bancoctt

2016

# Annual Report

# The Bank that drive us forward

bancoctt

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Our value

# simplicity

# Chairman's Statement

## Francisco de Lacerda

Formally launched in 2015, it was in 2016 that Banco CTT was implemented from a media and commercial standpoint. In fact, after the biggest simultaneous opening of branches ever in Portugal, we ended the year with over 200 branches and over 100 thousand customers, in line with the stipulated goals and ambitions.

Allow me to highlight 3 fundamental lessons I took from 2016, which help put the Bank's operational success into perspective:

- First off, an extraordinary collective capacity for implementation – both of CTT's teams (particularly our Retail Network, Physical Resources and Training) and Banco CTT's employee structure – shown in the project's rollout, of which we are very proud and which has been internationally referenced as a benchmark. Many people, many hours of training, many hours in meetings and countless hours of work were involved, but I am certain we are all proud of having been a part of this core project in CTT's strategy.
- Secondly, the confirmed good timing of a simple transparent offer, free from daily relationship costs and with a strong digital component. In the studies carried out in the run-up to our decision to launch the Bank, these elements had already been flagged as relevant and it is comforting to see that our carefully made decisions were on the mark with their attentive criteria and timing.
- Lastly, the enormous strength of the CTT brand – due to the trustworthiness and proximity it represents. It was a premise of the project that CTT be able to carry over the mail elements of its brand to a new business. It is proven that 500 years of history and a unique relationship with the Portuguese public has a very positive effect between business units. I am certain we will have this example at the forefront of our minds on this road to CTT's transformation.

2017 will be absolutely critical for the Bank. We will seek to improve processes and optimise our customer's experience, but the crucial element will be generating income, which is pivotal to the project's profitability and sustainability. The recent launch of Mortgage Loans is a very important milestone toward this goal, due to its inherent importance and because it represents the completion of a simple but complete offer of banking products and services to retail customers.

To all my Thanks and heart felt acknowledgement. We count on all to continue to build a fantastic Bank, which is like others but different from the rest.

6 March 2017

# CEO's Statement

## Luís Pereira Coutinho

2016 will go down as the year in which 52 Banco CTT Branches were opened to the public at once on 18 March. Since then, the Network has not stopped growing. At the year end, it had reached 202 Banco CTT Branches, across the national territory, including the islands of Madeira and the Azores.

In nearly nine months of commercial activity, over 74 thousand current bank accounts were opened, attracting more than 100 thousand customers and 250 million euros worth of deposits.

This outcome is proof of the good timing and success in launching a Bank that strives to be an authentic part of the Portuguese public's daily life. A trustworthy Bank, governed according to principles of transparency, simplicity and proximity and that offers its customers no frills, low-cost products, with no hidden fees, that are easy to understand and accessible to all.

This year we also deepened our management structure and risk culture, through an efficient governance model, clear policies and advanced methodologies that seek to ensure our customers of rigorous risk management, ongoing improvement of procedures, effective internal control and a value proposition of the utmost quality.

2016 was also a year marked by development of IT infrastructure and systems, with an out-of-pocket investment of 20 million euros, half of which in 2016. We are building a modern IT platform, with a state-of-the-art architecture that we believe will be a competitive advantage for Banco CTT in the short-term.

We improved the organizational structure and carried out an intensive training programme of more than 7,000 hours to equip the Retail Network teams with the necessary training. Under the respective expansion plan, over 100 personnel were hired, finishing 2016 with 167 employees.

The attained results fill us all with pride and satisfaction. On behalf of the Executive Committee and myself, I want to thank each and every member of this great team, whether Bank employees or CTT employees, for their wonderful professionalism and inexorable dedication to the Banco CTT project.

A word of thanks also to our partners and their employees for their contribution and commitment to the Bank. We want to establish and develop strong, deep and long-lasting partnerships. Partnerships are part of our strategy and our partners share in our successes.

A note of appreciation to the Regulatory Authorities, in particular to the Bank of Portugal, that has closely monitored the Bank's activity with great skill and rigor.

Finally, a special note of thanks and acknowledgement to CTT, the project's promoter, sole shareholder and main partner. All of us at Banco CTT work ardently to honour and carry forward the historic 500-year old CTT brand, a brand acknowledged across generations of Portuguese for its proximity, trustworthiness and excellence. Therefore, in the year that now begins we will embrace new initiatives, particularly the launch of Mortgage Lending and the commitment to invest in innovative technology-based solutions.

6 March 2017

# 01

# Information on Banco CTT



## Key Figures

**202**
BRANCHES

**74,135**
CUSTOMER ACCOUNTS

**M€ 253,945**
DEPOSITS FROM CUSTOMERS

**M€ 318,634**
ASSETS

**8,285**
CREDIT CARDS

# KEY FIGURES

## Results

The results achieved by Banco CTT in 2016, its first year of activity with the opening of branches to the general public, show the effort put into endowing the Bank with crucial human and technological capital for the development of its presence and offer.

At the end of 2016, Banco CTT had negative net earnings of 21,439 thousand euros and negative pre-tax earnings of 27,005 thousand euros.

Banco CTT's net interest income was 26 thousand euros, a year-on-year increase that shows, on the one hand, the focus on attracting customers through competitive savings interest rates and, on the other hand, the challenge of portfolio profitability in the current market context of low interest rates across the entire financial sector.

Net commissions and other banking activity results were 586 thousand euros, compared to the negative year-on-year amount of 77 thousand euros. Transaction net income in the amount of nearly 324 thousand euros for processing transactions and services rendered to the Bank's clients through the various payment methods made available and 237 thousand euros from consumer credit, car credit and credit card agreements entered into at Bank branches both contributed to this amount.

Thereby, operating income in 2016 reached 624 thousand euros, compared to the negative year-on-year amount of 58 thousand euros.

Operating costs reached 27,607 thousand euros, including general administrative expenses (16,439 thousand euros), including IT infrastructure implementation costs, consulting expenses and advertising and communication expenses for the Banco CTT brand; personnel costs (9,626 thousand euros), due to the Bank's increased human capital; and amortisations and depreciations (1,542 thousand euros).

## Balance Sheet

As at 31 December 2016, the Bank's assets totalled 318,634 thousand euros (31 December 2015: 31,115 thousand euros), financed in 57,654 thousand euros by equity financing (31 December 2015: 28,079 thousand euros) and 260,980 thousand euros by debt financing (31 December 2015: 3,036 thousand euros).

The most significant changes to the Bank's balance structure as compared to 31 December 2015 were the increase in customer resources (+253,892 thousand euros) and share capital (+51,000 thousand euros). These changes fundamentally reflect the increase in the securities portfolio (+101,412 thousand euros) and in funds and investments in other credit institutions (+145,731 thousand euros).

There was also greater investment in intangible assets (+10,157 thousand euros) by way of the ongoing development and investment in IT, particularly the core banking system by equipping it with additional features that accommodate new products and solutions.

The total of Deposits from Customers was 253,945 thousand euros at the end of 2016, with 114,041 thousand euros under current accounts, 139,904 thousand euros as term deposits and savings accounts.

Loans and Advances to Customers, which was zero as at 31 December 2015, was 7,104 thousand euros as at 31 December 2016. This amount is essentially due to a factoring operation.

The Loans to Deposits ratio was 3%, which reflects a high ability to attract resources and the Bank's still early stages of granting credit.





## Indicators

(amounts in thousands of euro)

| | 2016 | 2015 | Δ Abs. | Δ % |
|---|---|---|---|---|
| **RESULTS** | | | | |
| Net Interest Income | 26 | 18 | 8 | 44% |
| Operating Income | 624 | (58) | 682 | ... |
| Operating Costs | (27,607) | (7,456) | (20,151) | 270% |
| Impairment and Provisions | (21) | - | (21) | ... |
| Taxes | 5,566 | 1,593 | 3,973 | 249% |
| Net Income | (21,439) | (5,921) | (15,518) | 262% |
| **BALANCE SHEET** | | | | |
| Total Assets | 318,634 | 31,115 | 287,519 | 924% |
| Deposits and Investments at Credit Institutions | 165,092 | 19,361 | 145,731 | 753% |
| Financial Investments (securities) | 101,542 | 130 | 101,412 | ... |
| Loans and Advances to Customers (net) | 7,104 | - | 7,104 | ... |
| Intangible Assets | 18,456 | 9,717 | 8,739 | 90% |
| Deposits from Customers | 253,945 | 52 | 253,893 | ... |
| Total Liabilities | 260,980 | 3,036 | 257,944 | ... |
| Share Capital | 85,000 | 34,000 | 51,000 | 150% |
| Total Equity | 57,654 | 28,079 | 29,575 | 105% |
| **BUSINESS** | | | | |
| No. of Branches opened[1] | 202 | 1 | 201 | ... |
| No. of Customer Accounts[2] | 74,135 | 214 | 73,921 | ... |
| No. of Credit Cards (stock) | 8,285 | - | 8,285 | ... |
| **PROFITABILITY AND EFFICIENCY** | | | | |
| Loans to Deposits Ratio | 3% | 0% | 3% | ... |
| Cost-to-Income | 4.427% | -12.762% | 17.189% | -135% |
| Return on Assets (ROA) | -7% | -19% | 12% | -63% |
| Return on Equity (ROE) | -37% | -21% | -16% | 76% |
| **CAPITAL AND LIQUIDITY** | | | | |
| Own Funds | 39,198 | 18,362 | 20,836 | 113% |
| Risk Weighted Assets (RWA) | 89,645 | 22,323 | 67,322 | 302% |
| Common Equity Tier 1 (fully implemented) | 43.7% | 82.3% | -39% | -47% |
| LCR | 2.572% | 2.319% | 253% | 11% |

[1] In 2015, the head branch was open only to employees on a soft-opening basis.
[2] Only takes into account opened and validated current accounts.

## BRIEF SUMMARY OF THE YEAR AND MAIN HIGHLIGHTS

2016

**MAR** Opening of 52 branches simultaneously to the public on 18 March. The branches were spread across 18 Portuguese districts and were very present on digital channels, through the Banco CTT App (available for IOS and Android) and the homebanking service.

**APR** Launch of the first multi-media advertising campaign under the "Bank that moves us" concept, which is also the brand's slogan. The goal was to target the entire Portuguese public with a simple value-added offer that rebuilds the public's relationship with its Bank.

**MAY** Share capital increase of 26 million euros, to 60 million euros.

**JUN** Presentation of the solution developed by Banco CTT that allows a Banco CTT account to be opened in only 20 minutes by bringing together speed, mobility and security.

**JUL** Opening of the 100th branch on 22 July and celebrated the milestone by launching new savings products: Freedom Savings Account and Special Savings Account.

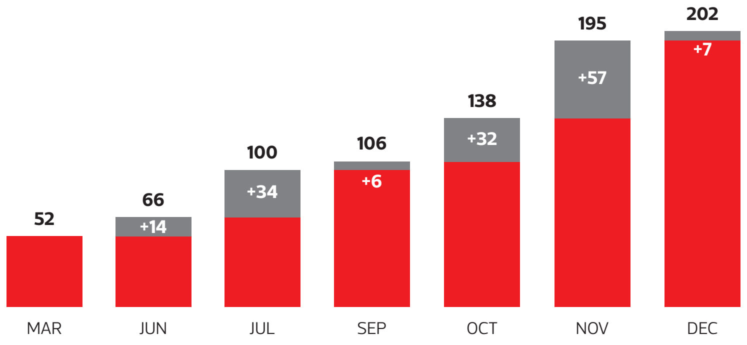
**SEP** Expanding the offer of products to Consumer rand Car Loans, in partnership with Cetelem.

