	**223,101.48**

Variable Remuneration of Executive Committee members relative to 2021

(amounts in euros)

Members	Position	Variable Remuneration paid in 2022	Deferred Variable Remuneration payable in 2023	Deferred Variable Remuneration payable in 2024	Deferred Variable Remuneration payable in 2025	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	35,560.00	11,853.33	11,853.33	11,853.33	71,120.00
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	25,400.00	8,466.67	8,466.67	8,466.67	50,800.00
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	25,400.00	8,466.67	8,466.67	8,466.67	50,800.00
Nuno Carlos Dias dos Santos Fórneas	Member of the Executive Committee (CIO)	21,336.00	7,112.00	7,112.00	7,112.00	42,672.00
Luís Jorge Sousa Uva Patrício Paúl	Member of the Executive Committee (CRO)	13,860.00	4,620.00	4,620.00	4,620.00	27,720.00
Total of the Executive Committee		**121,556.00**	**40,518.67**	**40,518.67**	**40,518.67**	**243,112.00**

In 2022 there is no deferred remuneration subject to reduction as a result of adjustments made according to the individual performance of Executive Committee members.

Additionally, the Variable Remuneration of members of the Executive Committee has a Long Term component, applicable from 2020, for the three-year period 2020/2022, with the attribution occurring in 2023, with payment from that year onwards, conditioned to compliance with the provisions of the Remuneration Policy in force, in order to ensure alignment of this component with the Bank's strategic plan defined for 2020/2022, although not coinciding with the mandate of the governing bodies (2019/2021).

No compensation was paid or became payable to members of the Bank's Executive Committee related to the termination of their office during the financial year of 2022.

Remuneration of Relevant Employees

The gross remuneration amounts due, by reference to the period between 1 January and 31 December 2022, to Relevant Employees, as defined in the Remuneration Policy in force at 31 December 2022 (whose universe comprised 18 Relevant Employees of the Bank), amounted, in aggregate terms, to 1,829,726.00 euros. The distribution of this remuneration was as follows:

Remuneration of Relevant Employees in 2022

(amounts in euros)

Relevant Employees (1)	Fixed Remuneration (2)	Variable Remuneration paid in 2022 (3)	Deferred Variable Remuneration payable in 2023(3)	Deferred Variable Remuneration payable in 2024 (3)	Deferred Variable Remuneration payable in 2025 (3)	Total Variable Remuneration awarded in 2022 (3)	Total Fixed Remuneration 2022 and Variable 2021 paid in 2022	Total Remuneration awarded in 2022
A – Responsible for Control Functions (3 employees)	237,712.00	17,526.00	5,842.00	5,842.00	5,842.00	35,053.00	255,238.00	272,765.00
B – Top Management Employees with commercial functions (5 employees)	449,061.00	45,756.00	15,252.00	15,252.00	15,252.00	91,511.00	494,817.00	540,572.00
C – Top Management employees with support functions (10 employees)	855,738.00	80,326.00	26,775.00	26,775.00	26,775.00	160,652.00	936,064.00	1,116,390.00
Total Relevant Employees	**1,542,511.00**	**143,608.00**	**47,869.00**	**47,869.00**	**47,869.00**	**287,215.00**	**1,686,119.00**	**1,829,726.00**

(1) *For the definition of Relevant Employees, the employees identified under the "Relevant Employee identification process" set forth in the Remuneration Policy were considered.*
(2) *Includes fixed basic remuneration relative to the annual meal allowance and, when applicable, amount of payment in kind derived from permanent vehicle use, and health insurance from the appointment date.*
(3) *Variable Remuneration relative to 2021.*

Variable Remuneration of Relevant Employees relative to 2018

(amounts in euros)

Relevant Employees (1)	Variable Remuneration paid in 2019	Deferred Variable Remuneration paid in 2020	Deferred Variable Remuneration paid in 2021	Deferred Variable Remuneration paid in 2022	Total Variable Remuneration
A – Responsible for Control Functions (3 employees)	20,210.00	6,737.00	6,737.00	6,737.00	40,421.00
B – Top Management employees with commercial functions (4 employees)	36,120.00	12,040.00	12,040.00	12,040.00	72,241.00
C – Top Management employees with support functions (9 employees)	71,899.00	23,966.00	23,966.00	23,966.00	143,799.00
Total Relevant Employees	**128,230.00**	**42,744.00**	**42,744.00**	**42,744.00**	**256,461.00**

(1) *The definition of Relevant Employees considered employees appointed by the Bank's competent corporate bodies to perform the duties in question.*

Variable Remuneration of Relevant Employees relative to 2019

(amounts in euros)

Relevant Employees (1)	Variable Remuneration paid in 2020	Deferred Variable Remuneration paid in 2021	Deferred Variable Remuneration paid in 2022	Deferred Variable Remuneration payable in 2023	Total Variable Remuneration
A – Responsible for Control Functions (3 employees)	15,541.00	5,180.00	5,180.00	5,180.00	31,082.00
B – Top Management employees with commercial functions (4 employees)	44,561.00	14,854.00	14,854.00	14,854.00	89,122.00
C – Top Management employees with support functions (9 employees)	100,884.00	33,628.00	33,628.00	33,628.00	201,769.00
Total Relevant Employees	**160,987.00**	**53,662.00**	**53.662,00**	**53,662.00**	**321,973.00**

(1) *For the purpose of defining Relevant Employees, the employees identified under the "process of identification of Relevant Employees" set out in the Remuneration Policy were considered.*

Variable Remuneration of Relevant Employees relative to 2020

(amounts in euros)

Relevant Employees (1)	Variable Remuneration paid in 2021	Deferred Variable Remuneration paid in 2022	Deferred Variable Remuneration payable in 2023	Deferred Variable Remuneration payable in 2024	Total Variable Remuneration
A – Responsible for Control Functions (3 employees)	14,587.00	4,862.00	4,862.00	4,862.00	29,173.00
B – Top Management employees with commercial functions (4 employees)	47,191.00	15,730.00	15,730.00	15,730.00	94,381.00
C – Top Management employees with support functions (9 employees)	87,062.00	29,021.00	29,021.00	29,021.00	174,123.00
Total Relevant Employees	**148,839.00**	**49,613.00**	**49,613.00**	**49,613.00**	**297,679.00**

(1) *For the purpose of defining Relevant Employees, the employees identified under the "process of identification of Relevant Employees" set out in the Remuneration Policy were considered.*

Variable Remuneration of Relevant Employees relative to 2021

(amounts in euros)

Relevant Employees [1]	Variable Remuneration paid in 2022	Deferred Variable Remuneration payable in 2023	Deferred Variable Remuneration payable in 2024	Deferred Variable Remuneration payable in 2025	Total Variable Remuneration
A – Responsible for Control Functions (3 employees)	17,526.00	5,842.00	5,842.00	5,842.00	35,053.00
B – Top Management employees with commercial functions (4 employees)	45,756.00	15,252.00	15,252.00	15,252.00	91,511.00
C – Top Management employees with support functions (9 employees)	80,326.00	26,775.00	26,775.00	26,775.00	160,652.00
Total Relevant Employees	**143,608.00**	**47,869.00**	**47,869.00**	**47,869.00**	**287,215.00**

[1] For the purpose of defining Relevant Employees, the employees identified under the "process of identification of Relevant Employees" set out in the Remuneration Policy were considered.

In 2022 there is no deferred remuneration subject to reduction as a result of adjustments made according to the individual performance of Relevant Employees.

In 2022 there were no payments due to early termination of employment contract relative to Relevant Employees.

Within the scope of gender discrimination, the Banco CTT Group began a project to analyse the Wage Gap by Gender with the consultancy firm AON, having already carried out an analysis of internal equity in Banco CTT and 321 Crédito and an analysis of the wage gap between men and women in these two institutions. The choice of the consultant AON was made by the Board of Directors at the proposal of the Remuneration Committee.

IV. Agreements with remuneration implications

According to the Remuneration Policy, the award of variable remuneration to executive members of the Board of Directors and to Relevant Employees depends on prior written commitment by its beneficiary that this person will refrain from entering into risk hedging or risk transfer agreements in relation to any deferred portion that may minimise the risk alignment effects inherent to the framework that applies to the referenced remuneration component or through the payment of the variable remuneration component through special purpose vehicles or other similar methods.

V. Share allocation or stock option plans

Also in accordance with the Remuneration Policy, defined, namely, according to the nature, scope and complexity of the Bank's activity, the variable remuneration of the executive members of the Board of Directors and Relevant Employees may be paid in monetary value and/or in the form of non-monetary benefits, namely through flexible benefits, and it is up to the competent bodies to define the method (or combination of methods, as applicable) for each period in question, without prejudice to the fact that until all or part of the variable remuneration is paid, an alternative model in this area defined by the competent bodies may be implemented on the Bank's sole initiative, in the sense that the variable remuneration may be paid in financial instruments and subject to a retention policy.

Transactions with related parties

I. Control mechanisms and procedures

According to the Banco CTT Group's Policy on Transactions with Related Parties approved by the Board of Directors on 28 June 2021 (as a result of the split of the Conflicts of Interest and Related Parties Policy into two autonomous Policies) and amended on 26 September 2022, the Executive Committee and/or the Board of Directors and/or the owner area submits

any related party transaction to the Audit Committee, and there is a requirement for the issuance of a prior opinion by the Audit Committee, which is applicable:

- Transactions with Related Parties, understood as such, under the terms of the Banco CTT Group Policy on Transactions with Related Parties (which refers to the provisions in IAS 24, in the RGICSF and in Banco de Portugal Notice 3/2020): (i) the holders of a qualified holding in the Institution and other persons or entities covered by the regime provided for in Article 109 of the RGICSF; (ii) the members of the Administrative and Supervisory Bodies; (iii) the spouse, unmarried partner, relative or related in the 1st degree of the members of the Administrative Bodies and of Supervision; (iv) the company in which any member of the Administrative or Surveillance Authority, or his or her spouse, unmarried partner, relative or related in the first degree, holds a qualifying holding equal to or greater than 10% of the capital or voting rights, or in which those persons exercise influence significant or senior management positions or administrative or supervisory functions; (v) the entities in relation to which there is a relationship of economic interdependence, namely due to their insertion in a cross-shareholding relationship with several other entities or which, because they are in such a way linked to the institution, in the event that one of them encounters financial problems, the institution will also have financial difficulties; (vi) persons or entities, including, in particular, depositors, creditors, debtors, entities owned by the institution, employees of the institution or employees of other entities belonging to the same group, whose relationship with the institution potentially allows them to influence their management, in order to achieve a commercial relationship outside normal market conditions. Other entities (other than companies) in which a member of the Board of Directors or the Authority, or his or her spouse, unmarried partner, relative or similar in the first degree holds a qualifying holding equal to or greater than 10% of the capital or of the voting rights, or in which these persons exercise significant influence or hold senior management positions or administrative or supervisory functions. For the purposes of the Related Party concept, the provisions of IAS 24 – no. 9, item a), paragraph iii) should also be taken into consideration: a "related party" is a person or entity related to the entity that is preparing its financial statements: (a) A person or a close family member is related to an entity if: (i) it has control or joint control of the entity; (ii) it has significant influence over the entity; or (iii) is a member of the key management staff of the entity or of a parent company of that entity. (b) An entity is related to another if any of the following conditions are met: (i) the entities are members of the same group (which implies that parent, subsidiary and fellow subsidiaries are related to each other); (ii) one entity is an associate or joint venture of the other entity (or is an associate or joint venture of a member of a group to which the other entity belongs); (iii) both entities are joint ventures of the same third party; (iv) one entity represents a joint venture of the third entity and the other entity is an associate of the third entity (v) the entity is a post-employment benefit plan for the employees of the other entity or a related entity (if an entity is itself such a plan, the sponsoring employers are also related to the entity); (vi) the entity is controlled or jointly controlled by a person identified in (a); (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management staff of the entity (or a parent company of the entity). (viii) the entity, or any member of a group of which it is part, provides key management staff services to the reporting entity or its parent company.