**OCT** Share capital increase of 25 million euros, to 85 million euros.

**NOV** Launch of the annuity-free Banco CTT Credit Card, in partnership with Cetelem.

**DEC** With the opening of 7 branches, Bank presence totalled 202 branches.

**Branch Network Rollout in 2016**








# Corporate Bodies and Management

## Board of the General Meeting

Chairman
Maria da Graça Farinha de Carvalho e Sousa Góis

Secretary
Magda Alexandra Jesus Viçoso

## Board of Directors[1]

Chairman
Francisco José Queiroz de Barros de Lacerda

Members
Luís Maria França de Castro Pereira Coutinho
Luís Miguel Agoas Correia Amado
João Maria de Magalhães Barros de Mello Franco[2]
Pedro Rui Fontela Coimbra[3]
André Manuel Pereira Gorjão de Andrade Costa
José Manuel Gonçalves de Morais Cabral
Rui Afonso Galvão Mexia de Almeida Fernandes
Clementina Maria Dâmaso de Jesus Silva Barroso

## Executive Committee

Chairman
Luís Maria França de Castro Pereira Coutinho (CEO)

Members
Luís Miguel Agoas Correia Amado (COO)
João Maria de Magalhães Barros de Mello Franco (CMO)
Pedro Rui Fontela Coimbra (CFO)

## Audit Committee

Chairman
José Manuel Gonçalves de Morais Cabral

Members
Rui Afonso Galvão Mexia de Almeida Fernandes
Clementina Maria Dâmaso de Jesus Silva Barroso

## Statutory auditor

Statutory Auditor
KPMG & Associados, SROC, S.A., represented by Vítor Manuel da Cunha Ribeirinho

Alternate Statutory Auditor
Maria Cristina Santos Ferreira

[1] The Members of the Board of Directors in office as at 31 December 2016 are set out below. The executive directors, Luiana Nunes and Sílvia Correia were in office during 2016, having tendered their resignations, both for personal reasons, as members of Banco CTT's Board of Directors and Executive Committee, as CFO and CCO respectively. The referenced resignations became effective on 12 March 2016 and 31 March 2016, respectively.
[2] Appointed as Director on 14 January 2016 and as Executive Committee Member on 15 January 2016.
[3] Appointed as Director on 4 August 2016 and as Executive Committee Member on 5 August 2016.

# Executive Committee

**Luís Correia Amado**
COO

**João Mello Franco**
CMO

**Luís Pereira Coutinho**
CEO

**Pedro Coimbra**
CFO

## CORPORATE GOVERNANCE

Banco CTT has adopted the Anglo-Saxon governance model and its corporate body members were appointed by the General Meeting for the term of office underway (2015/2018).

This model entails a Board of Directors, an Audit Committee (integrated therein and comprised of Non-Executive Directors, especially appointed by the General Meeting) and a Statutory Auditor (effective and alternate).

A Selection Committee was also elected by the General Meeting, with powers over the selection and adequacy assessment of corporate body members and key function holders, pursuant to the selection and adequacy assessment policy for management and supervisory body members and key function holders (available on the Bank's website at www.bancoctt.pt).

In addition, on 12 May 2016, the General Meeting appointed the Bank's Salary Committee with powers to stipulate corporate body member remuneration.

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 has a Remuneration Committee within the Board of Directors, in line with Bank of Portugal Notice 10/2011.

Therefore, the Bank's Board of Directors, in office as at 31 December 2016, was made-up of 9 Directors, including 5 Non-Executive Directors (including the Chairperson and 3 Independent Directors) e 4 Executive Directors (including the CEO), with the following management organisation:

**Board of Directors[1]**

Francisco de Lacerda (Chairman of the Salary Committee)
André Gorjão Costa
José Manuel Morais Cabral (Chairman of the Audit Committee)
Rui Almeida Fernandes (Member of the Audit Committee)
Clementina Barroso (Member of the Audit Committee)

**Executive Committee**

**CEO**
Luís Pereira Coutinho

| CFO[2] | CMO[3] | COO |
|---|---|---|
| Pedro Coimbra | João Mello Franco | Luís Correia Amado |

[1] Luiana Nunes and Sílvia Correia were in office during 2016, having tendered their resignations, both for personal reasons, as members of Banco CTT's Board of Directors and Executive Committee, as CFO and COO respectively. The referenced resignations became effective on 12 March 2016 and 31 March 2016, respectively.
[2] Appointed as Director on 14 August 2016 and as Executive Committee Member on 15 August 2016.
[3] Appointed as Director on 4 January 2016 and as Executive Committee Member on 5 January 2016.

For greater detail on corporate body composition and Banco CTT's governance model and practices, please see the Corporate Governance Report below.

Because it is part of the CTT Group and because CTT - Correios de Portugal, S.A. ("CTT"), as an issuer of shares admitted to trading on the regulated market, has adopted a significant number of the recommendations issued by the Portuguese Securities Commission (CMVM) under its Corporate Governance Code, the Bank has benefitted from the CTT Group's best governance practices, as implemented throughout various financial years. It has also contributed toward the improvement of those practices within the CTT Group. Case in point is CTT's and its Subsidiaries' Code of Conduct, which reiterates its Mission, Vision and Values, while adopting best conduct practices in line with the financial sector benchmark.

Pursuant to article 17 of the Legal Framework of Credit Institutions and Financial Companies (LFCIFC), Banco CTT has solid corporate governance mechanisms that are thorough and proportional to its nature, level and institutional complexity and that include:

- A clear organizational structure, with well defined, transparent and consistent lines of responsibility;
- Effective processes to identify, manage, control and notify risks it is or may become exposed to; and
- Adequate internal control mechanisms, including solid administrative and accounting procedures, as well as remuneration policies and practices that promote and are consistent with sound and prudent risk management.

The governance practices and principles described above were therefore joined by a solid organizational structure where the Bank's control duties stand out and, in the case of Banco CTT, allowed the following goals to be attained:

- Ensure the Bank's operational capacity based on adequately sized human, material and technical resources;
- Ensure the provision of banking services to customers via multi-employment staff in CTT's Retail Network, after such staff has completed a rigorous training programme. Such staff has the support and supervision of Bank employees with prior banking experience;
- Leverage the CTT structure for non-core duties (mainly as regards shared services); and
- Create a "controlled environment" adapted to Banco CTT's specificities and based on the institution's Code of Conduct, internal control and risk management procedures and policies, as well as by an internal organization founded on three lines of defence.

## ECONOMIC FRAMEWORK

### International Economy

The IMF's latest forecasts (January 2017) for the world economy indicate slightly slower growth in 2016 (3.1%, as compared to 3.2% in 2015). This development is the result of different growth rates among regions, with decelerated growth in advanced economies (1.6% in 2016, as compared to 2.1% in 2015), along with stable growth in emerging and developing market economies (4.1% for both years).

U.S. economic activity rebounded throughout the year (1.6% in 2016) and is approaching full employment. In the Eurozone, GDP (1.7%) continued to fall short of its potential level. Some economies grew more than expected, such as Spain that had a 3.2% growth rate (equal to 2015) and domestic demand in the United Kingdom held up better than expected in the aftermath of the vote to leave the European Union, with its GDP at 2.0% in 2016. Japan's growth rate also surpassed initial forecasts (0.9%). Economic activity in emerging market economies remains diverse in its progression, depending on the underlying economic models and government policies. China had a 6.9% growth rate in 2016, thanks to continued policy stimuli. Activity in Latin America was weaker than expected (-0.7%) due to the fact some countries are currently in recession, such as Argentina and Brazil. Turkey suffered a sharp contraction from the fall in service exports (tourism), due to the political turmoil suffered there and the feeling of insecurity. Despite contraction, activity in Russia was better than expected (-0.6%), in part reflecting firmer oil prices, as a result of an agreement between the Organization of the Petroleum Exporting Countries (OPEP) and other producing countries to trim global oil production.

Despite growth in the trade of goods and services in emerging economies (from 0.3% in 2015 to 1.9% in 2016), the fall in the trade of goods and services in advanced economies (from 4.0% in 2015 to 2.0% in 2016) led to a strong fall in the world trade of goods and services, which grew 1.9%, less than the 2.7% in 2015, which affected e-commerce in these economies.

The inflation rate for most advanced economies rose to 0.7% in 2016 (0.3% in 2015), as opposed to the estimated slowdown to 4.5% for the whole of emerging and developing countries (4.7% in 2015). The average inflation rate in the Eurozone remained low throughout 2016, reaching 0.2% in December in terms of growth over the last 12-months (0.0% in 2015), but with varying behaviour in the various economies that comprise it.

In the context of contained inflationary pressure and negative output gaps in most advanced economies, monetary policy was accommodative in 2016, especially for the Eurozone, Japan and the United Kingdom.

Long-term nominal and real interest rates have risen substantially since August, particularly in the United Kingdom as a result of the Brexit vote and the announced post-Brexit economic stimulation policies and in the U.S. since the November election. Short-term Euribor interest rates closed the year at negative levels for all maturities, which in part reflected the broad set of monetary policy measures adopted by the ECB.

### National Economy

According to the National Institute of Statistics' National Quarterly and Preliminary Annual Accounts, GDP grew 1.4% in 2016, 0.2 percentage points (p.p.) less than in the previous year. Domestic demand contributed less positively to the annual growth in GDP, from 2.6 p.p. in 2015 to 1.5 p.p., reflecting to a great extent the fall in investment of 0.9% (due mainly to lower Gross Fixed Capital Formation) and, to a lesser degree, the slight downturn in domestic demand (from 2.6% in 2015 to 2.3% in 2016). Net external demand contributed in -0.1 p.p. to GDP growth in 2016, less negative than in 2015 (-1.0 p.p.), due to the slowdown in the import of goods and services (from 8.2% in 2015 to 4.4% in 2016), greater than in the export of goods and services (from 6.1% in 2015 to 4.4% in 2016). In nominal terms, the external balance of goods and services increased in 2016 to 1.2% of GDP (0.7% of GDP in 2015), benefitting from gains in exchanges in 2016, albeit less than in 2015.

Inflation, measured by the Harmonised Consumer Price Index (HCPI), increased slightly in 2016 to 0.6% (0.5% in the previous year), reflecting a more moderate fall in prices for energy products and a pick-up in service prices.

In 2016, the labour market continued to show signs of improvement, with a lower rate of unemployment at 11.1% (-1.3 p.p. than the previous year) and a rise in total employment of 1.6% (0.2 p.p. greater than in 2015).

For 2016, the general government deficit should be 2.4% of GDP, 0.2 p.p. of GDP above the target set by the 2016-2020 Stability Programme and the 2016 State Budget and 0.1 p.p. of GDP below the value recommended by the European Commission and adopted by the European Union. The deficit is worse than previously forecast essentially due to the downturn in economic activity, less dynamic development in domestic demand and in consumer prices leading to a lower tax revenues than forecast in the State Budget, where growth was based on a strong upswing in domestic demand.

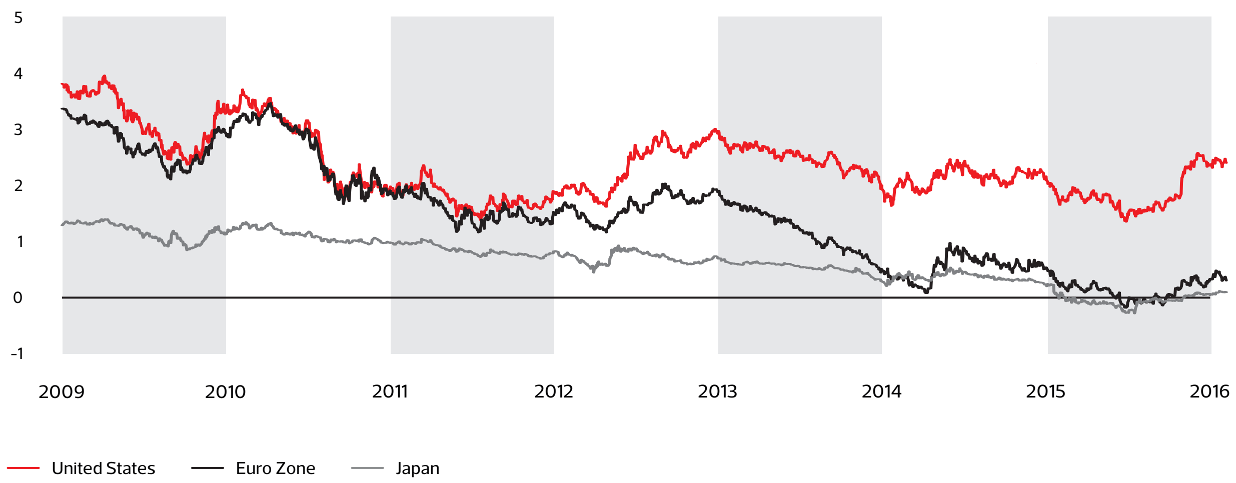
## Financial Markets

The June referendum in the United Kingdom that determined its exit from the European Union (Brexit) and the U.S. presidential elections that elected Donald Trump as president were two political milestones in 2016 that influenced the behaviour of world financial markets.