- Transactions to be entered into with members of the management bodies of the entities belonging to the Group or with their Related Parties (or other persons or entities that may be considered as intermediaries), regardless of their value, under the terms and for the purposes of Articles 397 and 423 I-H of the Commercial Companies Code.

For the purposes of the Banco CTT Group's Policy on Transactions with Related Parties, a Transaction with a Related Party is not considered to be any onerous or gratuitous transaction, with or without a debit price, in which more than one entity of the Group participates vis-à-vis one or more common counterparties, provided that this participation, although joint, is carried out in an independent manner and under market conditions.

Within this scope, the following in particular are subject to assessment: (i) the terms and conditions of the transaction; (ii) the amount of the transaction; (iii) the objectives and timeliness of the transaction; (iv) the duration of the transaction; (v) the contracting process, (vi) respect for the Bank's interests, namely: (a) whether the transactions are within the scope of the Bank's business, established in full respect of the interests of the companies of the Group and in accordance with market conditions and the rules in force; (b) their impact on the financial situation of the Bank and/or the Group; (c) whether the Related Party's interest in the transaction is direct or indirect; (d) their continuous or one-off nature; (e) the prevention and resolution of conflicts of interests; and (f) other aspects that it considers relevant; (vii) if the transaction involves the sale of an asset, its description, year of acquisition and net book value; (viii) any limitations that may be imposed on Banco CTT and its subsidiaries as a result of the conclusion or completion of the transaction; (ix) reputational and compliance risk; and (x) any other information that is considered relevant.

Only after obtaining the prior opinions of the Risk Management and Compliance Functions and the Audit Committee, does the Board of Directors decide on Transactions with a Related Party, which must be approved by a minimum of two thirds of the respective members.

II. Transaction information

The relevant transactions with related parties are described in Note 31 (Transactions with related parties) attached to the consolidated financial statements and in Note 32 (Transactions with related parties) attached to the individual financial statements included in the Annual Report.

Annex I

Curricula of the Management and Supervisory Body Members

João de Almada Moreira Rato

Chairman of the Board of Directors

Date of birth · 29 September 1971, Portugal

Date of 1st appointment · 13 September 2019

Term of office · 2022 / 2024

Education

- **1995 -2000:** PhD in Economics (specialising in financial subjects and economic mathematics), University of Chicago (USA)
- **1989 - 1993:** Degree in Economics, Nova School of Business and Economics

Internal management and supervisory positions

- **2019 - ...:** Non-Executive Chairman of the Board of Directors of Banco CTT, S.A.

Other internal positions

- **2019 - ...:** Chairman of the Remuneration Committee of Banco CTT, S.A.

Professional experience

For over 20 years, he has held positions in the financial sector, including several positions in Portugal and abroad in the areas of investment banking, capital markets, public debt management, commercial banking and financial sector advisory.

He also works as a lecturer, both in Portugal and abroad, with a special focus on financial macroeconomics, having taught specialised courses in the areas of corporate finance, financial derivatives, financial management for sovereigns and portfolio management.

Management and supervisory positions in other companies (last 5 years)

- **2022 –...:** Chairman of the Board of the Instituto Português de Corporate Governance
- **2018 –...:** Vice-Chairman of the Board of Directors of the Fórum para a Competitividade (Competitiveness Forum)
- **2018 – 2020:** Non-Executive Member of the Board of Directors of Omtel, Estruturas de Comunicações, S.A.

Other activities

- **2020:** Publication of book by Palgrave publishers, part of the Springer Nature Switzerland AG group
- **2016 –...:** Member of the Board of the Plataforma para o Crescimento Sustentável (Platform for Sustainable Growth)
- **2016 –...:** Research Associate at the Systemic Risk Centre of the London School of Economics
- **2016 – 2020:** External Consultant / Expert at Oliver Wyman in the Middle East (UK and Dubai)
- **2015 –...:** Senior Advisor at Morgan Stanley (UK)
- **2015 – 2016:** Senior Advisor at Incus Capital Advisors (Spain)
- **2014 –...:** Visiting Associate Professor at Nova School of Business and Economics and Nova Information Management School
- **2014:** Member of the Board of Directors and Executive Committee (Chief Financial Officer) at Novo Banco, S.A.
- **14-31 July 2014:** Member of the Board of Directors and Executive Committee (Chief Financial Officer) at Banco Espírito Santo, S.A.
- **2012 – 2014:** Chairman of the Board of Directors of IGCP (Portuguese Treasury and Public Debt Management Agency)
- **2010 – 2012:** Executive Director at Morgan Stanley (United Kingdom)
- **2008 – 2010:** Partner in Nau Capital, head of risk and operational areas (United Kingdom)
- **2003 – 2008:** Executive Director at Lehman Brothers (United Kingdom)
- **2000 – 2003:** Associate at Goldman Sachs (United Kingdom))
- **1996 –1999:** Lecturer at the College and Teaching Assistant at the PhD programme of the University of Chicago (USA)
- **1997 – 1998:** Associate at Banco Bozano (Brazil)

Luís Maria França de Castro Pereira Coutinho

CEO, Chairman of the Executive Committee

Date of birth · 02 March 1962, Portugal

Date of 1st appointment · 24 August 2015 (1)

Term of office · 2022 / 2024

Education

- **2015 - 2016:** Training Programme for Senior Managers of Banco CTT, S.A., Institute of Bank Management
- **2001 - 2002:** Senior Management Programme, AESE Business School
- **1979 - 1984:** Degree in Economics, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2015-...:** Member of the Board of Directors and Chairman of the Executive Committee (CEO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For over 30 years he has worked in various areas of the banking sector in Portugal. He has also performed executive functions of leadership and strategy in international operations, namely in Bank Millennium SA (Poland), as well as non-executive functions in several operations of the Banco Comercial Português, S.A. universe. (Greece, Romania, Turkey, United States of America and Switzerland).

In Portugal, in the years before moving to Banco CTT, he performed executive management functions at Banco Comercial Português, S. A., in the areas of private and corporate banking, and digital banking at ActivoBank, S.A.

Management and supervisory positions in other companies (last 5 years)

- **2017-...:** Chairman of the Supervisory Board of the Portuguese Banking Association in representation of Banco CTT, S.A.

Other activities

- **2012 - 2015:** Member of the Board of Directors and of the Executive Committee of Banco Comercial Português, S.A.
- **2012 - 2015:** Chairman of the Board of Directors of Banco ActivoBank, S.A.
- **2014 - 2015:** Member of the Board of Directors of Pensões Gere – Sociedade Gestora de Fundos de Pensões, S.A.
- **2014 - 2015:** Member of the Board of Directors of Millennium BCP Ageas, Grupo Segurador, SGPS, S.A.
- **2014 - 2015:** Member of the Board of Directors of Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
- **2014 - 2015:** Chairman of the Board of Directors of BCP Capital - Sociedade de Capital de Risco, S.A.
- **2009 - 2015:** Member of the Supervisory Board of Bank Millennium, S.A. (Poland)
- **2008 - 2015:** Chairman of the Board of Directors of Banca Millennium, S.A. (Romania)
- **2011 - 2013:** Member of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2008 - 2013:** Chairman of the Board of Directors of Banque Privée BCP (Suisse), S.A..
- **2008 - 2012:** Member of the Executive Board of Directors of Banco Comercial Português, S.A.
- **2008 - 2012:** Member of the Board of Directors of the Millennium BCP Foundation
- **2010 - 2011:** Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2003 - 2009:** Vice-Chairman of the Executive Board of Directors of Bank Millennium, S.A. (Poland)
- **2008 - 2010:** Vice-Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2008 - 2010:** Chairman of the Board of Directors of BCP Holdings (USA) INC.
- **2008 - 2009:** Member of the Board of Directors of Banco ActivoBank, S.A.
- **2008 - 2009:** Member of the Board of Directors of Millennium BCP – Prestação de Serviços, ACE
- **2003 - 2009:** Member of the Supervisory Board of Millennium Lease Sp Zoo (Poland)
- **2003 - 2009:** Member of the Supervisory Board of Millennium Dom Maklerski, S.A. (Poland)
- **2003 - 2009:** Member of the Supervisory Board of Millennium Leasing Sp Zoo (Poland)

(1) Date of appointment after the incorporation of Banco CTT, S.A.

João Maria de Magalhães Barros de Mello Franco

CCO, Executive Director

Date of birth · 03 March 1972, Portugal

Date of 1st appointment · 14 January 2016

Term of office · 2022 / 2024

Education

- **1998:** Master in Business Administration (MBA), INSEAD (France)
- **1990 - 1995:** Degree in Economics, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2019 – ...:** Member of the Board of Directors of 321 Crédito, Sociedade Financeira de Crédito, S.A.
- **2018 –...:** Chairman of the Board of Directors of Payshop (Portugal) S.A.
- **2016 –...:** Member of the Board of Directors and of the Executive Committee (CCO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For more than 20 years, he has held positions in sales and marketing, products and channels in the banking sector, namely coordinating consulting projects in this sector for 8 years (1995-2003 at McKinsey & Company); as a senior officer at Banco Espírito Santo, S.A. and Novobanco, S.A. for 12 years, focusing on the retail market, namely marketing, product, digital and face-to-face channels and innovation and participation in committees responsible mainly for product and risk areas. He has also held management duties in credit institutions, including as Chief Marketing Officer and Chief Risk Officer at Novo Banco, S.A.

Management and supervisory positions in other companies (last 5 years)

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Other external positions

- **2014:** Member of the Board of Directors and of the Executive Committee of Novobanco, S.A. (*Chief Marketing Officer* and *Chief Risk Officer*)
- **2008 – 2014:** Non-Executive Director of the Board of Directors of Novo Banco dos Açores, S.A.
- **2014- 2015:** General Manager of Retail Banking and Remote Channels at Novobanco, S.A.
- **2013 – 2014:** Coordinating Director of the Marketing, Innovation and Channels Department at Banco Espírito Santo, S.A.
- **2007 – 2012:** Coordinating Director of the Private and Business Marketing Department of Banco Espírito Santo, S.A.
- **2003 – 2006:** Coordinating Director of the Strategic Marketing Department of Banco Espírito Santo, S.A.
- **1995-2003:** Associate Partner at Mckinsey & Company

Pedro Rui Fontela Coimbra

CFO, Executive Director

Date of birth · 11 June 1974, Portugal

Date of 1st appointment · 04 August 2016

Term of office · 2022 / 2024

Education

- **2017:** Compliance Risk Management by Euromoney (United Kingdom)
- **2006:** Master in Business Administration (MBA), INSEAD (France)
- **2001 – 2003:** Chartered Financial Analyst (CFA) by CFA Institute
- **1992 – 1997:** Degree in Business Administration and Management, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2021 – ...:** Chairman of the Board of Directors of 321 Crédito, Instituição Financeira de Crédito, S.A.
- **2019 – 2021:** Member of the Board of Directors of 321 Crédito, Instituição Financeira de Crédito, S.A.
- **2018 – ...:** Member of the Board of Directors of Payshop (Portugal) S.A.
- **2016 –...:** Member of the Board of Directors and of the Executive Committee (CFO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For over 20 years he has held positions essentially in the banking sector, more specifically in the finance area, as a financial analyst conducting institutional research in the banking sector, as well as positions involving the management of corporate projects related to mergers and acquisitions, asset valuation and share capital increases, at Millennium BCP. Also in that Group, he carried out duties as member of the Board of Directors and Executive Committee (CFO) at Banco Millennium BCP Angola. He was also Corporate Banking Manager of the Portuguese Branch of Barclays Bank. Later he held the position of member of the Board of Directors and of the Executive Committee (CFO) at Global Media Group, S.A. with responsibilities in the financial and administrative area, planning and management of assets at the level of the Group and its subsidiaries.

Management and supervisory positions in other companies

- **2015 – 2016:** Managing Director of Notícias Direct - Distribuição ao Domicílio, Lda.
- **2015 – 2016:** Managing Director of Empresa Gráfica Funchalense, Lda.
- **2015 – 2016:** Managing Director of Urcaldas - Empreendimentos Urbanísticos, Lda
- **2014 – 2016:** Member of the Board of Directors and of the Executive Committee (Chief Financial Officer) of Global Notícias – Media Group, S.A.
- **2014 – 2016:** Member of the Board of Directors of Global Notícias Publicações, S.A.
- **2014 – 2016:** Member of the Board of Directors of Global Notícias - Agência de Informação e Imagens, S.A.
- **2014 – 2016:** Member of the Board of Directors of Rádio Notícias – Produção e Publicidade S.A.
- **2014 – 2016:** Managing Director of RJN - Rádio Jornal do Norte, Lda.
- **2014 – 2016:** Managing Director of TSF - Rádio Jornal de Lisboa, Lda.
- **2014 – 2016:** Managing Director of Difusão de Ideias – Sociedade de Radiodifusão, Lda.
- **2014 – 2016:** Member of the Board of Directors of TSF - Cooperativa Rádio Jornal do Algarve, CRL
- **2014 – 2016:** Member of the Board of Directors of Naveprinter – Indústria Gráfica do Norte, S.A.
- **2014 – 2016:** Member of the Board of Directors of Açormédia - Comunicação Multimédia e Edição de Publicações, S.A.
- **2014 – 2016:** Managing Director of Jornal do Fundão Editora, Lda.
- **2009 – 2011:** Member of the Board of Directors and of the Executive Committee (Chief Financial Officer) at Banco Millennium Angola, S.A.

Other external positions

- **2011 – 2014:** Corporate Banking Manager of the Portuguese Branch of Barclays Bank
- **2007 – 2009:** Director at the Corporate Centre at Banco Millennium BCP

Nuno Carlos Dias dos Santos Fórneas

CIO, Executive Director

Date of birth · 24 February 1967, Portugal

Date of 1st appointment · 13 September 2019

Term of office · 2022 / 2024

Education

- **2012:** *Design Thinking* by *STANFORD University*
- **2003:** *Leading the Professional Service Firm* by *HARVARD Business School*
- **1999:** *Strategic Management in Banking* by INSEAD
- **1994 - 1995:** *Master in Business Administration* (MBA), Instituto Superior de Economia e Gestão da Universidade Técnica de Lisboa
- **1984 - 1989:** Degree in Electrical and Computer Engineering, Instituto Superior Técnico, Universidade Técnica de Lisboa

Internal management and supervisory positions

- **2019 – ...:** Member of the Board of Directors and of the Executive Committee (CIO & COO) of Banco CTT, S.A.

Other internal positions

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Professional Experience

For over 30 years, he has developed his professional career in the areas of systems engineering, process and systems consulting and in the development of solutions and information technologies (particularly in the financial sector, in Portugal and abroad, especially in Spain and the United Kingdom).

The technical and management skills developed, as well as the professional experience of more than 19 years in executive management positions, with emphasis on the positions held in the Novabase and Glintt Groups, are also Noteworthy.

Management and supervisory positions in other companies (last 5 years)

- **2018:** Head of Advanced Analytics Competence Center at Associação Nacional de Farmácias (ANF)
- **2017 – 2018:** Member of the Board of Directors and of the Executive Committee at Glintt – Global Intelligent Technologies, S.A.
- **2017 – 2018:** Member of the Board of Directors of Glintt UK, Limited

Other external positions

- **2014 – 2016:** Managing Director of Livian Technologies, Lda.
- **2012 – 2016:** Managing Director at Binómio - Máquinas e Sistemas de Informação, Lda.
- **2003 – 2016:** Member of the Board of Directors of NOVABASE Business Solutions, S.A. (formerly Novabase Consulting S.A.)
- **2009 – 2015:** Member of the Board of Directors of Novabase SGPS, S.A.
- **2009 – 2015:** Member of the Board of Directors and of the Executive Committee of Novabase Serviços – Serviços de Gestão e Consultoria, S.A.
- **2009 – 2015:** Member of the Board of Directors of NOVABASE Infraestruturas SGPS, S.A.
- **2009 – 2015:** Member of the Board of Directors of NOVABASE Infraestructuras e Integración de Sistemas, S.A.
- **2012 – 2013:** Member of the Board of Directors of NOVABASE Consulting, SA (Spain)

Luís Jorge de Sousa Uva Patrício Paúl

CRO, Executive Director

Date of birth · 18 March 1971, Portugal

Date of 1st appointment · 15 June 2020

Term of office · 2022 / 2024

Education

- **2016 - 2017:** "Financial Risk & Regulation" - FRR Certificate Program, GARP- Global Association of Risk Professionals
- **2015 - 2016:** Training Programme for Senior Management "Corporate Governance Regulations and Models" by the Portuguese Bank Training Institute (IFB)
- **1990 – 1994:** Degree in Economics, Faculty of Economics, Universidade Nova de Lisboa

Internal management and supervisory positions

- **2021 – ...:** Member of the Board of Directors of 321 Crédito, Instituição Financeira de Crédito, S.A.
- **2020 – ...:** Member of the Board of Directors and of the Executive Committee (CRO) of Banco CTT, S.A.

Other internal positions

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Professional Experience

For 27 years he has worked in the banking sector, especially in the financial and risk area, with a strong competence in planning, evaluations, financial markets, credit and risk, through functional and coordination experience in these different areas. In Banco Fomento e Exterior, S.A. (later integrated in BPI Group), he worked in the Middle Office Department of the Markets and Treasury Room, with participation in the control of risks and profitability of financial products and, still within the same financial Group, he joined the Planning Department, with functions at the level of the implementation of the profitability analysis model and in the budget preparation process. In Banco Mello, S.A. (subsequently merged into Banco Comercial Português, S.A.), he joined the Financial Department, with responsibility for the Asset & Liabilities Management ("ALM") model and for the analysis of financial margin control. Subsequently, in Banco Comercial Português, S.A., he performed the duties of Deputy Director of the Assets and Liabilities Management area, with participation in the implementation of the market and liquidity risk management methodology in five subsidiaries in Portugal and abroad and, subsequently, assumed the position of Deputy Director in the Risk area, within the same institution. More recently, he held the position of Director of Risk at Bank Millennium, S.A. (banking operation in Poland), having been responsible for proposing and implementing the Bank's policy on the management of credit, market, liquidity and operational risks and monitoring the Bank's exposure to these risks, including the respective capital management, having obtained the approval by the banking regulators of its application for the use of the advanced methods (IRB) for calculating capital requirements for credit risk.

In the last 7 years, he was responsible for Risk Management and CRO at Banco CTT, having participated in the Bank's launch and ensured the implementation of internal control and risk frameworks (financial and non-financial), through the definition of the risk management governance, Risk Appetite Statement, policies, processes, methodologies, controls and reporting for the different types of risk, with permanent participation in several internal Committees of the Bank.

Management and supervisory positions in other companies (last 5 years)

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Other external positions

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João Manuel de Matos Loureiro

Non-Executive Director, Chairman of the Audit Committee

Date of birth · 04 October 1959, Portugal

Date of 1st appointment · 13 September 2019

Term of office · 2022 / 2024

Education

- **1987 – 1992:** PhD in Economics, specialising in International Macroeconomics and Finance, School of Economics and Commercial Law, University of Gothenburg, Sweden
- **1978 - 1983:** Licentiate degree in Economics, Faculty of Economics, Universidade do Porto

Internal management and supervisory positions

- **2019:** Member of the Board of Directors and Chairman of the Audit Committee of Banco CTT, S.A.

Other internal positions

--

Professional Experience

In the last 39 years, he has been a lecturer in the area of Economics, namely in programmes and curricular units of macroeconomics and finance at the Faculty of Economics of Universidade do Porto and in more specialised programmes for executives at Porto Business School. As an author he has published several works in those fields.

In parallel with his academic career he has maintained another professional activity, namely in the banking sector. In the last 10 years, he has held non-executive management and supervisory positions at Banco Comercial Português, S.A., where he was Chairman of the Audit Committee (previously Financial Matters Committee) between 2009 and 2018. In the BCP Group he also performed supervisory functions in subsidiaries.