After announcing Brexit, European shares, especially British shares, traded at historical lows as compared to North American shares. Lack of clarity as to the framework that will govern economic and commercial ties between the United Kingdom and Europe caused great volatility in the markets, in particular the foreign exchange market, where the Euro gained ground *vis-à-vis* the British Pound.

On the other hand, 2016 was marked by a climate of low interest rates, due to stability and continuity in the U.S. Federal Reserve's (Fed) monetary policy decisions, in addition to those of the ECB. The latter contributed thereto namely through the sovereign and corporate debt purchase programme that enabled Eurozone countries and companies to benefit from low financing costs. This ECB Quantitative Easing programme has been fundamental in controlling interest on sovereign debt securities, namely Portuguese debt securities. As an example thereof, in the last quarter of 2016, there was rebound in yields for the main public debt securities, because of the possibility the ECB would decrease the amount of its monthly long-term asset purchases from 80 to 60 million euros.

**10-year government bond yields** (%)




Source: Thomson Reuters in OECD Economic Outlook. November 2016.

In 2017, advances in Brexit negotiations, economic slowdown in China, the Fed's and ECB's monetary policy measures and Trump Presidency decisions will have an impact on financial markets.

In its projections for 2017, the Fed states that interest rates will tend to grow and predicts three 25 base point increases throughout the year. As evidence thereof, the Fed raised the federal funds rate in December by 25 base points, from 0.50% to 0.75%. Inflation is also expected to rise 2% in the medium-term.

In turn, the ECB, decided to keep reference interest rates unchanged in the Eurozone and so the reference rate remains at 0%. For short-term rates, whose reference is 3-month EURIBOR, the ECB predicts an average rate of -0.3% in 2017. Nominal yields for 10-year public debt bonds in the Eurozone are forecast at 1.2% in 2017. As regards the prices of raw materials, the assumption is that the price of the barrel of Brent crude oil will rise to USD 49.3 in 2017. The prices of non-energy raw materials are expected to increase 6.6% in 2017, as compared to 2016. The average USD/EUR foreign exchange rate is expected to be 1.09 in 2017. As regards the growth of the real GDP and inflation in the Eurozone, rates of 1.7% and 1.3%, respectively, are expected.

| | December of 2016 | | | |
|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 |
| 3-month EURIBOR (as a percentage per year) | (0.3) | (0.3) | (0.2) | 0.0 |
| Yields for ten-year public debt bonds (as a percentage per year) | 0.8 | 1.2 | 1.5 | 1.7 |
| Oil Price (USD/barrel) | 43.1 | 49.3 | 52.6 | 54.6 |
| Prices of non-energy raw materials, in United States dollars (annual growth, as a percentage) | (4.0) | 6.6 | 3.8 | 4.5 |
| USD/EUR Exchange rate | 1.11 | 1.09 | 1.09 | 1.09 |
| Actual nominal exchange rate for the Euro (TCE 38) (annual growth, as a percentage) | 3.8 | 0.1 | 0.0 | 0.0 |

Source: ECB, "Macroeconomic projections for the Eurozone prepared by Eurosystem specialists" – December 2016.

## Banking System

In 2016, the Portuguese Banking System maintained the trend toward low interest rates and reduced banking business. The system's banks made an effort to reduce operational costs, mainly by decreasing staff and branches. The year was further marked by uncertainties in Caixa Geral de Depósito's recapitalisation plan and new board of directors, as well as by the sale of Novo Banco, which was postponed yet again.

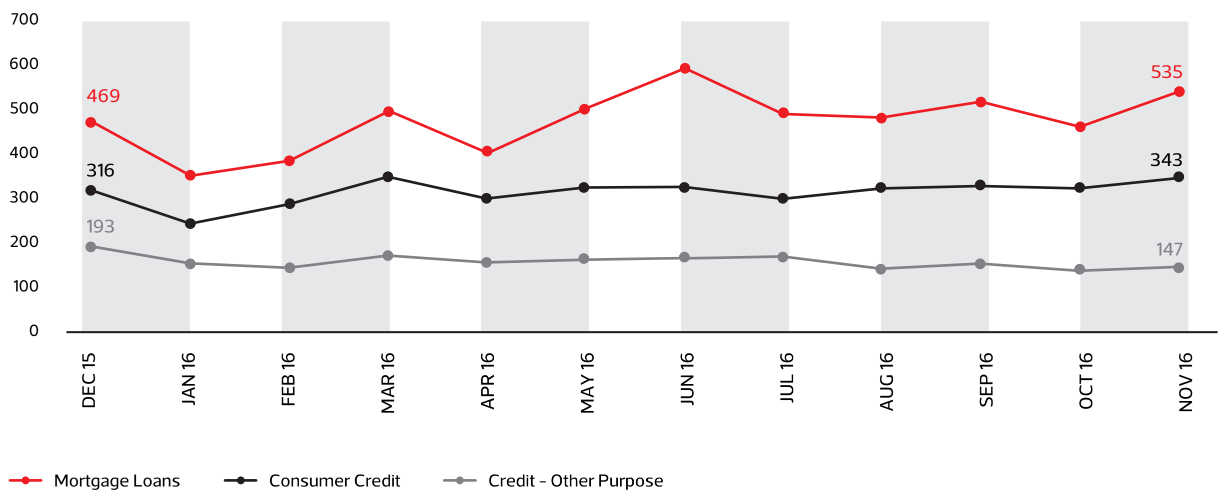
The Banking system reinforced a positive return on equity in the 3rd quarter of 2016, although with a substantial year-on-year fall, due to solid revenues from financial operations (sale of public debt securities). The sector's profitability continued to be positively influenced by the international activity of Portuguese banks, thereby offsetting weak returns on domestic activity.

On the other hand, asset reductions continued throughout the third quarter of 2016 (-3.4% as compared to the end of 2015), albeit at a slower rate, with a continued fall in customer credit (nearly -2% as compared to the end of 2015)[1]. The weight of client deposits on the financing of the banking sector continued to rise to the detriment of financing from the Eurosystem. As evidence of these movements, the loans to deposits ratio fell from 103% in the 2nd quarter of 2016 to 101% in the 3rd quarter of 2016.

New retail credit volumes were also positive, with 14% growth in Mortgage Loans and 8.5% in Consumer Credit, between the end of 2015 and November 2016, although these remain low as compared to the volumes generated in 2011[2].

[1] Bank of Portugal – Portuguese Banking System – Recent Developments – 3rd quarter 2016.
[2] Bank of Portugal – BPStat – Online Statistics – Seasonal series (New transactions – Loans (Eurozone).

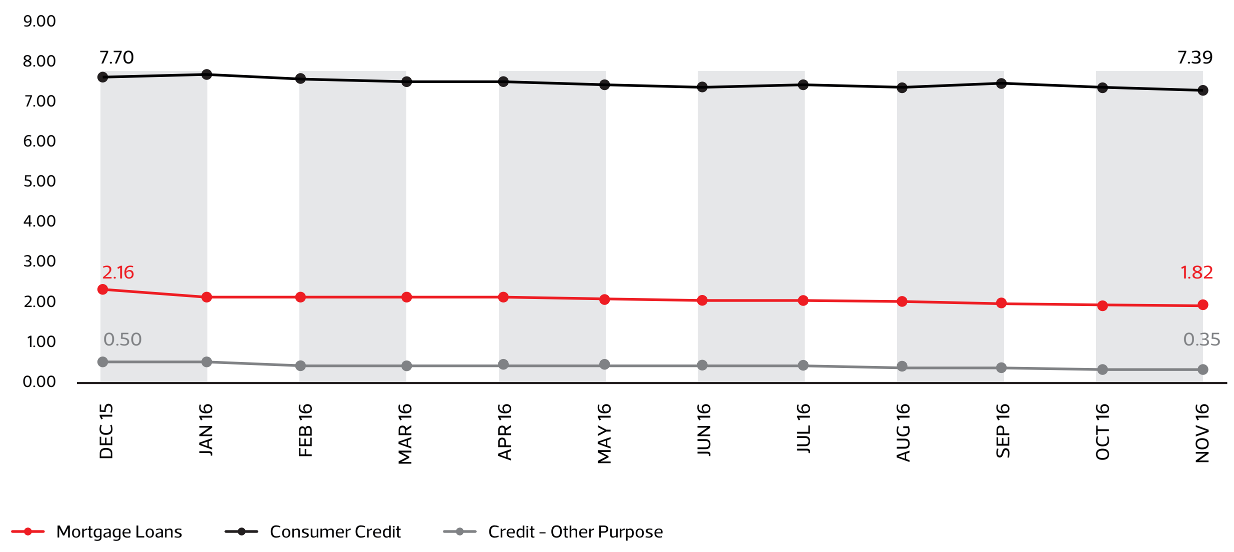
**New Retail Credit Volumes** (MC)




Source: Banco of Portugal – BPStat – Online Statistics – Seasonal series (New transactions – Loans (Eurozone)).

Spreads on new loans granted by Monetary Financial Institutions to Retail Customers follow an inverse trajectory, with a 34 b.p., drop for Mortgage Loans to 1.82% and 31 b.p. drop for Consumer Credit to 7.39% between the end of 2015 and November 2016[3], as shown below.

**Spread Evolution 2016** (%)




Source: Bank of Portugal – Statistic Bulletin – January 2017.

[3] Bank of Portugal – Statistic Bulletin – January 2017.





The Banking sector faces various challenges in 2017. The first is related to the recapitalisation of Caixa Geral de Depósitos, with a share capital increase announced for 2017 and the sale of Novo Banco. Other Banks such as BPI and BCP will also face new hurdles with the deconsolidation of their international activity. Another important challenge will be the uncertainty surrounding sustained economic recovery and the contribution of international economic activity, which is expected to cause Banks to focus on optimising costs and adequately controlling credit risk.

## Banking Sector's Regulatory Framework

**Regulatory and Capital Requirements**

Since the implementation of Basel III, Banking Institutions have faced increased demands from regulators as regards compliance with minimum capital and liquidity requirements, in order to increase their ability to absorb losses and comply with short-term undertakings, thereby avoiding scenarios such as in the subprime crisis and the recapitalisation and resolution of Portuguese Banks in the last decade.

Basel III also places higher liquidity requirements on financial institutions in the form of two ratios: i) the liquidity cover ratio (LCR), to be fully implemented by banks by 2019, which serves to increase their resilience in the event of a strong liquidity stress over a 30-day period and ii) the net stable funding ratio (NSFR), to be implemented by 2018, which serves to stipulate a minimum amount of stable funding, with a maturity of at least a 1 year, to control changes in banks' balance structure during that period.

To the same end, the Capital Requirements Directive IV/Capital Requirements Regulation (CRD IV Directive/CRR) reinforced standards to attribute Common Equity Tier 1 status to banking capital and RWA calculation standards. This directive introduced the Leverage Ratio as a new prudential measure for the banking sector, which stipulates the minimum amount of own funds over total exposure. The Leverage Ratio has been currently set at a minimum of 3% CET1 by the European Banking Authority (EBA) and is expected to be fully calibrated and applied at the beginning of 2018.

The implementation of increasingly tighter and more uniform regulation at the level of the European Union, by creating Single Supervisory and Single Resolution Mechanisms, the Banking Recovery and Resolution Directive (BRRD), among other measures, strive to transfer responsibility initially borne by taxpayers to the banks' main stakeholders and is a game changer for the strategy of financial institutions.

The deleveraging of banks and the need to maintain more robust capital and liquidity ratios limits the profitability of the former with consequences over their entire operation and returns.

## THE BANK'S VISION, MISSION AND VALUES

### Vision

In carrying out its activity, Banco CTT seeks to be acknowledged as a reference banking institution, with a profile of credibility, quality and innovation, characterised by a:

- Vast and diversified offer of products and services;
- Transparent relationship with customers and employees based on mutual responsibility and trust;
- Sound and prudent management given the Bank's business model and risk profile;

Therefore, Banco CTT's main characteristics are: solidity, transparency, reliance, convenience and simplicity.

### Mission

Banco CTT's mission is to provide competitive no frills financial products, excellent service and to forge relationships built on trust and innovation, while ensuring:

- A solution for an integrated response to each customer's needs;
- Trust as one of the institution's assets and outcomes;
- Development of a sustainable corporate strategy and risk profile;
- Continuous innovation that ensures the success of its mission both today and in the future.