Management and supervisory positions in other companies (last 5 years)

- **2008:** Lecturer and held academic/university management positions at Porto Business School
- **1984:** Lecturer and held academic/university management positions at the Faculty of Economics, Universidade do Porto
- **2012 – 2018:** Member of the Board of Directors and Chairman of the Audit Committee of Banco Comercial Português, S.A.

Other external positions

- **2012:** Member of the Board of Directors of the Millenniumbcp Foundation
- **2010 – 2012:** Chairman of the Audit Board of Banco BII - Banco de Investimento Imobiliário, S.A.
- **2009 – 2012:** Chairman of the Supervisory Board of Banco ActivoBank, S.A.
- **2009 – 2012:** Member of the General and Supervisory Board and Chairman of the Financial Matters Committee of Banco Comercial Português, S.A.

António Domingues

Non-Executive Director and Member of the Audit Committee

Date of birth · 30 December 1956

Date of 1st appointment · 05 December 2022

Term of office · 2022 / 2024

Education

- **1973 - 1979:** Degree in Economics from Instituto Superior de Economia e Gestão of the University of Lisbon (ISEG)

Internal management and supervisory positions

- **2022 – ...:** Non-Executive Member of the Board of Directors and Audit Committee of Banco CTT, S.A.

Other internal positions

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Professional Experience

Throughout his professional career of nearly 40 years, he has been responsible for different projects and teams, in particular in the areas of investment banking, capital markets and commercial banking, and in the financial, insurance and telecommunications sectors, namely through the exercise of executive and non-executive management functions in various institutions, positions that gave him solid technical skills in the areas of financial management, strategic planning, corporate governance, internal control and audit, financial markets, portfolio management and risk control and management.

Management and supervisory positions in other companies (last 5 years)

- **2018 – ...:** Non-Executive Member of the Board of Directors of Haitong Bank, S.A.
- **2002 – 2020:** Vice-Chairman of the Board of Directors of Banco de Fomento Angola, S.A.
- **2004 – 2022:** Member of the Board of Directors (non-executive) and Chairman of the Audit and Finance Committee of NOS, SGPS, S.A.

Other external positions

- **2016:** Chairman of the Board of Directors and of the Executive Committee of Caixa Geral de Depósitos, S.A.
- **1995 – 2016:** Member of the Board of Directors and Vice-Chairman of the Executive Committee (CFO – Chief Financial Officer) of Banco BPI, S.A.
- **1995 – 2016:** Vice-Chairman of the Board of Directors of BPI-Banco Português de Investimento, S.A.
- **2004 – 2022:** Member of the Board of Directors (non-executive) and Chairman of the Audit and Finance Committee of NOS, SGPS, S.A.
- **2003 – 2016:** Non-Executive Member of the Board of Directors of Companhia de Seguros Allianz Portugal, S.A.
- **2002 – 2012:** Vice-Chairman of the Board of Directors of BCI – Banco Comercial e de Investimentos, S. A.
- **1999 – 2012:** Non-Executive Member of the Board of Directors of SIBS - Forward Payment Solutions, S.A.
- **1999 – 2008:** Non-Executive Member of the Board of Directors of BCI - Banco Comercial e de Investimentos, S. A.

Ana Maria Machado Fernandes

Non-Executive Director and member of the Audit Committee

Date of birth · 01 November 1962

Date of 1st appointment · 05 December 2022

Term of office · 2022 / 2024

Education

- **2021:** Advanced Program for NED (PAANE) at IPCG - Instituto Português de Corporate Governance, Portugal
- **2019:** Course on Risk Management in Banking at INSEAD at Fontainebleau
- **2018 – 2019:** *International Directors Program (IDP)* at INSEAD of Fontainebleau
- **2018:** Course on Value Creation through Effective Boards at IESE Business School
- **2017:** Course on Corporate Governance at Nova Business School and Economics
- **2016:** Course on Corporate Governance at Deloitte / Spencer Stuart
- **2014:** High Performance Leadership Programme at University of Oxford
- **1988 – 1989:** Postgraduate degree in International Finance, Faculty of Economics, University of Porto
- **1988 – 1989:** MBA in Management at Escola de Gestão do Porto
- **1981 – 1986:** Degree in Economics from the Faculty of Economics of Porto

Internal management and supervisory positions

- **2022 - ...:** Non-Executive Member of the Board of Directors and Audit Committee of Banco CTT, S.A.

Other internal positions

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Professional Experience

Throughout her professional career of about 35 years, she has developed experience in different sectors of activity and has been responsible for different projects and teams, focusing her activity in the areas of investment and commercial banking, capital markets and the financial and energy sectors. She has held executive and non-executive (including chairmanship) management positions in institutions and companies in Portugal and abroad.

Management and supervisory positions in other companies (last 5 years)

- **2021 - ...:** Non-Executive Member of The Board of Directors of SDCL EDGE - Acquisition Corporation
- **2020 - 2022:** Member of the Board of Directors (non-executive), Chairman of the Nominations, Evaluation and Remuneration Committee, member of the Risks Committee and member of the Audit and Control Committee of Banco Comercial e de Investimentos, S.A.
- **2017 - 2020:** Non-Executive Member of the Board of Directors, Chairman of the Risk Committee, Member of the Appointments, Assessment and Remuneration Committee of Caixa Geral de Depósitos, S.A.

Other external positions

- **2018 - 2021:** Member of the Advisory Board of NOVA School of Science and Technology
- **2015 – 2017:** Vice-Chairman of the Board of Directors of EDP Renováveis Brasil, as well as Vice-Chairman of the Board of Directors of Instituto EDP Brasil and member of the Advisory Board of Fundação EDP
- **2014 – 2016:** Chairman of the Board of Directors of EDP Energias do Brasil, S.A.
- **2012 – 2014:** Chief Executive Officer (CEO) of EDP Energias do Brasil, S.A.
- **2007 – 2012:** Chief Executive Officer of EDP Renováveis, S.A.
- **2009 – 2011:** Member of the Board of Directors of COTEC Portugal
- **2006 – 2012:** Member of the Executive Board of Directors of EDP - Energias de Portugal, S.A.
- **2004 - 2005:** Chairman of the Board of Directors and Chief Executive Officer of Galp Power, S.A.
- **2004:** Member of the Board of Directors (non-executive) of Galp Energia, S.A.
- **2000 - 2004:** Member of the Board of Directors (non-executive) of Transgás, S.A.

António Pedro Ferreira Vaz da Silva

Non-Executive Director

Date of birth · 13 November 1966, Portugal

Date of 1st appointment · 01 September 2017

Term of office · 2022 / 2024

Education

- **2020:** Qualification Course for Insurance Agent, Insurance Broker or Reinsurance Broker - Non-Life businesses and Life business, Portuguese Insurers Association (APS)
- **2015 – 2016:** Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **2014:** Company Management Programme, AESE Business School
- **1972 – 1984:** Secondary Education, Amadora Secondary School

Internal management and supervisory positions

- **2017 – ...:** Non-Executive Member of the Board of Directors of Banco CTT, S.A.
- **2018 – ...:** Member of the Board of Directors of Payshop (Portugal) S.A.

Other internal positions

- **2022 – ...:** Member of the Remuneration Committee of Banco CTT, S.A.

Professional Experience

As a member of CTT's Executive Committee (COO), he is currently responsible for the areas of Operations Execution and Human Resources Management, which he accumulates with his positions as member of the Boards of Directors of the Banco CTT, S.A. subsidiaries (non-executive), CTT Expresso - Serviços Postais e Logística, S.A., Payshop (Portugal), S.A., CTT Soluções Empresariais, S.A., CTT IMO – Sociedade Imobiliária, S.A. and Medspring, S.A.

With a professional career of 20 years in commercial and retail banking at Millennium BCP, he has held various positions within the group in Portugal and was part of the Private and Business team of Millennium BCP in 2000.

In 2004 he entered CTT as a Commercial Manager, having been responsible for the operations and sales of the south zone of the Retail Network. He successfully developed his career at CTT having taken up the position of Director of the Retail Network in 2013, acquiring extensive experience in management and motivation of teams and Human Resources as well as in sales of marketing of the different products placed through the Retail Network (from Mail, to Express & Parcels and to Financial Services, as well as services of general interest). Over this 16-year period he was involved in various key initiatives and projects related to the optimisation and rationalisation of the Retail Network and its portfolio, as well as promoting the proximity and capillarity associated with this network.

His long history in CTT has contributed to making the Retail Network an increasingly important sales and services channel in CTT's revenue growth in all business units, and a national convenience and multi-services platform, having namely played an active role in the launch of Banco CTT in 2016, which is supported by that Network.

Management and supervisory positions in other companies (last 5 years)

- **2022 –...:** Member of the Board of Directors of Medspring, S.A.
- **2021 – ...:** Member of the Board of Directors of CTT IMO – Sociedade Imobiliária, S.A.
- **2021 – 2022:** Member of the Board of Directors of HCCM Outsourcing Investment, S.A.
- **2020 – ...:** Member of the Board of Directors of CTT Soluções Empresariais, S.A.
- **2017 – ...:** Member of the Board of Directors and of the Executive Committee of CTT-Correios de Portugal, S.A.
- **2017 – ...:** Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.

Other external positions (last 5 years)

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Guy Patrick Guimarães de Goyri Pacheco

Non-Executive Director

Date of birth · 25 May 1977, Portugal

Date of 1st appointment · 15 June 2018

Term of office · 2022 / 2024

Education

- **2018 - 2019:** Training Programme for Senior Managers, Bank Training Institute, Portuguese Banking Association
- **2011:** Leaders who transform, The Lisbon MBA – Católica/Nova
- **2010:** Leadership Executive Program, Universidade Católica Portuguesa
- **1995 – 2000:** Licentiate degree in Economics, Faculty of Economics, Universidade do Porto

Internal management and supervisory positions

- **2018 –...:** Non-Executive Member of the Board of Directors of Banco CTT, S.A.

Other internal positions

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Professional Experience

As member of the Executive Committee (CFO), he is currently responsible in CTT for the areas of Costs, Transformation and Operations Planning, which he accumulates with his positions as member of the Boards of Directors of the subsidiaries CTT Expresso – Serviços Postais e Logística, S.A., Banco CTT, S.A., CTT Soluções Empresariais, S.A., Newspring Services, S.A., CTT IMO - Sociedade Imobiliária, S.A. and Medspring, S.A.

His main professional occupation from 2015 to 2017 was CFO of PT Portugal, SGPS, S.A. and from 2011 to 2015 he was Director of Planning and Control of Portugal Telecom, SGPS, S.A. (company listed on the stock exchange).

He has skills in the areas of finance, planning and control, financial and operational reporting, with a career in management and senior management functions in these areas in the PT universe over a period of around 17 years.