## Values to Uphold

- **Focus on the Customer**: Working proactively to come to the best solution and satisfy customer needs.
- **Enthusiasm**: Encourage dedication and commitment of a team of qualified professionals that work toward the Bank's success on a daily basis.
- **Trust**: Being an upstanding, responsible and trustworthy partner that ensures the day-to-day satisfaction of the commitments it has undertaken.
- **Excellence**: Ensuring excellent, quality and efficient service.
- **Innovation**: Continually exploring new ideas, processes and solutions.

# BUSINESS MODEL

Banco CTT was created with the aim of intensifying the existing proximity between CTT and the Portuguese public. Capitalising on the high capillarity of the retail network, with high volume and vast experience in Financial Services, Banco CTT's offer targets retail customers. This offer is based on simplicity, transparency, proximity, efficiency and strongly bets on innovation and competitiveness, with products and services that meet customer needs.

Banco CTT opened to the public on 18 March 2016 with operations kicking off in 52 branches throughout the country, making Banco CTT present in all district capitals, as well as the Autonomous Regions - the biggest opening of a Bank on a single day ever in Portugal. In each CTT Post Office where Banco CTT is present, customers now find duly marked areas for banking services clearly separated from the areas dedicated to postal services.

Capitalising on a value proposition based on simplicity, transparency and proximity, Banco CTT presented itself as focused on what is actually needed to manage day-to-day life, namely a current account with zero euro commission, a debit card with zero euro annuity and national transfers through digital channels with zero euro fees, thereby attracting the interest of many Portuguese.

An advertising campaign was launched alongside the opening of branches, in order to allow the Portuguese public to get to know the Bank, while highlighting the brand's features and reinforcing the competitive advantages of its offer. The campaign had a strong multimedia presence, namely on television, radio, billboard, press and digital advertisements.

From day one, the Bank's focus has been on opening bank accounts and attracting clients. The results obtained prove Banco CTT was a project the market was anxious for and its brand is already widely recognised by the Portuguese.

After three months of activity, and while commemorating the opening of the $100^{th}$ branch, Banco CTT launched two new products for the Portuguese public's savings: the Conta Poupança Livre and the Depósito Poupança Especial. The first gives the customer total freedom to save, with no term period or minimum amount: an account to save according to a monthly plan or according to each customer's availability; the second is for those that intend to safely generate income from their savings.

In line with its commitment to expand the offer of products and services that are truly an added-value for customers, in September, Banco CTT, together with Cetelem, presented Personal loans and Car loans solutions: flexible, transparent and trustworthy solutions. One more product to add to and reinforce Banco CTT's offer.

To further address customer needs, the Bank launched a zero-annuity Credit Card in November, thereby adding another zero to the advantages of Banco CTT's offer and making it increasingly complete and competitive.

By the end of the year, the Bank had met the stipulated goal the opening of its 202 branches to the public and a vast number of products, betting on efficiency and quality of services rendered to the customer. Banco CTT has earned the trust of more than 100 thousand clients, through the opening of 74 thousand current accounts. Clients that established a relationship of trust and proximity with the Bank, values that are the root of its activity, and that have driven its growth, of which we highlight the 250 million euros worth of deposits.

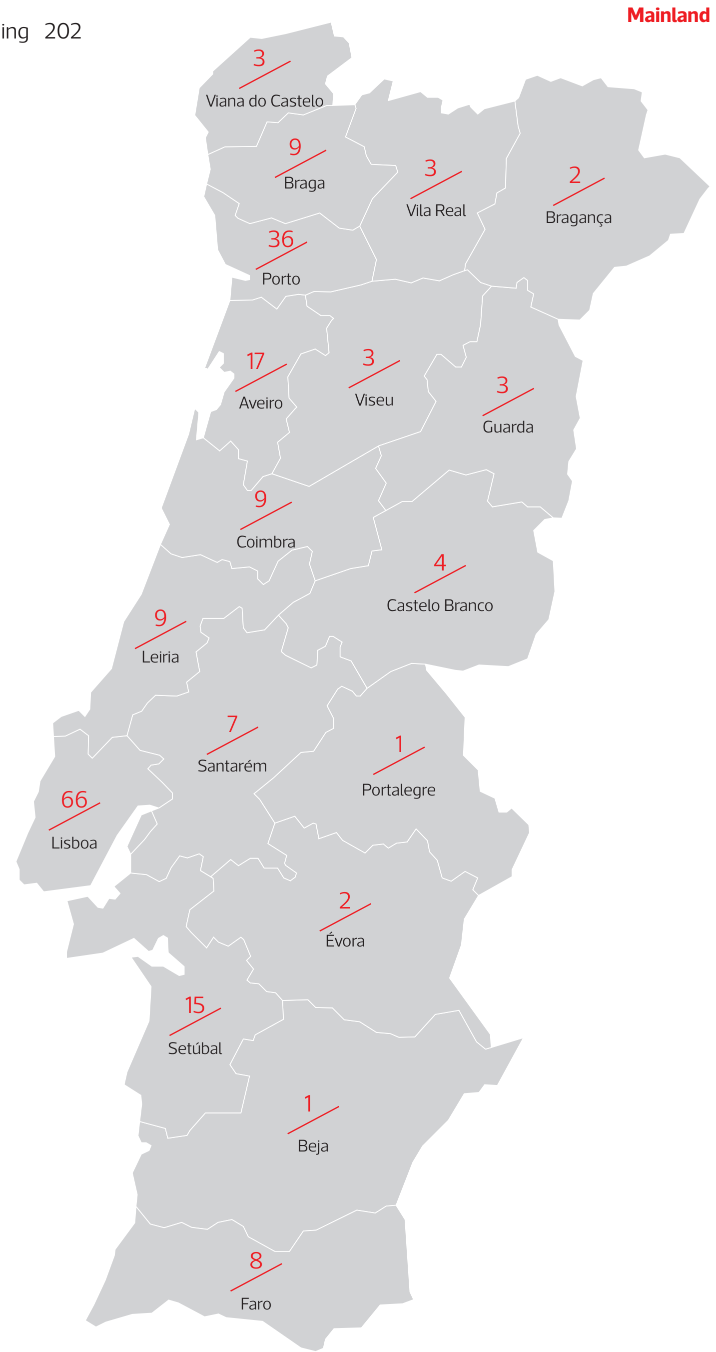
## Banco CTT's Presence

2016 will go down as the year in which 202 Banco CTT branches were opened to the public.

In line with its principle of proximity, Banco CTT chose to implement a capillary network, which was highly incremented in the first months of operation, thereby ensuring the Portuguese public could access the Bank's services.

In that regard, the opening of 52 branches on 18 March 2016, across 18 districts, was the biggest commercial launch ever in the Portuguese retail banking sector's history.

Afterward, the network progressively grew, reaching 202 branches by the end of 2016, across 105 municipalities.




## Customer Service Model

**In-person Channel – Retail Network**

Banco CTT's network operates from 9:00 a.m. to 6:00 p.m. and shares the same physical space as the postal services operations.

In order to ensure the best banking practices, Banco CTT provides customers with banking services separately from postal services, with designated areas therefor.

Therefore, in addition to identifying the bank with outdoor signs, service desks inside the post office are also distinctively signposted, with separate waiting lines, independent commercial operations and cash flows.

The daily activities in a Banco CTT branch entail opening current accounts and providing savings solutions, as well as transactions, deposits and cash withdrawals, cheque deposits or national and international transfers, among others.

We highlight the investment in automated processes, in particular when opening accounts, available in the branch's desktop and tablet equipment. This eliminates the need to fill out forms, makes for faster processing and is totally intangible, which provides for a better customer experience.

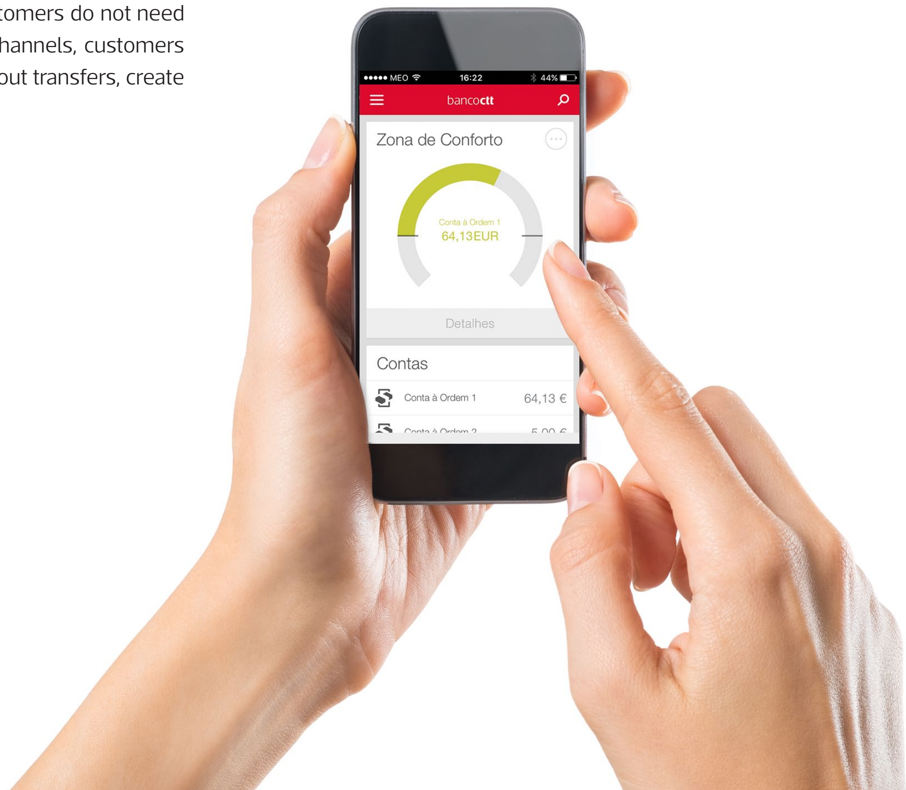
**Digital Channels – Homebanking and the Mobile Application**

From day one, Digital Channels have been a priority for Banco CTT. It has made its Homebanking and Mobile Banking services available (via IOS and Android platforms) at no additional cost to its customers, thereby reinforcing its values of proximity and simplicity, together with in-person services.

Digital channels can be activated when the account is opened and are very user friendly. They were tailored to resolve customer's main day-to-day needs, so customers do not need to go to a branch or ATM. Through these channels, customers can check balances and transactions, carry out transfers, create term deposits, among others.

The high acceptance and use thereof is indicative of the success of Banco CTT's bet on these digital channels, with values surpassing the average national retail banking average. In December 2016, 40% of Banco CTT clients were active users of the Digital Channels and, of these, more than one-third used the Mobile Banking service. Bank transfers and creating deposits were the most popular transactions carried out through these channels.

Alternatively, for customers that prefer more personalised remote contact, the Banco CTT customer support line is available every day from 8:00 a.m. to midnight to answer queries on the opening of accounts, answering questions on the offer and cancelling credit cards.






## Outlook for 2017

The Bank developed very positively in 2016, which shows there was room for a new institution with the distinctive characteristics and positioning of Banco CTT. But Banco CTT wants to keep going.

2017 will bring new challenges, among which:

- Consolidating and optimising a service model based on a network of more than 200 Branches strongly present on digital channels;
- Maintaining capacity to attract new clients and to develop trustful and close relationships with them;
- Expanding the array of products and services, in particular the launch of Mortgage Loans.

## PEOPLE

In line with the Bank's market launch strategy, the creation of the Banco CTT team was a continued priority in 2016, under Human Resources processes.

Therefore and based on the premise that the Bank's success also entails the ability to attract and retain talent, 105 new employees were hired in 2016 for various areas within the Bank. High levels of qualification, various levels of seniority and expertise were maintained, while gender diversification was taken into account. This practice is mirrored in the characteristics of the Bank's personnel as at 31 December 2016, when it had 167 employees.

Characteristics of Banco CTT's personnel at 31 December 2016:

| Level of Qualification | % |
|---|---|
| High School Diploma | 23 |
| Undergraduate Degree | 55 |
| Graduate Studies / Master's Degree | 22 |

| Gender | % |
|---|---|
| Female | 48 |
| Male | 52 |

| Age Band | % |
|---|---|
| < 30 years old | 17 |
| 30 – 34 years old | 35 |
| 35 – 44 years old | 42 |
| > = 45 years old | 6 |

Regarding Knowledge Management, Banco CTT continued to pursue the training carried out for its launch, which entailed a number of training initiatives covering all Bank employees, with a focus on regulation, products, internal processes and procedures and implemented IT systems. In total, 2,329 hours of employee training were carried out, in addition to 167 initiatives/4,676 hours of training administered by the Bank's team to CTT's Retail Network.

Our value

# solidity

02

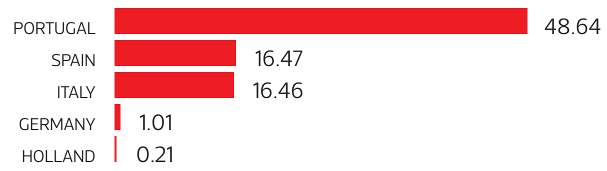
# Liquidity and Capital Management



## LIQUIDITY AND FUNDING

One of the main components of liquidity management is its investment and financing policy, which prioritizes diversification by country and sector. However, given that Banco CTT only opened for business at the end of November 2015, the focus of the investment policy in 2016 was geared towards the creation of eligible Eurosystem collateral that totalled nearly 83 million euros at 31 December 2016.

**Eurosystem eligible securities – by country**
(Millions of euros)




**Eurosystem eligible securities – by HQLA level**
(Millions of euros)


The liquidity indicator, the Liquidity Coverage Ratio (LCR), was comfortably 2572% (2319% at the end of 2015), which significantly surpassed the minimum requirements therefor and was in line with the Bank's 2016 investment policy.

Given its high liquidity, the Bank did not require funding from the market in 2016 nor did it participate in any financing facility set-up by the ECB in order to finance its operations. It financed its assets through Customer deposits, which totalled nearly 254 million of euros as at 31 December 2016.

The Bank analyses residual maturities for different assets and liabilities on the balance sheet. The volumes of cash inflows and outflows are shown by time frames, depending on the residual time frames when they occurred. Thereafter, the respective liquidity gaps are determined both for the period and accrued.

Liquidity risk management is carried out taking into consideration:

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

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

As regards structural liquidity, Banco CTT drafts a monthly liquidity report that takes into consideration not only the effective maturity date of the various 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 operations is prepared and is periodically reviewed.

As a liquidity contingency plan, the Bank stipulated a number of measures that, when enacted, will allow the effects of a liquidity crisis to be addressed and/or minimized. These measures intend to address liquidity needs in stress scenarios.

The Risk Committee is entrusted with analysing 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 short, a far reaching assessment is carried out of both liquidity risk and its evolution, with a special focus on current liquidity buffers and creating/maintaining eligible collateral.

## CAPITAL MANAGEMENT

It is the Board of Directors responsibility to define the capital management strategy.

The Bank developed and formalised its methodology for the Internal Capital Assessment Adequacy Process (ICAAP), in order to ensure the risks it is exposed to are adequately assessed and internal capital available to it is adequate given its respective risk profile. The adopted methods and procedures are based on the assessment and quantification of internal capital and risks through quantitative and qualitative methods.

The Bank strives for high financial solidity by maintaining a total own funds ratio (Own Funds as compared to risk-weighted assets), comfortably above 8.625% (including the capital conservation buffer), corresponding to the minimum legal amount set out in Directive (EU) no. 2013/36/UE and Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 ("CRR", Capital Requirements Regulation).

The CRR includes a number of transitory provisions that enable the gradual application of requirements and allows credit institutions to implement the new requirements gradually, both as regards own funds and minimum capital ratios.

Prudential solvency indicators are based on the applicable regulatory standards, the CRR, as well as Bank of Portugal Notice 6/2013 that regulates the transitory regime provided for in the Regulation regarding own funds.

In calculating capital requirements, the Bank used the credit and counterparty risk standardised approach and the basic indicator method for the purpose of operational risk.

The Bank's Common Equity Tier 1 includes: i) paid-up capital and retained earnings, ii) prudential filters (including reserves from changes to the fair value of the securities in the portfolio) and iii) regulatory deductions related to intangible assets and losses for the financial year underway.

As at 31 December 2016 and 31 December 2015, own funds and capital ratios were as follows:

(amounts in thousands of euro)

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | CRR Phasing in | CRR Fully Implemented | CRR Phasing in | CRR Fully Implemented |
| **OWN FUNDS** | | | | |
| Common Equity Tier 1 | 39,193 | 39,198 | 18,362 | 18,362 |
| Tier 1 Capital | 39,193 | 39,198 | 18,362 | 18,362 |
| **Total Own Funds** | **39,193** | **39,198** | **18,362** | **18,362** |
| **WEIGHTED RISKS** | | | | |
| Credit Risk | 75,558 | 75,558 | 8,236 | 8,236 |
| Operational Risk[1] | 14,087 | 14,087 | 14,087 | 14,087 |
| Market Risk | - | - | - | - |
| **Total Risks** | **89,645** | **89,645** | **22,323** | **22,323** |
| **SOLVABILITY RATIOS** | | | | |
| CET1/CT1 | 43.72% | 43.73% | 82.26% | 82.26% |
| Tier 1 | 43.72% | 43.73% | 82.26% | 82.26% |
| **Total** | **43.72%** | **43.73%** | **82.26%** | **82.26%** |

[1] RWA calculated based on conservative estimates for the banking product.





Regarding Common Equity Tier 1, we highlight the positive contribution in 2016 of the share capital increases that took place, despite the negative impact of recorded net profits and the increment in intangible assets. Regarding capital requirements, we highlight the significant rise in the value of weighted risks in credit risk exposures.

As at 31 December 2016, risk-weighted assets totalled 89,645 thousand euros (31 December 2015: 22,323 thousand euros), of which 75,558 thousand euros (31 December 2015: 8,236 thousand euros) pertain to credit risk.

Risk-weighted assets as regards credit risk are detailed as follows:

(amounts in thousands of euro)

| | 2016 | | |
|---|---|---|---|
| Risk line item | Original risk position | Risk weighted assets | Risk weight[1] |
| Central Authorities or Central Banks | 91,248 | - | - |
| Other Credit Institutions | 165,250 | 46,747 | 28% |
| Companies | 5,264 | 4,761 | 90% |
| Retail clients | 300 | 52 | 17% |
| Securitisation | 15,143 | 15,143 | 100% |
| Other elements | 23,204 | 8,855 | 38% |
| **Total** | **300,409** | **75,558** | **25%** |

[1] Risk weight: Risk Weighted Assets/Original risk position.

(amounts in thousands of euro)

| | 2015 | | |
|---|---|---|---|
| Risk line item | Original risk position | Risk weighted assets | Risk weight[2] |
| Central Authorities or Central Banks | 146 | - | - |
| Other Credit Institutions | 19,361 | 6,353 | 33% |
| Companies | - | - | - |
| Retail clients | - | - | - |
| Securitisation | - | - | - |
| Other elements | 1,897 | 1,883 | 99% |
| **Total** | **21,404** | **8,236** | **38%** |

[2] Risk weight: Risk Weighted Assets/Original risk position.

Banco CTT uses the ECAI (External Credit Assessment Institutions) ratings for exposures to credit institutions with a residual maturity greater than 3 months, for exposure to companies and securitisations. Therefore, the Bank uses the CRR classifications:

| Degree of Credit Quality | Fitch | Moody's | S&P |
|---|---|---|---|
| 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- |
| 2 | A+ to A- | A1 to A3 | A+ to A- |
| 3 | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- |
| 4 | BB+ to BB- | Ba1 to Ba3 | BB+ to BB- |
| 5 | B+ to B- | B1 to B3 | B+ to B- |
| 6 | < B- | < B3 | < B- |

Based on the CRR, a regulatory ratio was introduced to measure the institution's leverage.

As at 31 December 2016, this ratio (leverage ratio) was 13% (31 December 2015: 86%), given the Bank's early stage, which is well above the 3% preliminary monitoring limit. The ratio is calculated using Tier 1 Capital. In calculating leverage, the Bank does not apply the derogations set out in article 499 (2) and (3) of the CRR.

The distribution of the exposure used in the ratio and in leverage levels, as at 31 December 2016 and 31 December 2015, is shown in the table below:

(amounts in thousands of euro)

| Leverage Ratio | 2016 | 2015 |
|---|---|---|
| **EXPOSURE** | | |
| Other assets | 300,409 | 21,404 |
| **CAPITAL AND REGULATORY ADJUSTMENTS** | | |
| Tier 1 capital - fully phased-in definition | 39,198 | 18,362 |
| Tier 1 capital - transitional definition | 39,193 | 18,362 |
| Regulatory adjustments - Tier 1 - fully implemented | (39,881) | (15,638) |
| Regulatory adjustments - Tier 1 - transitional | (39,886) | (15,638) |
| **Leverage ratio - fully implemented Tier 1 Capital** | **13%** | **86%** |
| **Leverage ratio - transitional Tier 1 Capital** | **13%** | **86%** |

03

# Internal Control System



## INTERNAL CONTROL SYSTEM

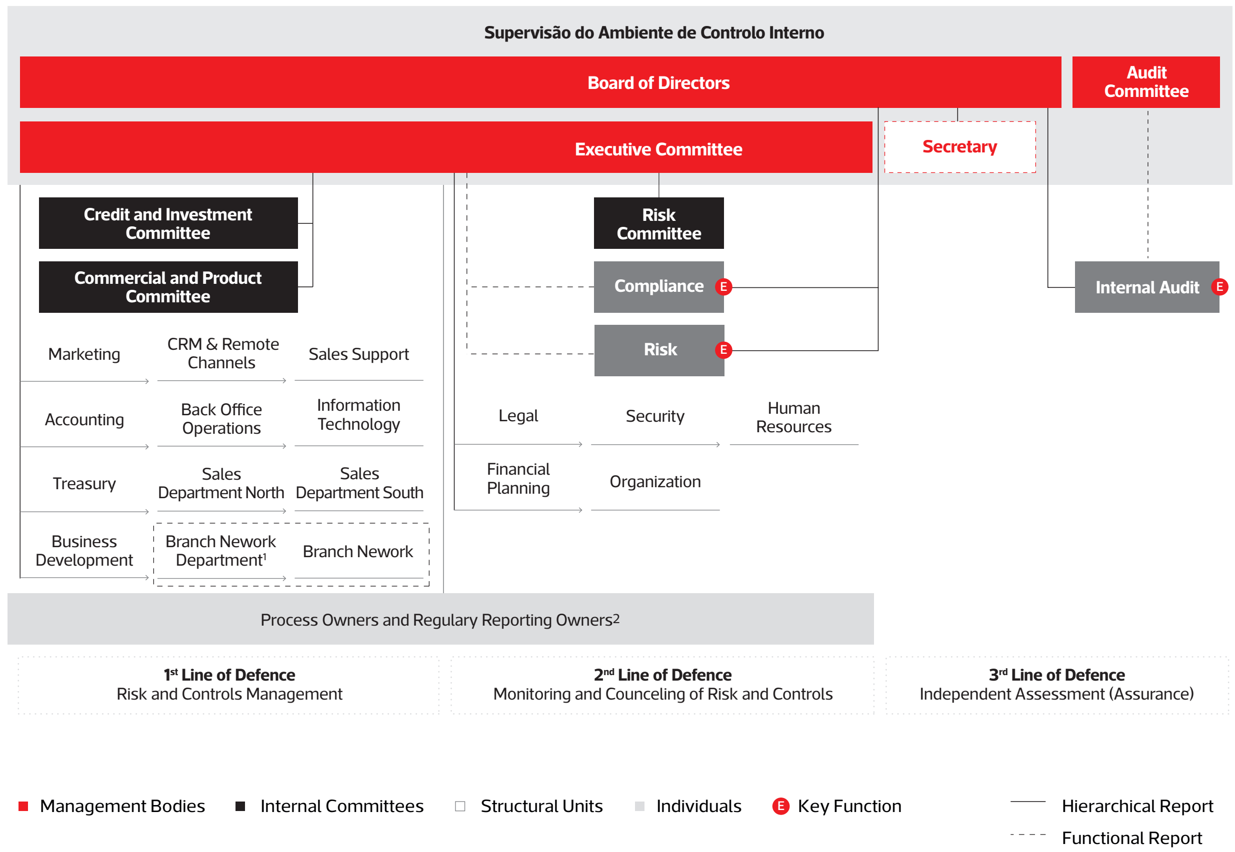
Banco CTT's internal control system includes a number of strategies, systems, processes, policies and procedures reviewed and approved by the Board of Directors. In turn, the Audit Committee oversees the independence, adequacy and effectiveness of the internal control system in its entirety.