With extensive experience and transformational profile in positions related to strategic transformation in the telecommunications sector and digital business, with national and international presence (working from 2001 to 2017 in markets marked by a challenging regulatory, technological and competitive context, having been, between 2007 and 2011, especially involved in continuous improvement and transformation projects), he led, as CFO, optimisation and cost rationalisation plans in the same sector.

Management and supervisory positions in other companies

- **2022 – ...:** Member of the Board of Directors of Medspring, S.A.
- **2021 –...:** Member of the Board of Directors of CTT IMO – Sociedade Imobiliária, S.A.
- **2021 –...:** Member of the Board of Directors of Newspring Services, S.A.
- **2021 – 2022:** Member of the Board of Directors of HCCM Outsourcing Investment, S.A.
- **2020 –...:** Member of the Board of Directors of CTT Soluções Empresariais, S.A.
- **2018 – 2019:** Member of the Board of Directors of Tourline Express Mensajería, S.L.U.
- **2017 –...:** Member of the Board of Directors and of the Executive Committee (CFO) of CTT– Correios de Portugal, S.A.
- **2017 –...:** Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.
- **2017 – ...:** Non-Executive Member of the Board of Directors of Finerge, S.A.
- **2017 – 2019:** Non-Executive Member of the Board of Directors of Âncora Wind – Energia Eólica, S.A.
- **2017 – 2018:** Non-Executive Member of the Board of Directors of First State Wind Energy Investments, S.A.
- **2017 – 2017:** Non-Executive Member of the Board of Directors of Sport TV Portugal, S.A.
- **2016 – 2017:** Non-Executive Chairman of the Board of Directors of Janela Digital – Informática e Telecomunicações, S.A.
- **2016 – 2017:** Non-Executive Member of the Board of Directors of Capital Criativo, SCR, S.A.
- **2015 – 2017:** Member of the Executive Committee (Chief Financial Officer) of PT Portugal, SGPS, S.A.
- **2015 – 2017:** Chairman of the Supervisory Board of Hungaro Digitel Plc.
- **2015 – 2017:** Member of the Board of Directors of PT Pay, S.A.
- **2015 – 2016:** Chairman of the Supervisory Board of Fibroglobal – Comunicações Electrónicas, S.A.

Other external positions

- **2018 - ...:** Member of the Board of AEM (Association of Companies Issuing Listed Securities)

Maria Rita Mégre de Sousa Coutinho

Non-Executive Director and member of the Remuneration Committee

Date of birth · 16 May 1974, Portugal

Date of 1st appointment · 05 December 2022

Term of office · 2022 / 2024

Education

- **2016:** Women on Boards: Succeeding as a Corporate Director, Harvard Business School
- **2012:** Advanced Management Program, Harvard Business School
- **2001:** *Master of Business Administration*, INSEAD
- **1992 – 1997:** Business Administration and Management, Católica Lisbon School of Business & Economics

Internal management and supervisory positions

- **2022 – ...:** Non-Executive Member of the Board of Directors of Banco CTT, S.A.

Other internal positions

- **2022 – ...:** Member of the Remuneration Committee (within the Board of Directors) of Banco CTT, S.A.

Professional Experience

Throughout her professional career of more than 25 years, she has developed her activity in Portugal and abroad, both in the corporate field, as an executive, as an advisor to global companies and as an entrepreneur, having contributed to the success of various international companies in the European, Asian, Latin American and, more recently, Middle Eastern markets, leading projects and teams in various sectors, particularly in the retail, consumer and e-commerce markets. Her collaboration with the Jerónimo Martins, Pão de Açúcar/Casino and Walmart groups stands out.

Recently, she became a member of the WomenExecsOnBoards network – invited for the role of Digital Transformation Leader, and is also a member of Instituto Português de Corporate Governance, since 2017

Management and supervisory positions in other companies

- **2017-...:** Managing Director at Categorical World - Administração de Empresas, Unipessoal, Lda.
- **2017-...:** Managing Director of Ollive Assessoria e Consultoria, Ltda
- **2017 – 2019:** Non-Executive Member of the Board of Directors at Brasmar S.A.
- **2015 – 2018:** Member of the Board at Illycaffè Sud America Comércio, Importação e Exportação, Ltda
- **2015 – 2019:** Member of the Board of Directors at Mundo dos Pães Participações, S.A.: 2015 - 2017: Member; 2017-2019: Vice-Chairman
- **2015 – 2020:** Director/Managing Director of Ocean Participações, Investimentos e Consultoria, Ltda
- **2009 – 2010:** Vice-Chairman of the Board of Directors at APED – Associação Portuguesa das Empresas de Distribuição

Other external positions

- **2021 - ...:** Member of the International Advisory Board at Católica Lisbon School of Business & Economics
- **2018 - ...:** Adviser to the Portuguese Diaspora Council

Annex II

Transactions involving CTT Shares in 2022

Details of transactions by Directors and closely related parties during 2022, as disclosed to the Company.

António Domingues

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	3.800	10,000	10.05.2022

Maria Rita Mégre de Sousa Coutinho

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	4.150	1,164	28.01.2022
Acquisition	XLIS	4.150	236	28.01.2022
Acquisition	XLIS	4.145	3,600	28.01.2022
Acquisition	XLIS	4.845	1,136	02.09.2022
Acquisition	XLIS	4.845	1,100	02.09.2022
Acquisition	XLIS	4.845	900	02.09.2022
Acquisition	XLIS	4.845	864	02.09.2022

Disclosure of Information under the terms of Part VIII of Regulation (EU) 575/2023

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Introductory Note

The purpose of this document is to provide information on the business activity and exposure of the Banco CTT S.A. Group (hereinafter referred to as "Group" or "Banco CTT"), from a predominantly prudential perspective, in compliance with the requirements specified in article 433-B, point 2, of Regulation (EU) 575/2013, of 26 June (hereinafter referred to as "Regulation" or "CRR").

Since Banco CTT was classified as a small-sized, non-complex institution (hereinafter referred to as "SNCI"), on the reference dates, and is not listed in the stock exchange, the contents of this report are limited to the key metrics specified in article 447 of the CRR, although additional information concerning total risk weighted exposure amounts and the corresponding requirement regarding total own funds, in accordance with article 438, paragraph d), of the CRR, is also included, at the initiative of the institution, despite not representing an obligation.

The aforementioned amounts are presented in accordance with the classifications specified in the prudential regulations observed by Banco CTT, as required by Portuguese Law, based on European directives and Basel Agreement recommendations, namely regarding Pillar III – market discipline.

Unless otherwise indicated, monetary amounts are presented in euros and reflect the exposure of Banco CTT as of 31 December 2022 and 31 December 2021.

Declaration of Responsibility

The Board of Directors of Banco CTT confirms that the Group has disclosed the information required in Part VIII of the Regulation in accordance with the official policies and the internal processes, systems and controls implemented for the purpose of verifying if the disclosures in question are adequate and comply with the requirements defined in the aforementioned Part VIII.

Banco CTT's business consists of banking activities, including all accessory, related and similar operations, as compatible with the aforementioned activities and allowed by law. On the reference dates of this report (31 December 2022 and 31 December 202), Banco CTT owned the following holdings:

- 100% of the share capital of Payshop (Portugal), S.A. ("Payshop"), whose core business is the provision of payment services, namely pertaining to Water, Electricity, Gas and Toll Invoices; Taxes; Online Shopping; Mobile Phone Top-Ups; Public Transport Cards; and Online Game and Entertainment Vouchers, amongst other payments;
- 100% of the share capital of 321 Crédito – Instituição Financeira de Crédito S.A. ("321 Crédito"), whose core business is the granting of credit for the purchase of used, nearly new or classic vehicles. The company specialises in credit operations originated by credit intermediaries.

The composition of Banco CTT on the reference dates was as follows:

	2022		2021	
	Holding (%)	Voting rights (%)	Holding (%)	Voting rights (%)
Payshop (Portugal), S.A. (*)	100%	100%	100%	100%
321 Crédito - Instituição Financeira de Crédito, S.A.	100%	100%	100%	100%

(*) Activity undergoing discontinuation.

The Group's consolidation perimeter includes the accounts of Banco CTT and the respective subsidiaries. "Subsidiaries" are entities whose current management is effectively controlled by Banco CTT, which seeks to obtain economic benefits from the activities undertaken. Control normally corresponds to the ownership of more than 50% of share capital or voting rights.

Lisbon, 14 March 2023

The Board of Directors

João de Almada Moreira Rato	João Manuel de Matos Loureiro
Luís Maria França de Castro Pereira Coutinho	António Domingues
João Maria de Magalhães Barros de Mello Franco	Ana Maria Machado Fernandes
Pedro Rui Fontela Coimbra	António Pedro Ferreira Vaz da Silva
Nuno Carlos Dias dos Santos Fórneas	Guy Patrick Guimarães de Goyri Pacheco
Luís Jorge de Sousa Uva Patrício Paúl	Maria Rita Mégre de Sousa Coutinho

Disclosure of key metrics (article 447 of the CRR)

Banco CTT adopts a conservative policy regarding the management of own funds, maintaining a solvency ratio higher than the minimum values required by regulatory entities. Own funds are monitored on a monthly basis, such as to assess the institution's degree of solvency and analyse variations relative to previous periods, as well as determine the existing margin between actual exposure amounts and minimum capital requirements.

The procedures followed in order to calculate the Group's ratios and prudential limits are as specified by the Banco de Portugal and European Regulations, namely Regulation (EU) 575/2013, of 6 June 2013.

Calculation of own funds is based on the accounting information included in the Group's financial statements and supplementary non-accounting information. Own funds comprise core own funds (also designated as Tier 1) and supplementary own funds (Tier 2), from which other values may be deducted, under the terms of the Regulation. As of 31 December 2022 and 31 December 2021, Banco CTT's Tier 1 capital was primarily composed of paid-up capital and eligible reserves and earnings. Eligible earnings were included in the applicable periods.

The aforementioned capital should not only comply with the regulatory requirements applicable to current business activity (including solvency ratio requirements and any other supplementary requirements imposed by supervisory authorities), but also ensure the fulfilment of strategic growth needs, subject to market conditions (cost of capital and debt), as well as safeguard an image of solidity before analysts, customers and the financial community in general.