As a basic principle, any of the Bank's policies, processes and procedures are controlled in a number of ways, all of which strive to ensure that the following goals for the internal control system are met:

- The prudent management of the risks the Bank is exposed to in order to ensure the business' medium- and long-term sustainability (performance goals);
- The existence of timely, complete and trustworthy financial and management information and independent reporting mechanisms of that information to the management and oversight bodies and to internal control officers (information goals); and
- Compliance with legal and regulatory provisions of either a prudential or behavioural nature, including naturally those pertaining to the prevention of money laundering and the financing of terrorism (compliance goals).

The Bank's governance model for the internal control system was built on three lines of defence, as specified below:

### Lines of defence of the Governance Model for the internal control system




[1] The Branch Network Head corresponds to the top of the Branch Network structure in plurality of employers' regime with CTT, with hierarchical relation to the CEO and functional relation with all other members of the Executive Committee and control functions.
[2] Process Owners and Regulary Reporting Owners have relevant and specific responsibilities towards the Internal Control Environment of Banco CTT.

- First line of defence: entrusted with risk and control management and which is made up namely of the Retail Network (the front office responsible for carrying out level-one controls) and the operational area (the back office responsible for a second check (4-eyes check) of most processes that are essentially begun by CTT's Retail Network).

- 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 is made up of the Compliance area and Risk area, two independent control functions that are responsible both for defining level one controls and for continually monitoring and assessing the effectiveness of those controls. The Bank also considers the Planning and Control, Security, Legal, as well as the Human Resources and Resource and Process Organisation areas as part of the second line of defence.

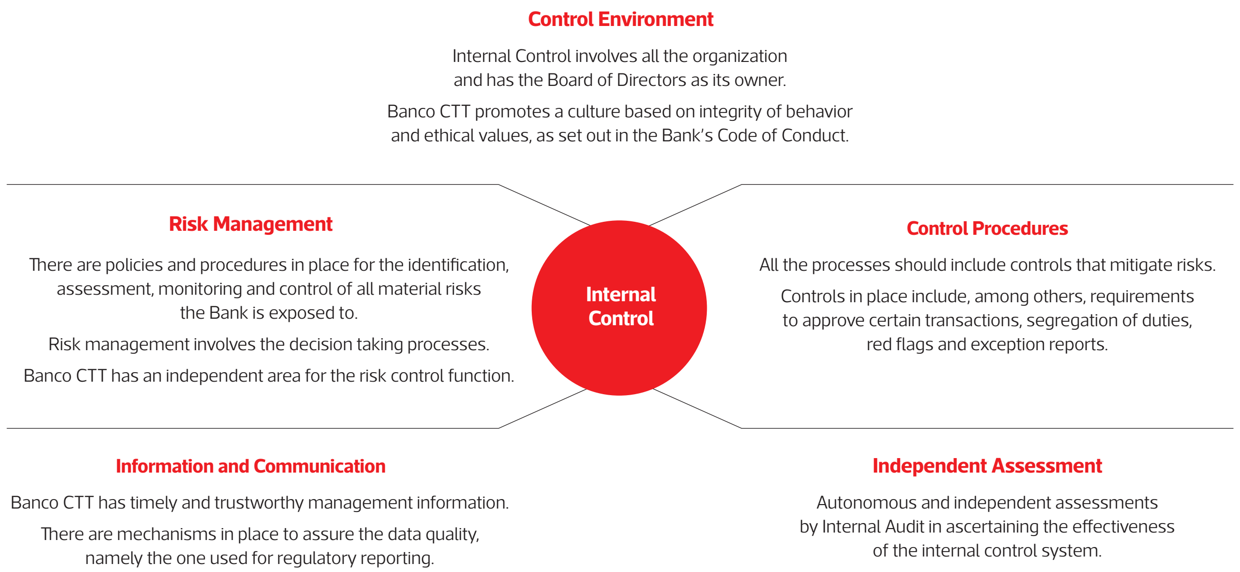
- Third line of defence: ensured by Internal Audit, which is responsible for independently examining and assessing the adequacy and effectiveness of policies, processes and procedures that support the internal control system, namely by carrying out effectiveness tests on implemented controls.

The Board of Directors is ultimately responsible for the internal control system. It is entrusted with defining, implementing, overseeing and periodically reviewing the implemented governance model and ensuring it is optimised and effective. The Board of Directors is also entrusted with monitoring 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 and, therein, issue a statement on compliance with the Bank's remuneration policy.

The governance model of the internal control system in Banco CTT is duly documented and is aligned with the prescriptions of Bank of Portugal Notice 5/2008 and with the Guidelines of the European Banking Authority on the internal governance of institutions (GL 44). In addition, it further relies on internationally recognised and accepted guidelines and methodologies, namely the "Enterprise Risk Management – Integrated Framework" (COSO II) and the recommendations issued by the Basel Committee for Banking Supervision through the "Framework for Internal Control Systems in Banking Operations".

In line with regulatory requirements and best practices, Banco CTT's internal control system is built on five components:

**Components of Banco CTT's internal control system**




- **Environment of Control** – the basis of the internal control system to the extent that it reflects the management bodies' and other employees' commitment thereto. In this regard, note should be made to the organization's culture which is geared towards integrity of behaviour and ethical values, as set out in the Bank's Code of Conduct. In parallel, the entire organization has been made aware of the importance of complying with the established procedures and of carrying out the defined controls.

- **Risk Management** – this pertains to the identification, assessment, monitoring and control of all material risks the Bank is exposed to, while striving to ensure that these remain at the levels previously defined by the management body. The operation of the Risk Management system is detailed in the following chapter.

- **Control Procedures** – once risks have been flagged, selecting the most adequate controls for their mitigation is indispensable. Therefore, the main goal of this component is to select the most effective controls in light of the risk tolerance defined by the Bank, in order to ensure that the residual risk resulting from those controls falls below that value for the respective category of risk. Includes the control measures and assessments carried out by internal control officers to ensure the effectiveness and adequacy thereof. The goal is to identify shortcomings in the control processes that allow corrective measures to be adopted in a timely fashion.

- **Information and Communication** – this component is pivotal to controls being understood and carried out by the organization. On the other hand, the existence of timely and trustworthy management information is essential to making business decisions and compliance with strategies and goals set by the management body.

- **Independent Assessment** – autonomous and independent assessments by internal audit are particularly relevant in ascertaining the effectiveness of the internal control system.

It is worth noting that 2015, because it was Banco CTT's inaugural year, focused on creating the adopted internal control system and appointing internal control officers. Throughout 2016, the internal control system was fleshed out and fine-tuned, with a special focus on reviewing and strengthening the existing control procedures.

04

# Risk Management

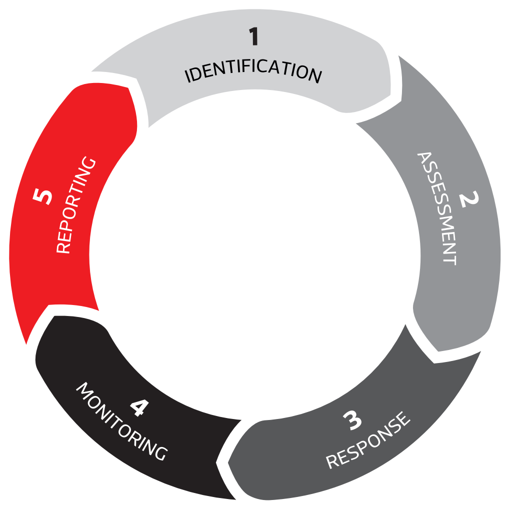


## RISK MANAGEMENT

The risk management system is part of the Bank's internal control system (ICS). It creates an adequate control environment within which the Bank carries out its activities.

The Bank's risk management system is based on a number of concepts, principles and rules. It is also based on an organizational model that has been applied and adjusted to Banco CTT, while respecting its regulatory framework. The risk management model comprises five essential stages, namely: risk identification, assessment, response, monitoring and reporting.

### Risk management cycle




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

The Bank prepared its risk strategy, by defining its qualitative principles and the quantitative limits for the management of the various risks arising from the Bank's activity. It presented the risk appetite framework that will guide Banco CTT's business growth in the first 3 years of activity.

The risk strategy sets out a number of goals for the types of risk considered to be material to the Bank and includes various objective indicators, namely indicators of the quality of the credit portfolio, cost of risk, capital requirements, liquidity structure and level and limits and rules for market and operational risk.

The Bank's risk management policy and internal controls seeks to permanently maintain an adequate relationship between its equity and the activity carried out, as well as the corresponding assessment of the risk/return profile for each area of business.

The risk management policy also seeks to support the decision-making process, thereby enhancing the Bank's short- and long-term ability to manage the risks to which it has exposure and enabling clear communication across the entire organisation as regards how business risk should be managed. This creates the basis for a solid operational environment.

In this regard, it is important to monitor and control the main types of financial risk - credit, market, liquidity and operational risk - to which the Bank's activity is exposed.

Monitoring and managing risk in each of the areas is based on the risk profile stipulated annually by the Bank, in order to ensure that the pre-defined levels of risk appetite are complied with in the Bank's activity.

In defining risk management processes, the Bank adopts tools and methodologies that enable it to identify, assess, monitor and report risk both from an individual standpoint and from an integrated standpoint. Understanding and assessing the potential impact of these risks may have on the institution's solvability and liquidity early on provides an ample view of the risks the Bank has exposure to.

### Risk Management Governance

Risk management governance is made up of various bodies:

The Bank's Board of Directors is responsible for defining and maintaining risk policy, including approving its broadest principles and ensuring it complies with the risk management model in force. The Board of Directors is also responsible for defining the Bank's strategic orientation and acceptable levels of risk, in addition to ensuring that activities are carried out according to the terms of its risk policy and that material risks the Bank is exposed to stay at pre-defined level.

The Audit Committee, as a supervisory body, is responsible for overseeing the effectiveness of the Bank's risk management system, internal control system and internal audit system. It does this through its internal audit duties and the External Auditor. It also acts as risk committee, pursuant to and for the purposes set out in article 115-L of the LFCIFC. The Audit Committee is entrusted with: assisting the Board of Directors in supervising the Executive Committee's execution of the Bank's risk strategy. 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 and appropriate, contacting those with risk management duties within the Bank and external expert advice.

A specialised Risk Committee was created to increase efficiency in controlling Board of Directors' strategic decisions and the preparation thereof. In line with Board of Director decisions, the Risk Committee has an important role in managing and controlling risk. The Risk Committee is made up of all the members of the Executive Committee, in addition to the heads of other relevant departments.

The Risk Committee is responsible for defining and executing risk management criteria and instruments, capital allocation and liquidity management, as well as for monitoring risks, thereby supporting the Bank's Board of Directors and Executive Committee in related matters.

Risk management duties are operationally centralised in the Risk Department and are independent from the business units. This department consistently incorporates the concepts of risk and capital in the Bank's business strategy and decisions. The Risk Department is subordinate to the Board of Directors and reports to the Executive Committee.

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 Bank is or may become exposed, ensuring these are managed appropriately by the Bank's various Departments within the pre-defined limitations. In addition, the Risk Department identifies and assesses risks, develops methodologies 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 further responsible for reporting risks relevant to the institution, preparing internal reports that allow a trustworthy assessment of risk exposure to be carried out and supporting the Bank's risk management area in its decision-making processes.

The main responsibility of the Compliance Department is to manage compliance and reputational risk. It is subordinate to the Board of Directors and reports to the Executive Committee.

This department independently carries out and controls the adoption of the best banking practices by all the Bank'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 Bank's involvement in criminal money laundering and the financing of terrorism. It monitors the Bank's new customer policy and the transactions performed thereby, giving notice to the competent authorities whenever there is cause for suspicion.

Internal audit duties are carried out by the Internal Audit Department. This department is integral to monitoring the internal control system, carrying out autonomous supplementary assessments of controls made and identifying possible shortcomings and recommendations, all of which are documented and reported to the managing body, thereby protecting the institution's value, its reputation and solvency. The Internal Audit Department is subordinate to the Board of Directors and reports to the Audit Committee.