Table 1 – Template EU KM1: Key metrics template (2022)

		31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	184,876,483	174,287,704	173,016,420	165,320,719	167,112,179
2	Tier 1 capital	184,876,483	174,287,704	173,016,420	165,320,719	167,112,179
3	Total capital	184,876,483	174,287,704	173,016,420	165,320,719	167,112,179
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,182,594,054	1,091,764,582	1,028,018,628	1,086,739,394	1,043,231,645
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	15.63%	15.96%	16.83%	15.21%	16.02%
6	Tier 1 ratio (%)	15.63%	15.96%	16.83%	15.21%	16.02%
7	Total capital ratio (%)	15.63%	15.96%	16.83%	15.21%	16.02%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.00%	3.00%	3.00%	3.00%	3.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.69%	1.69%	1.69%	1.69%	1.69%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.25%	2.25%	2.25%	2.25%	2.25%
EU 7d	Total SREP own funds requirements (%)	11.00%	11.00%	11.00%	11.00%	11.00%
	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%
11	Combined buffer requirement (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 11a	Overall capital requirements (%)	13.50%	13.50%	13.50%	13.50%	13.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	11.13%	11.46%	12.33%	10.71%	11.52%
	Leverage ratio					
13	Total exposure measure	2,628,615,612	2,619,963,263	2,569,854,143	2,715,379,356	2,659,946,115
14	Leverage ratio (%)	7.03%	6.65%	6.73%	6.09%	6.28%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of 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%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	949,918,695	1,002,034,150	1,067,115,921	894,770,848	931,274,586
EU 16a	Cash outflows - Total weighted value	212,731,163	179,074,465	181,130,802	171,168,067	160,868,902
EU 16b	Cash inflows - Total weighted value	54,727,080	71,157,574	81,319,618	61,859,574	55,164,119
16	Total net cash outflows (adjusted value)	158,004,083	107,916,891	99,811,184	109,308,493	105,704,783
17	Liquidity coverage ratio (%)	601.20%	928,52%	1069.13%	818.57%	881.01%
	Net Stable Funding Ratio		179,074,465			
18	Total available stable funding	2,709,778,773	2 681 400 722	2,646,138,754	2,430,833,552	2,373,809,386
19	Total required stable funding	1,611,209,446	1 544 507 055	1,494,867,043	1,434,328,960	1,415,270,418
20	NSFR ratio (%)	168,18%	173.61%	177,01%	169,48%	167.73%

Table 2 – Template EU KM1: Key metrics template (2021)

		31/12/2021	30/09/2021	30/06/2021	31/03/2021	31/12/2020
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	167,112,179	157,576,392	156,125,053	144,439,349	130,902,180
2	Tier 1 capital	167,112,179	157,576,392	156,125,053	144,439,349	130,902,180
3	Total capital	167,112,179	157,576,392	156,125,053	144,439,349	130,902,180
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,043,231,645	921,511,166	1,036,121,372	798,813,916	780,104,199
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	16.02%	17.10%	15.07%	18.08%	16.78%
6	Tier 1 ratio (%)	16.02%	17.10%	15.07%	18.08%	16.78%
7	Total capital ratio (%)	16.02%	17.10%	15.07%	18.08%	16.78%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.00%	3.00%	3.00%	3.00%	3.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.69%	1.69%	1.69%	1.69%	1.69%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.25%	2.25%	2.25%	2.25%	2.25%
EU 7d	Total SREP own funds requirements (%)	11.00%	11.00%	11.00%	11.00%	11.00%
	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%
11	Combined buffer requirement (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 11a	Overall capital requirements (%)	13.50%	13.50%	13.50%	13.50%	13.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	11.52%	12.60%	10.57%	0.00%	0.00%
	Leverage ratio					
13	Total exposure measure	2,659,946,115	2,568,133,312	2,224,591,200	2,078,388,721	1,963,224,375
14	Leverage ratio (%)	6.28%	6.14%	7.02%	6.95%	6.67%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 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 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)	931,274,586	905,075,969	603,567,465	775,411,390	707,529,287
EU 16a	Cash outflows - Total weighted value	160,868,902	158,091,204	136,787,155	122,272,643	120,856,636
EU 16b	Cash inflows - Total weighted value	55,164,119	66,066,317	129,160,565	62,238,034	54,500,839
16	Total net cash outflows (adjusted value)	105,704,783	92,024,887	34,196,789	60,034,609	66,355,797
17	Liquidity coverage ratio (%)	881.01%	983.35%	1764.98%	1291.61%	1066.27%
	Net Stable Funding Ratio					
18	Total available stable funding	2,373,809,386	2,230,131,052	1,983,996,166	1,877,438,455	1,765,297,524
19	Total required stable funding	1,415,270,418	1,360,938,989	1,239,512,762	1,006,587,742	1,002,544,338
20	NSFR ratio (%)	167.73%	163.87%	160.06%	186.52%	176.08%

Disclosure of own funds requirements and risk weighted exposure amounts (article 438 of the CRR)

Banco CTT calculates own funds requirements for credit risk on the reporting dates in question based on the standard method specified in the prudential regulations in effect. Banco CTT uses the key indicator method to calculate operational risk.

Total risk exposure amounts and the corresponding capital requirements for the financial year ended on 31 December 2022 are shown on the map below:

Table 3 – Template EU OV1: Overview of risk weighted exposure amounts (2022)

(amounts in thousand euros)

		Total risk exposure amounts (TREA)		Total own funds requirements
		31/12/2022	31/12/2021	31/12/2022
1	**Credit risk (excluding CCR)**	990,909	918,727	79,273
2	Of which the standardised approach	990,909	918,727	79,273
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	**Counterparty credit risk - CCR**	42,761	-	3,421
7	Of which the standardised approach	9,395	-	752
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	33,366	-	-
9	Of which other CCR	-	-	-
15	**Settlement risk**	-	-	-
16	**Securitisation exposures in the non-trading book (after the cap)**	25	13	2
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250% / deduction	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)**	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
EU 22a	**Large exposures**	-	-	-
23	**Operational risk**	148,925	124,504	11,914
EU 23a	Of which basic indicator approach	148,925	124,504	11,914
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	-	-	-
29	**Total**	**1,182,619**	**1,043,244**	**94,610**

Table 4 – Template EU OV1: Overview of risk weighted exposure amounts (2021)

(amounts in thousand euros)

		Total risk exposure amounts (TREA)		Total own funds requirements
		31/12/2021	31/12/2020	31/12/2021
1	Credit risk (excluding CCR)	918,727	695,045	73,498
2	Of which the standardised approach	918,727	695,045	73,498
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	-	172	-
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	-	-	-
9	Of which other CCR	-	172	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	13	-	1
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	118	-
21	Of which the standardised approach	-	118	-
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	124,504	84,768	9,960
EU 23a	Of which basic indicator approach	124,504	84,768	9,960
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	**Total**	**1,043,244**	**780,104**	**83,460**

Disclosure of the Remuneration Policy (article 450 of the CRR)

Remuneration Policy (Table EU REMA)

The Remuneration Committee is responsible for assessing and supervising the policies and practices applicable to the remuneration of all employees, including the members of Corporate Bodies, as detailed in Chapter D ("Remunerations") of the Corporate Governance Report. The Remuneration Committee, created within the Board of Directors and whose term of office matches that of the Board of Directors, had the following composition as of 31 December 2022:

- João de Almada Moreira Rato (Presidente)
- António Pedro Ferreira Vaz da Silva (Vogal)
- Maria Rita Mégre de Sousa Coutinho (Vogal)

During 2022, the Remuneration Committee met 12 times.

The Remuneration Policy was defined by Banco CTT, as the parent company of the Banco CTT Group, and applies to Banco CTT and all subsidiaries included in the respective consolidation perimeter. The Banco CTT Group Remuneration Policy is to be adopted by all subsidiaries. Each subsidiary shall be responsible for producing the respective remuneration models in accordance with the principles defined in the Policy. This policy applies to the members of the Board of Directors (including the members of the Executive Committee and non-executive members) and/or the supervisory body, Relevant Employees and Employees, excluding the Multi-Employer Staff of the Retail Network.

In addition to the Remuneration Policy applicable to the Banco CTT Group, the Remuneration Policy applicable to the Multi-Employer Staff of the Retail Network also applies to all multi-employer staff members responsible for the provision of services to Banco CTT and CTT – Correios de Portugal, S.A.

The Remuneration Policy also applies to relevant employees whose professional activities have a significant impact on the risk profile of the Banco CTT Group and/or its subsidiaries. Relevant employees include all employees in the following categories:

- Top Management: this category includes all employees who perform executive functions and are directly responsible (first line) for current management before the Board of Directors and the Executive Committee, as identified in the Relevant Employee identification process.
- Employees Responsible for Risk-Taking: this category includes all employees responsible for risk-taking, as identified in the Relevant Employee identification process.
- Control Function Managers: this category includes all employees directly responsible for control functions (risk management, compliance or internal audit) before the Board of Directors, as identified in the Relevant Employee identification process.
- Employees responsible for the management of control functions: this category includes all employees responsible for managing any of the aforementioned internal control functions, reporting directly to the manager of the function in question, as identified in the Relevant Employee identification process.
- All remaining Employees with remunerations equal to or higher than 500,000 euros, and at least equal to the average remuneration of the members of administrative and supervisory bodies and Top Management, provided that they perform their functions at a significant business unit and that the respective activities, owing to their nature, have a significant impact on the risk profile of the business unit in question, based on the qualitative and quantitative criteria defined, as identified in the Relevant Employee identification process.

The qualitative criteria defined are as follows:

a. Top Managers, as defined in the RGICSF or superseding legislation;

b. Control Function Managers of Employees Responsible for the Management of Control Functions;

c. Managers or employees responsible for risk management at a significant business unit, or with management responsibilities at a significant business unit, reporting directly to the manager of the unit in question;

d. Employees outside Top Management who are responsible for managing any aspects pertaining to legal affairs; compliance with policies and accounting procedures; prevention of money laundering and terrorism financing; finance, including tax and budgeting; human resources; the remuneration policy; IT; information security; and subcontracting agreements related to essential or important functions, or economic analysis;

e. Members of responsible committees or employees responsible for the management of any of the following risk categories: counterparty, concentration, securitisation, interest rate, operational, liquidity and excessive leverage;

f. Employees responsible for presenting proposals, holding the necessary powers to approve or veto decisions, or members of committees with the necessary powers to make decisions concerning credit or credit product structuring that may entail exposure to credit risk, with a nominal amount per transaction corresponding to 0.5% of the Common Equity Tier 1 of each Group entity, if applicable, and equivalent to at least 5 million euros;

g. Employees holding the necessary powers to approve or veto decisions, or members of committees authorised to make decisions concerning portfolio transactions whose cumulative value reaches an own funds requirement for market risks corresponding at least 0.5% of the Common Equity Tier 1 of each Group entity, if applicable;

h. Employees or members of committees holding the necessary powers to approve or veto the launch of new products; or

i. Employees responsible for managing any Employee who meets any of the criteria specified in the previous paragraphs.