## Credit Risk

Credit risk is related to the degree of uncertainty of attaining the expected returns due to a borrower's (or surety's, if there is one), a securities issuer's or a contractual counterparty's inability to satisfy his/her undertakings.

Given the Bank's main activity is commercial banking, with a special emphasis on the retail segment, the Bank shall initially offer simple credit products – current account bank overdrafts with salary/pension domiciliation and mortgage loans. In 2016, the Bank offered banking overdrafts linked to Banco CTT accounts, although, as at 31 December 2016, balance sheet exposure thereto was not yet significant.

On the present date, the Bank's credit portfolio also included non-recourse factoring exposures to Central Authorities in the amount of 7,035 thousand euros.

Furthermore, the Bank 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, public debt securities issued by the Portuguese, Spanish and Italian States, debt instruments from other issuers (credit institutions and companies) and securities from credit securitisations of the factoring of the Portuguese tariff deficit.

The control and mitigation of credit risk will be carried out through early warning signs of portfolio depreciation, namely through early warning systems and appropriate default risk prevention measures, the remedying of actual defaults, minimizing the need for impairment and creating conditions that maximise recovery results.

The quantification/measurement of credit risk is carried out on a monthly basis by the Risk Department, by assessing the impairments necessary to cover customer credit. This results in the application of the collective and individual impairment model.

The Bank stipulated and implemented an impairment model based on IAS 39 and the respective Bank of Portugal reference criteria set out in Circular Letter 2/2014. Additionally, the model takes into account definitions and criteria published by the EBA and future IFRS 9 rules, in force as of 2018.

The Risk Committee will regularly monitor the Bank's credit risk profile, namely the evolution of credit exposures and monitoring losses. Compliance with approved credit levels is also reviewed regularly.

The following table shows information on exposures to the Bank's credit risk (original risk position) as at 31 December 2016 and 31 December 2015:

(amounts in euro)

| | 2016 | 2015 |
|---|---|---|
| Central authorities or Central Banks | 91,248 | 146 |
| Other credit institutions | 165,250 | 19,361 |
| Companies | 5,264 | - |
| Retail clients | 300 | - |
| Securitisation | 15,143 | - |
| Other elements | 23,204 | 1,897 |
| **Risk line item** | **300,409** | **21,404** |

## Operational Risk

Operational risk arises from losses caused by inadequate or faulty internal control procedures, faulty human resources and systems or external events.

Banco CTT's operational risk framework was defined under its operational risk management. The implementation of an operational risk framework became a fundamental factor in defining the Bank's risk profile and creating a strong risk culture in the organization.

The Bank's operational risk management model is based on a series of concepts, principles and rules. It is also based on an organizational model that has been applied and adjusted to the Bank, while respecting its regulatory framework. This translates into control mechanisms that can be continuously improved. The goal of controlling and managing operational risk is geared towards flagging and assessing, reporting and monitoring that risk.

**Governance of Operational Risk Management**

The Board of Directors is responsible for establishing, approving and periodically reviewing the operational risk management framework, ensuring that policies, processes and systems are actually enforced at all decision-making levels and defining the operational risk appetite through risk levels defined in the operational risk matrix.

The Executive Committee is responsible for implementing a management framework for operational risk and internal control that is able to flag, measure, monitor and control risks the Bank may be exposed to.

The Operational Risk management framework is based on a model with 3 lines of defence, where the responsibility for daily management of the institution's operational risk and controls is entrusted to all employees and Process Owners (first line of defence). The Risk, Compliance, Planning and Control Departments and other areas with control duties shall be responsible for fostering and controlling/monitoring risk management and the effectiveness of the Bank's internal control system (2nd line of defence). The Internal Audit Department is responsible for independently examining and assessing the adequacy and effectiveness of policies, processes and procedures that support the governance and risk management system (3rd line of defence). 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 organization's structure is deemed the most adequate approach to perceiving risks and estimating the impact of corrective mitigation measures. The framework has a structure of processes that is adjusted in terms of the business' evolution.

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

In the Bank's operational risk management framework, the main operational risk management instruments are the collection of operational risk events, the RSA processes (under development) and the identification and quantification of Key Risk Indicators (KRIs) (also under development). These flag, assess, monitor and mitigate operational risk, thereby ensuring minimum losses associated therewith and promoting the effective management of operational risk.

**Collection of Operational Risk Events**

The Bank records events of loss from operational risk, including information on events that have taken place and contribute to identifying and monitoring operational risk.

All Bank employees are responsible for flagging and reporting operational losses. Process Owners shall have a decisive role in recording and describing operational risk events in the database to be created for this purpose, which includes detailing the respective cause and effect, quantifying the loss and describing the risk mitigation action plans.

The Risk Department is responsible for providing support in recording and describing operational risk events in the database, as well validating and monitoring them. Furthermore, the department flags shortcomings in the processes and respective mitigation initiatives.

**Fraud Risk**

The Bank includes events or risks related to fraud as an operational risk. A fraud risk management policy was approved therefor, formalising the way in which the Bank addresses fraud, particularly as concerns its prevention, detection and investigation. Fraud can affect the Bank through various channels, be it by its products and services or through the various entities with which it interacts. In that sense, the main types of fraud considered are: credit fraud, digital channel fraud, card fraud, fraud on the part of suppliers or service providers and of partners.

The Bank's fraud management model covers various stages, namely prevention, detection, investigation and monitoring. The Bank's approach to fraud management, especially in this early stage of consolidation of its operations, shall focus mainly on prevention and detection, in terms of defining processes, procedures and controls, as well as implementing tools. These phases contribute to the effectiveness of the fraud management process, namely at the level of prevention, thereby minimising the impact of any losses associated with fraud risk events.

## Compliance Risk

As defined by the Basel Committee on Banking Supervision, compliance risk is the risk of the Bank incurring legal and/or regulatory penalties and financial or reputational damages due to failing to comply with laws, regulations, codes of conduct and best practice standards.

The Bank sees compliance with the ethical and deontological principles, laws and regulations that govern its activity (including its own internal rules) as inseparable from its business activities and as an integral part of the company's culture. In this regard, it gives equal importance to mandatory rules and to guidelines and recommendations from supervisory authorities, while also taking into consideration the customer's best interests.

Regulators and customers now expect a qualitative change in the practices of financial institutions. Banco CTT makes it a compliance priority to ensure transparency of information to customers and regulators, to refrain from mis-selling practices and to combat financial crime, particularly in the form of money laundering and financing terrorism. In that regard, the Bank is equipped with policies and procedural manuals that seek to prevent conduct risk, safeguard independent and influential actions by control officers and remuneration and benefit practices that deter conflicts of interest.

As the Bank operates in a highly regulated sector, it is pivotal that it have an efficient and far reaching compliance risk management cycle that reduces any possible penalties arising from breaches of legal and regulatory requirements. Therefore, and in line with its General Risk Management and Internal Control Policy, the Bank stipulated the following stages in its cycle:

- **i) Identification**: The Bank, through the Compliance Department together with the Legal Service Department, should be able to identify all applicable legal and regulatory requirements. The Compliance Department organises those requirements and discloses them to the respective areas.
- **ii) Assessment**: Once requirements have been disclosed to the various areas, the latter shall (together with the Compliance Department) assess their level of compliance, as well as the impact of their breach.
- **iii) Response**: The Compliance Department shall list the requirements that have not been met as required by law, by level of impact on the Bank. From there, an action plan therefor shall be stipulated with the respective areas in order to comply with the identified requirement.
- **iv) Monitoring**: Requirement compliance is monitored on an ongoing basis by the Compliance Department, by ensuring that flagged breaches are identified and acted upon in a timely fashion.
- **v) Reporting**: The overall state of the Bank's compliance with the legal and regulatory requirements is periodically reported to the Board of Directors and to the Audit Committee.

## Market Risk

Market Risk broadly signifies any loss arising from an adverse change in the value of a financial instrument as a result of a change in interest rates, exchange rates, share prices, prices of goods or real estate, volatility and credit spreads.

The Bank does not have a trading portfolio and most of its investment portfolio is recorded as Held-to-maturity investments and residually as assets available for sale. Credit risk, and not market risk, is the main risk arising from its investments.

Given its goal of having a reduced loans to deposits ratio, the Bank manages a representative investment portfolio. To limit any negative impacts from turmoil in the market, sector or issuer, the Bank defined a number of limits in managing its own portfolio in order to ensure that the level of risk incurred therein complies with the pre-defined level of risk tolerance. These limits are stipulated at least annually and are regularly monitored by the Risk Committee and Board of Directors.

**Interest Rate Risk**

Interest Rate risk is the risk of any loss from items on the balance sheet that are interest rate-sensitive.

One of the main instruments used to monitor interest rate risk on the balance sheet is the repricing gap on assets and liabilities susceptible to changes in interest rates. This model groups change-sensitive assets and liabilities into fixed time frames (maturity dates or date of first review of interest rates, when floating). From here, the potential impact on the Bank's net interest income and economic value from changes in interest rates for which the Bank stipulated specific tolerance limits are calculated.

## Liquidity Risk

Liquidity risk is the risk of the Bank's potential inability to satisfy its financing repayment obligations without incurring in significant losses, due to onerous financing conditions or the sale of assets under market value.

The Bank is exposed to the liquidity risk inherent to its business of transforming maturities granted in the long-term (as credit and securities) and usually taken in the short-term (deposits). Therefore, the prudent management of liquidity risk is crucial.

**Management Practices**

Banco CTT created a liquidity risk management structure with clear cut responsibilities and processes in order to ensure that all participants in liquidity risk management are perfectly coordinated and that management controls are effective. Overall, the liquidity risk management strategy is entrusted to the Executive Committee and executed by the Treasury Department. It is based on constant vigilance of exposure indicators and is closely monitored by the Risk Committee.

The Risk Committee is responsible for controlling liquidity risk exposure. It does so by analysing liquidity positions and assessing their conformity to the applicable regulatory rules and limitations, as well as to the Bank's goals and guidelines.

The Bank's Treasury Department is responsible for ensuring cash flow management and the necessary short-term liquidity levels. In particular, it is responsible for holding High Quality Liquid Assets (HQLA). Furthermore, the Treasury Department executes medium- and long-term funding plans through cash management and interbank relationships and ensures compliance with the established liquidity risk limits, minimum cash reserves, position limits and other regulatory ratios or limits defined by the Executive Committee.

The Risk Department is responsible for flagging, assessing, controlling and monitoring the Bank's liquidity risk, ensuring it is managed within the guidelines set by the Board of Directors and offering support in defining liquidity limits, while continuously monitoring compliance therewith.

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

As regards structural liquidity, the Bank drafts a monthly liquidity report that takes into consideration not only the effective maturity date of the various 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 (i.e., ongoing assessment of liquidity gaps and/or duration, analysis of the composition and availability of assets, etc.), the Bank also adopts the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) quantifications, while regularly monitoring their evolution and anticipating potential impacts.

The LCR seeks to encourage bank resilience to short-term liquidity risk, ensuring it has sufficient high quality net assets to survive a severe stress test for a 30-day period.

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

**Liquidity Risk Analysis**

The Liquidity Gap, as defined in Bank of Portugal Instruction 13/2009, described the wholesale liquidity risk position of institutions.

Banco CTT's 1-year liquidity gap was 464% as at 31 December 2016 (31 December 2015: 159%).

Banco CTT continues to monitor legislative changes in order to comply with all its regulatory obligations, namely in relation to new CRR liquidity ratios – LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio).

### Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP is an important process for managing the Bank's risk. It is used to identify the capital the Bank requires to adequately cover the risks it runs in undertaking its current business strategy.

The Bank carries out an annual self-assessment exercise to determine adequate capital levels given its business model. This process is set out in Bank of Portugal Instruction 15/2007 and complies with the Pillar II goals of the Basel II Accord, to ensure the risks institutions are exposed to are adequately assessed and that the internal capital available to them is adequate given their respective risk profile.

ICAAP is a tool that allows the Board of Directors to test the Bank's capital adequacy, given the risks of its activity, as well as the sustainability of the strategic plan, medium-term budget and the respective framework of the risk limits set out in the Bank's Risk Strategy. ICAAP guides Banco CTT in assessing and quantifying the main risks to which it may be exposed. It is also an important decision-making management tool as regards the level of risk undertaken and activities carried out.