The quantitative criteria defined are as follows:

a. Employees whose total remuneration in the previous financial year was equal to or higher than 750,000 euros;

b. In the case of entities with more than 1,000 employees, Employees belonging to the 0.3% of permanent staff, rounded up to the nearest integer, receiving the highest total remunerations in the previous financial year;

It should be mentioned that employee categorisation according to the aforementioned criteria is based on an identification process of Employees whose professional activities have a significant impact on the risk profile of the Banco CTT Group and/or its subsidiaries.

The Remuneration Policy was defined based on a series of objectives aligned with the mission and values of the Banco CTT Group and with the institution's efforts to prevent conflicts of interest and ensure respect for the rights and interests of the consumers of bank products and services, including savings, credit and payments, namely the following:

a. Attracting, motivating and retaining highly talented Employees, in order to create value in the long run and increase the organisation's productivity;

b. Fostering employee commitment and motivation, and encouraging excellent performance, by acknowledging and rewarding merit, rewarding professional responsibility and ensuring internal equity and external competitiveness;

c. Creating incentives that ensure a level of risk-taking compatible with the business and risk strategy of each Banco CTT Group company, foster the tolerance and risk culture of the institutions and safeguard sound, prudent risk management by the members of Corporate Bodies, Relevant Employees and all remaining Employees, albeit not encouraging the taking of risks that exceed the risk level tolerated by the institution;

d. Creating incentives that promote a solid risk culture, encourage Employees to adopt prudent risk-taking conducts, and ensure the observance of internal rules and procedures, including by retail network employees;

e. Ensuring the achievement of the long-term strategic objectives, values and interests of the Banco CTT Group, in alignment with its strategy (namely the Group's business plan, financial model and budget);

f. Avoiding conflicts of interest, particularly with respect to Employees with Control Functions, Employees Responsible for the Management of Control Functions and Control Function Managers (as defined in section B, below), as well as Employees and Managers responsible for solvency assessment, risk analysis and credit decisions ("Credit Employees" and "Credit Managers", respectively);

g. Promoting professional, diligent, honest, loyal, transparent relationships between Employees and customers or other entities, in accordance with the Code of Conduct adopted by the Banco CTT Group, such as to ensure respect for the rights and interests of customers in what concerns the sale of products and provision of services, and, in the case of retail network employees, to ensure that the interests of customers will be prioritised, with regard to the sale/provision of banking products and services, and by no means harmed by the interests of the employees in question or of the Bank, namely through incentives solely aimed at ensuring the achievement of quantitative commercial goals and objectives;

h. Creating value in the long run for the shareholders and other stakeholders of the Banco CTT Group.

Additionally, the Remuneration Policy should be neutral from a gender perspective, i.e. the Members of Administrative and Supervisory Bodies of the Banco CTT Group, as well as all other Employees, should receive equal remuneration for identical functions and similar competence levels, responsibilities, experience and professional qualifications, irrespective of gender. Within this scope, the Banco CTT Group initiated a Gender Pay Gap analysis project, in collaboration with AON, a consulting company selected by the Board of Directors based on a proposal submitted by the Remuneration Committee.

Regarding the decision-making process, in what concerns remuneration issues, the Bank's General Meeting is responsible for approving, reviewing and updating the Policy, with respect to the Remunerations of Corporate Bodies (without prejudice to the respective statutory power to delegate these responsibilities on a Remuneration Committee), based on a proposal submitted by the Remuneration Committee created within the Bank's Board of Directors. The Bank's Board of Directors is responsible for approving, reviewing and updating the Policy, with respect to the Remunerations of Relevant Employees, based on a proposal submitted by the Executive Committee, conditional upon the favourable opinion/recommendation of the Remuneration Committee, within the scope of the respective powers. In both cases, the legal and statutory powers of the Bank's Audit Committee are taken into account.

In the case of subsidiaries, the General Meeting is responsible for approving, reviewing and updating the Policy, with respect to the Remunerations of Corporate Bodies (without prejudice to the respective statutory power to delegate these responsibilities on a Remuneration Committee). Regarding the Remunerations of Relevant Employees, these responsibilities fall upon the Board of Directors, based on proposals submitted by the Human Resources Department of each subsidiary. In both cases, the legal and statutory powers of the respective supervisory body are taken into account.

The Board of Directors (which undertakes final responsibility within this scope) is responsible for approving, reviewing and updating the Policy, with respect to the Remunerations of Employees, based on a proposal submitted by the Executive Committee, conditional upon the favourable opinion/recommendation of the Remuneration Committee, within the scope of the respective powers, without prejudice to the legal and statutory powers of the Bank's Audit Committee. The Human Resources and Compliance Departments of each Banco CTT subsidiary may also be consulted, taking the respective areas of activity into account. In the case of subsidiaries, the Board of Directors is responsible for approving, reviewing and updating the Policy, based on the proposals submitted by the Human Resources Departments of each subsidiary, taking the legal and statutory powers of the respective supervisory body into account.

Regarding the retail network, the Board of Directors (which undertakes final responsibility within this scope) is responsible for approving, reviewing and updating the Policy, in what concerns the respective employees, based on a proposal submitted by the Executive Committee, in collaboration with the Human Resources Departments, without prejudice to the legal and statutory powers of the Remuneration Committee, the Audit Committee and the Compliance Department, as applicable, and to the governance mechanisms defined in the Protocol (which stipulate that Multi-Employer Staff assessment and career management processes are periodically agreed with the Employees, considering CTT regulations and the legal regime applicable to credit institutions).

The variable remuneration of the members of the Executive Committee, Directors with management responsibilities and relevant employees consists of a short-term and a long-term component. In the case of subsidiaries, the implementation of long-term variable remunerations is considered for members of the administrative body with executive functions, taking the proportionality principle into account.

The awarding of variable remuneration is based on a series of objective, measurable, predetermined criteria, assumptions and limits, established in a performance assessment model. This model includes the following parameters:

a. Performance assessment criteria:

i. Quantitative criteria (financial and non-financial) and qualitative criteria, cumulatively;

ii. Combination of performance assessment results concerning the institution, whether on an individual basis or a consolidated Banco CTT Group level, the structural unit in question and the individual employee, with respect to their objectives, in order to promote the institution's sustainability, foster the long-term creation of value and encourage employees to overperform;

iii. Sustainable assessment of the institution's performance, adequate to the institution's its long-term risk profile and aligned with its business plan, financial model and budget;

iv. Compliance by the beneficiary of the institution's Code of Conduct and internal regulations;

v. Compliance by the institution, the structural unit and the beneficiary in question with the rules and procedures applicable to the activities involved, namely regarding internal control and risk management, the governance system, conflicts of interest, related parties and relationships with customers (including service quality levels, compliance with information duties, defence of customers' interests and mitigation of the risk of damage to consumers).

b. Achievement levels and weights for each performance assessment criterion/condition:

i. Establishment of minimal assumptions, targets and maximum limits;

ii. Regarding the Members of the Banco CTT Executive Committee, pluriannual assessment of the institution's performance, taking the Banco CTT Group's Strategic Plan into account, as established in the respective performance assessment model;

iii. Balance between annual and long-term performance;

iv. Fostering the institution's sustainable performance, adequate to the respective long-term risk profile and aligned with the institution's business plan, financial model and budget.

c. Adjustments that may limit the awarding and payment of variable remuneration, including the decision not to award or pay this remuneration, or reduce its value:

i. Adjustments based on the types of risks, current and future, to which the institution is exposed;

ii. Adjustments based on own funds and necessary liquidity, in which case VR may not be awarded should it be deemed that the respective payment may compromise the institution's capacity to safeguard its own funds and/or liquidity;

iii. Adjustments resulting from the need to ensure the institution's financial sustainability.

Regarding the employees, the parameters listed below are also considered, in addition to the aforementioned criteria (excluding those defined in paragraph b)):

The achievement levels and weights for each performance assessment criterion/condition, or degrees of achievement of commercial or other objectives, as well as the achievement levels and weights for each performance assessment criterion, condition and/or parameter established in each Incentive Model or Campaign, are as follows:

i. Establishment of minimal assumptions/conditions, targets and maximum limits for each Campaign, in accordance with this Policy, particularly the annual budget;

ii. Fostering the institution's sustainable performance, adequate to the respective long-term risk profile and aligned with the institution's business plan, financial model and budget.

The awarding of variable remuneration will also depend on any reduction mechanisms, total or partial, eventually applicable to awarded and deferred variable remuneration whose payment does not yet constitute an acquired right, and the reversal of VR whose payment already constitutes an acquired right, depending on acceptance by the beneficiary, in the following situations:

a. Approval (individual or by the beneficiary's structural unit) of operations or acts resulting in significant losses for the institution, namely in terms of own funds, solvency or liquidity;

b. Loss of adequation of the beneficiary, namely aptitude, to perform the respective functions in accordance with the selection and assessment policy effective at any time and, in any case, by decision of the supervisory authority with legal powers for this purpose;

c. Failure to comply with the applicable Code of Conduct and other internal regulations, such as to warrant disciplinary action;

d. Application of regulatory material sanctions to the beneficiary, by decision of the supervisory authority, or resulting from decisions or acts of the beneficiary or to which the latter has contributed in a decisive manner;

e. False information in the institution's financial statements.

Regarding retail network employees, the awarding of variable remuneration is based on a commercial incentive model, qualitative objectives related to compliance with internal procedures and/or quality indicators. The variable remuneration awarding and payment criteria, assumptions and limits established in the aforementioned model include the parameters listed above (paragraphs a) and c)), in addition to the following parameters:

Degrees of achievement of commercial or other applicable objectives and evaluation of each criterion, condition and/or performance assessment parameter defined for each Campaign:

i. Establishment of minimal assumptions/conditions, targets and maximum limits for each Campaign, in accordance with this Policy, particularly the annual budget;

ii. Fostering the institution's sustainable performance, adequate to the respective long-term risk profile and aligned with the Bank's business plan, financial model and budget.

The Remuneration Policy was reviewed last year by the Remuneration Committee. The most relevant changes were the following:

- The Remuneration Policy for 2023 is based on the assumption that Banco CTT, or any of the entities that form the Banco CTT Group, does not fulfil the necessary requirements to be classified as a large institution, under the terms of article 4, point 1, paragraph 146), of Regulation (EU) 575/2013, of the European Parliament and of the Council, of 26 June 2013, and that the value of the balance sheet and off-balance sheet assets, on average and individually, has not exceeded 5,000,000,000 euros over the four-year period immediately preceding the financial year in question.
- Depending on the institution's financial conditions within the existing macroeconomic environment on the date of the decision to award Variable Remuneration, the payment of any Variable Remuneration awarded may be deferred by up to 50% and the deferral period may have a duration of up to 4 years.

- Inclusion of a point concerning indemnity for termination of office of members of the Corporate Bodies and Relevant Employees.

The primary impact on remuneration is that deferral of the variable remunerations of Relevant Employees is no longer mandatory.

The Control Function Managers and Employees Responsible for the Management of Control Functions may be awarded variable remuneration should such be decided by the Board of Directors, based on a proposal/favourable recommendation of the Remuneration Committee, and conditional upon prior evaluation by the supervisory body (to the extent that Control Functions report to this body). The eventual awarding of this component must comply with the following principles:

a. The remuneration of the aforementioned Employees shall consist predominantly of the fixed component;

b. The variable component shall be primarily determined according to the individual achievement of specific objectives related to the respective duties, irrespective of the performance of the structural units controlled.

The variable component shall consist of a corporate performance component, corresponding to 20% of the total annual variable remuneration, and an individual performance component, accounting for 80% of the total variable remuneration.

According to the Policy, no guaranteed variable remuneration may be awarded, except upon recruitment of a new member or employee. In any case, the guaranteed variable remuneration shall only apply to the first year in employment and will only be awarded if the institution benefits from a solid, strong capital base.

The Policy does not contemplate the awarding of any indemnity for termination of office.

The Remuneration Policy is supplemented by the performance assessment models, which define the risks to be considered annually with respect to the awarding of variable remuneration. For this purpose, the Human Resources Department of each Group entity implements control procedures, such as to verify the strict fulfilment of the criteria, assumptions/conditions and limits specified in the Policy for the awarding and payment of Variable Remuneration.

Regarding the balance between fixed and variable remuneration, the following aspects should be stressed:

- The remunerations of the members of the supervisory body shall exclusively consist of an annual fixed component.
- The fixed remuneration of the members of the Executive Committee and Directors with current management responsibilities shall account for a sufficiently high percentage of their total remuneration, representing at least 50% of the total annual remuneration of each member. The variable remuneration of the members of the Executive Committee and Directors with current management responsibilities cannot exceed, in any given year, 100% of the fixed annual remuneration of each member. This ratio also applies to the remuneration of relevant employees.
- The remuneration of employees shall consist of a fixed and a variable component, the latter of which cannot, in any given year, exceed 100% of the respective Fixed Remuneration or account for more than 50% of the respective total annual remuneration.
- The remuneration of Multi-Employer Retail Network employees shall consist of a fixed and a variable component, the latter of which shall be conditional upon the approval of a commercial incentive model or campaign and cannot, in any given year, exceed 100% of the respective Fixed Remuneration or account for more than 50% of the respective total annual remuneration.

The Remuneration Policy is based on the assumption that Banco CTT, or any of the entities that form the Banco CTT Group, does not fulfil the necessary requirements to be classified as a large institution, under the terms of article 4, point 1, paragraph 146), of Regulation (EU) 575/2013, of the European Parliament and of the Council, of 26 June 2013, and that the value of the balance sheet and off-balance sheet assets, on average and individually, has not exceeded 5,000,000,000 euros over the four-year period immediately preceding the financial year in question.

Therefore, the payment of the Variable Remuneration awarded may be deferred by up to 50% and the deferral period may have a duration of up to 4 years, depending on the institution's financial conditions within the existing macroeconomic environment on the date of the decision to award Variable Remuneration.

The awarding of Variable Remuneration shall be conditional upon the prior acceptance by the beneficiary, in writing, of the reduction mechanisms, total or partial, eventually applicable to awarded and deferred Variable Remuneration whose payment does not yet constitute an acquired right (malus), and the reversal of Variable Remuneration whose payment already constitutes an acquired right (clawback).

The Selection and Remuneration Committee is responsible for assessing whether or not the Suspensive Conditions for Payment are met, based on a proposal submitted by the Remuneration Committee, and for defining, evaluating the conditions and setting the deadline for acquisition of the right to payment of Variable Remuneration tranches, in what concerns the members of the Executive Committee, the members of the Board of Directors and the Relevant Employees Responsible for Control Functions. The Executive Committee is responsible for assessing whether or not the Suspensive Conditions for Payment are met and for defining, evaluating the conditions and setting the deadline for acquisition of the right to payment of Variable Remuneration tranches, in what concerns Relevant Employees (excluding Relevant Employees Responsible for Control Functions, who fall under the responsibility scope of the Remuneration Committee).

Total remuneration of the members of the administrative body:

Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	Eur 470,530.16
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	Eur 305,622.70
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	Eur 307,591.19
Nuno Carlos Dias dos Santos Fórneas	Member of the Executive Committee (CIO)	Eur 257,057.32
Luís Jorge de Sousa Uva Patrício Paúl	Member of the Executive Committee (CRO)	Eur 216,627.52
João de Almada Moreira Rato	Chairman of the Board of Directors and of the Remuneration Committee	Eur 124,999.98
António Emídio Corrêa D'Oliveira	Non-Executive Director	(a) Eur 47,619.07
João Manuel de Matos Loureiro	Non-Executive Director and Chairman of the Audit Committee	(a) Eur 89,571.41
Clementina Maria Dâmaso de Jesus Silva Barroso	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee	(a) Eur 43,333.36
Susana Maria Morgado Gomez Smith	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee	(a) Eur 60,305.59
António Domingues	Non-Executive Director and Member of the Audit Committee	(b) Eur 0.00
Ana Maria Machado Fernandes	Non-Executive Director and Member of the Audit Committee	(b) Eur 0.00
Maria Rita Mégre de Sousa Coutinho	Non-Executive Director and Member of the Remuneration Committee	(b) Eur 0.00

Note: the total remuneration of the members identified as "(a)" consists exclusively of a fixed component, in accordance with the Remuneration Policy in effect on 31 December 2021.

Note: the members identified as "(b)" started the respective terms on 5 December 2022.

Total remuneration of Top Management (by category):

Control Function Managers	3 employees	Eur 272,765.00
Top Management Employees with commercial responsibilities	5 employees	Eur 540,572.00
Top Management Employees with support responsibilities	10 employees	Eur 1,116,390.00

Table 5 – Template EU REM1 – Remuneration awarded for the financial year (2022)

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	3	5	18	
2		Total fixed remuneration	193,210.36	1,342,036.89	1,542,511.28	
3		Of which: cash-based	193,210.36	1,342,036.89	1,542,511.28	
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 EU)				
7		Of which: other forms	-	-	-	
8		(Not applicable in the EU)				
	Variable remuneration	•Number of identified staff	3	5	18	
9		Total variable remuneration	-	304,337.50	287,215.00	
10		Of which: cash-based	-	304,337.50	143,607.00	
11		Of which: deferred	-	182,781.51	-	
12		Of which: shares or equivalent ownership interests	-	-	-	
EU-13a		Of which: deferred	-	-	-	
EU-14 a		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	
EU-13b		Of which: deferred	-	-	-	
EU-14b		Of which: other instruments	-	-	-	
EU-14x		Of which: deferred	-	-	-	
EU-14y		Of which: other forms	-	-	-	
15		Of which: deferred	-	-	-	
16						
17	Total remuneration (2 + 10)		193,210.36	1,646,374.39	1,829,726.28	

Table 6 – Template EU REM1 – Remuneration awarded for the financial year (2021)

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	3	5	20	
2		Total fixed remuneration	214,642.92	1,320,482.14	1,525,730.00	
3		Of which: cash-based	214,642.92	1,320,482.14	1,525,730.00	
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 EU)				
7		Of which: other forms	-	-	-	
8		(Not applicable in the EU)				
	Variable remuneration	Number of identified staff	3	5	20	
9		Total variable remuneration	-	223,101.48	297,679.00	
10		Of which: cash-based	-	223,101.48	297,679.00	
11		Of which: deferred	-	111,550.74	148,839.00	
12		Of which: shares or equivalent ownership interests	-	-	-	
EU-13a		Of which: deferred	-	-	-	
EU-14 a		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	
EU-13b		Of which: deferred	-	-	-	
EU-14b		Of which: other instruments	-	-	-	
EU-14x		Of which: deferred	-	-	-	
EU-14y		Of which: other forms	-	-	-	
15		Of which: deferred	-	-	-	
16						
17	**Total remuneration (2 + 10)**		**214,642.92**	**1,543,583.62**	**1,823,409.00**	

Table 7 – Template EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (2022)

		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	-	-	-	-

Table 8 – Template EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (2021)

		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	-	-	-	-

Table 9 – Template EU REM3 – Deferred remuneration (2022)

		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	728,977.62	228,666.83	500,310.78	-	-	-	228,666.83	459,792.12
		728,977.62	228,666.83	500,310.78	-	-	-	-	459,792.12
5	Other instruments	-	-	-	-	-	-	228,666.83	-
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	-	-	-	-	-	-	-	-

Table 10 – Template EU REM3 – Deferred remuneration (2021)

		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	549,632.63	225,642.99	262,764.14	-	-	-	225,642.99	262,764.14
8	Cash-based	549,632.63	225,642.99	262,764.14	-	-	-	225,642.99	262,764.14
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	584,501.00	285,594.00	298,907.00	-	-	-	285,594.00	298,907.00
14	Cash-based	584,501.00	285,594.00	298,907.00	-	-	-	285,594.00	298,907.00
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	-	-	-	-	-	-	-	-

Table 11 – Template EU REM4 – Remuneration of 1 million EUR or more per year (2022)

		a
	EUR	Identified staff that are high earners as set out in Article 450(i) 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	-

Table 12 – Template EU REM4 – Remuneration of 1 million EUR or more per year (2021)

		a
	EUR	Identified staff that are high earners as set out in Article 450(i) 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	-

Table 13 – Template EU REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (2022)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff	-	-	-	-	-	-	-	-	-	-
2	Of which: members of the MB	-	-	-	-	-	-	-	-	-	-
3	Of which: other senior management	-	-	-	-	-	-	-	-	-	-
4	Of which: other identified staff	-	-	-	-	-	-	-	-	-	-
5	Total remuneration of identified staff	-	-	-	-	-	-	-	-	-	-
6	Of which: variable remuneration	-	-	-	-	-	-	-	-	-	-
7	Of which: fixed remuneration	-	-	-	-	-	-	-	-	-	-

Table 14 – Template EU REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (2021)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff	-	-	-	-	-	-	-	-	-	-
2	Of which: members of the MB	-	-	-	-	-	-	-	-	-	-
3	Of which: other senior management	-	-	-	-	-	-	-	-	-	-
4	Of which: other identified staff	-	-	-	-	-	-	-	-	-	-
5	Total remuneration of identified staff	-	-	-	-	-	-	-	-	-	-
6	Of which: variable remuneration	-	-	-	-	-	-	-	-	-	-
7	Of which: fixed remuneration	-	-	-	-	-	-	-	-	-	-

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