The Bank developed and formalised its methodology for the Internal Capital Assessment Adequacy Process (ICAAP), in order to ensure the risks it is exposed to are adequately assessed and that the internal capital available to it is adequate given its respective risk profile.

We intend for ICAAP to gain ground in Banco CTT through a continuous cycle of improvement with a direct impact on the capital and business planning process and as a bridge to other initiatives.



## 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 adequate to the Bank's risk profile and strategy.

Lisbon, 6 March 2017

**By the Board of Directors**

Francisco José Queiroz de Barros de Lacerda

Luís Maria França de Castro Pereira Coutinho

Luís Miguel Agoas Correia Amado

João Maria de Magalhães Barros de Mello Franco

Pedro Rui Fontela Coimbra

André Manuel Pereira Gorjão de Andrade Costa

José Manuel Gonçalves de Morais Cabral

Rui Afonso Galvão Mexia de Almeida Fernandes

Clementina Maria Dâmaso de Jesus Silva Barroso

## BOARD OF DIRECTORS' STATEMENT – ARTICLE 435(1)(F) OF THE CRR

Banco CTT's banking operation is essentially based on CTT's retail network, thereby benefitting from the existing (physical and human) infrastructure. This allows it to carry out low-cost operations focused on a complete portfolio of simple products, strongly positioned in current and savings accounts, payment cards and mortgage loans. These operations are governed by principles of proximity, simplicity, transparency and value. Its main target is the retail market with a tendency towards the mass market.

Banco CTT carries out its strategy with solid capital ratios, in line with its value proposal and CTT's strength. It keeps a conservative balance sheet structure, with low rates of transformation of deposits into loans and focuses on low-risk mortgage loans. This strategy allows it to build a significant portfolio of liquid and diversified assets from various geographies. This provides great resilience in times of adversity in the liquidity and credit markets.

Lisbon, 6 March 2017

**By the Board of Directors**

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José Manuel Gonçalves de Morais Cabral

Rui Afonso Galvão Mexia de Almeida Fernandes

Clementina Maria Dâmaso de Jesus Silva Barroso

# 05

## Complementary Information



## FINANCIAL STATEMENTS

### Income Statement for the years ended at December, 2016 and 2015

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Interest and similar income | 416,006 | 18,187 |
| Interest and similar expense | (389,955) | - |
| **Net Interest Income** | **26,051** | **18,187** |
| Fee and commission income/(expense) | 421,416 | (22,760) |
| Net gains/(losses) arising from available for sale financial assets | 11,671 | - |
| Other operating income and expense | 164,489 | (53,846) |
| **Operating Income** | **623,627** | **(58,419)** |
| Staff costs | 9,626,317 | 2,252,301 |
| General and administrative expenses | 16,439,019 | 5,066,117 |
| Depreciation and amortisation | 1,541,550 | 137,081 |
| Loans impairment | 417 | - |
| Other provisions | 20,927 | - |
| **Profit/(loss) before income tax** | **(27,004,603)** | **(7,513,918)** |
| Current Tax | (5,524,519) | (1,593,233) |
| Deferred Tax | (41,513) | - |
| **Net income/(loss) for the year** | **(21,438,571)** | **(5,920,685)** |
| Basic Earnings per Share | (0.39) | (0.28) |
| Diluted Earnings per Share | (0.39) | (0.28) |

## Balance Sheet as at 31 December, 2016 and 2015

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and deposits at central banks | 18,141,268 | 30,397 |
| Deposits with banks | 106,373,978 | 1,458,350 |
| Available for sale financial assets | 6,447,325 | 130,144 |
| Investments at credit institutions | 58,718,171 | 17,902,472 |
| Loans and advances to customers | 7,103,905 | - |
| Financial assets held to maturity | 95,094,543 | - |
| Property and equipment | 59,727 | 60,642 |
| Intangible assets | 18,455,823 | 9,716,701 |
| Deferred income tax assets | 41,513 | - |
| Other assets | 8,197,538 | 1,816,304 |
| **Total Assets** | **318,633,791** | **31,115,010** |
| **LIABILITIES** | | |
| Deposits from customers | 253,944,840 | 52,422 |
| Provisions | 20,927 | - |
| Other liabilities | 7,013,806 | 2,983,813 |
| **Total Liabilities** | **260,979,573** | **3,036,235** |
| **EQUITY** | | |
| Share Capital | 85,000,000 | 34,000,000 |
| Fair value reserve | 13,474 | (540) |
| Retained earnings | (5,920,685) | - |
| Net income / (loss) for the year | (21,438,571) | (5,920,685) |
| **Total Equity** | **57,654,218** | **28,078,775** |

## PROPOSED APPLICATION OF RESULTS

**Whereas:**

In 2016, the Banco CTT S.A. recorded a net loss of 21.438.571 euros,

**Is proposed:**

In accordance with paragraph 5(f) of Article 66 and for the purposes of paragraph 1(b) of Article 376, both of the Commercial Companies Code, the negative net losses to be transferred for retained earnings.

Lisbon, 6 March 2017

**By the Board of Directors**

Francisco José Queiroz de Barros de Lacerda

Luís Maria França de Castro Pereira Coutinho

Luís Miguel Agoas Correia Amado

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Clementina Maria Dâmaso de Jesus Silva Barroso

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# Financial Statements and Notes to the Financial Statements of 2016



## FINANCIAL STATEMENTS

### Income Statement for the years ended at December, 2016 and 2015

(amounts in euros)

| | Notes | 2016 | 2015 |
|---|---|---|---|
| Interest and similar income | | 416,006 | 18,187 |
| Interest and similar expense | | (389,955) | - |
| **Net Interest Income** | 4 | **26,051** | **18,187** |
| Fee and commission income/(expense) | 5 | 421,416 | (22,760) |
| Net gains/(losses) arising from available for sale financial assets | 6 | 11,671 | - |
| Other operating income and expenses | 7 | 164,489 | (53,846) |
| **Operating Income** | | **623,627** | **(58,419)** |
| Staff costs | 8 | 9,626,317 | 2,252,301 |
| General and administrative expenses | 9 | 16,439,019 | 5,066,117 |
| Depreciation and amortisation | 17 and 18 | 1,541,550 | 137,081 |
| Loans impairment | 15 | 417 | - |
| Other provisions | 22 | 20,927 | - |
| **Profit/(loss) before income tax** | | **(27,004,603)** | **(7,513,918)** |
| Current Tax | 21 | (5,524,519) | (1,593,233) |
| Deferred Tax | | (41,513) | - |
| **Net income/(loss) for the year** | | **(21,438,571)** | **(5,920,685)** |
| Basic Earnings per Share | 10 | (0.39) | (0.28) |
| Diluted Earnings per Share | 10 | (0.39) | (0.28) |

**BY THE CHARTERED ACCOUNTANT**
Nuno Filipe dos Santos Fernandes

**THE BOARD OF DIRECTORS**
Francisco José Queiroz de Barros de Lacerda
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Clementina Maria Dâmaso de Jesus Silva Barros

## Statement of Comprehensive Income for the years ended at 31 December, 2016 and 2015

(amounts in euros)

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT** | | | |
| Fair value reserve | 26 | 14,014 | (540) |
| **Other Comprehensive Income/(Loss) for the year** | | **14,014** | **(540)** |
| Net income/(loss) for the year | | (21,438,571) | (5,920,685) |
| **Total Comprehensive Income/(Loss) for the year** | | **(21,424,557)** | **(5,921,225)** |

**BY THE CHARTERED ACCOUNTANT**
Nuno Filipe dos Santos Fernandes

**THE BOARD OF DIRECTORS**
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## Cash Flow Statement for the years ended at 31 December, 2016 and 2015

(amounts in euros)

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **CASH FLOWS ARISING FROM OPERATING ACTIVITIES** | | **223,775,096** | **(4,566,488)** |
| Interest and commissions received | | 2,006,525 | 15,385 |
| Interest and commissions paid | | (235,567) | (22,771) |
| Payments to employees | | (8,014,221) | (1,726,742) |
| Other payments and receipts | | (15,594,260) | (2,662,872) |
| | | **(21,837,523)** | **(4,397,000)** |
| **Decrease/Increase in operating assets/liabilities** | | **245,612,619** | **(169,488)** |
| Other operating assets/liabilities | | (829,255) | (221,910) |
| Loans and advances to customers | | (7,103,546) | - |
| Deposits from customers | | 253,545,420 | 52,422 |
| **CASH FLOWS ARISING FROM INVESTMENT ACTIVITIES** | | **(156,698,602)** | **(27,960,612)** |
| Deposits with Bank of Portugal | | (3,776,486) | (15,847) |
| Investments in credit institutions | | (40,800,000) | (17,900,000) |
| Available-for-sale financial assets | | (6,375,224) | (130,342) |
| Financial assets held to maturity | | (95,770,325) | - |
| Acquisition of tangible and intangible assets | | (9,976,567) | (9,914,423) |
| **CASH FLOWS ARISING FROM FINANCING ACTIVITIES** | | **51,000,000** | **34,000,000** |
| Share capital increase | | 51,000,000 | 34,000,000 |
| **Net changes in cash and cash equivalents** | | **118,076,494** | **1,472,900** |
| **Cash and cash equivalents at the beginning of the year** | | **1,472,900** | - |
| **Cash and cash equivalents at the end of the year** | | **119,549,394** | **1,472,900** |
| **CASH AND CASH EQUIVALENTES COMPRISES:** | | **119,549,394** | **1,472,900** |
| Cash | 11 | 14,348,934 | 14,550 |
| Deposits with banks | 12 | 105,200,460 | 1,458,350 |

**BY THE CHARTERED ACCOUNTANT**
Nuno Filipe dos Santos Fernandes

**THE BOARD OF DIRECTORS**
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Clementina Maria Dâmaso de Jesus Silva Barros

## Balance Sheet as at 31 December, 2016 and 2015

(amounts in euros)

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposits at central banks | 11 | 18,141,268 | 30,397 |
| Deposits with banks | 12 | 106,373,978 | 1,458,350 |
| Available for sale financial assets | 13 | 6,447,325 | 130,144 |
| Investments at credit institutions | 14 | 58,718,171 | 17,902,472 |
| Loans and advances to customers | 15 | 7,103,905 | - |
| Financial assets held to maturity | 16 | 95,094,543 | - |
| Property and equipment | 17 | 59,727 | 60,642 |
| Intangible assets | 18 | 18,455,823 | 9,716,701 |
| Deferred income tax assets | | 41,513 | - |
| Other assets | 19 | 8,197,538 | 1,816,304 |
| **Total Assets** | | **318,633,791** | **31,115,010** |
| **LIABILITIES** | | | |
| Deposits from customers | 20 | 253,944,840 | 52,422 |
| Provisions | 22 | 20,927 | - |
| Other liabilities | 23 | 7,013,806 | 2,983,813 |
| **Total Liabilities** | | **260,979,573** | **3,036,235** |
| **EQUITY** | | | |
| Share Capital | 24 | 85,000,000 | 34,000,000 |
| Fair value reserve | 26 | 13,474 | (540) |
| Retained earnings | 26 | (5,920,685) | - |
| Net income/(loss) for the year | | (21,438,571) | (5,920,685) |
| **Total Equity** | | **57,654,218** | **28,078,775** |

**BY THE CHARTERED ACCOUNTANT**
Nuno Filipe dos Santos Fernandes

**THE BOARD OF DIRECTORS**
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Clementina Maria Dâmaso de Jesus Silva Barros





## Statement of changes in Equity for the years ended at 31 December, 2016 and 2015

(amounts in euros)

| | Share Capital | Fair Value Reserves | Retained Earnings | Net income /(loss) for the year | Total Equity |
|---|---|---|---|---|---|
| **Balance on 6 february 2015** | **5,000,000** | **-** | **-** | **-** | **5,000,000** |
| Share capital increase | 29,000,000 | - | - | - | 29,000,000 |
| Fair value reserves | - | (540) | - | - | (540) |
| Net income/(loss) for the year | - | - | - | (5,920,685) | (5,920,685) |
| **Balance on 31 december 2015** | **34,000,000** | **(540)** | **-** | **(5,920,685)** | **28,078,775** |
| Share capital increase | 51,000,000 | - | - | - | 51,000,000 |
| Fair value reserves | - | 14,014 | - | - | 14,014 |
| Retained Earnings | - | - | (5,920,685) | 5,920,685 | - |
| Net income/(loss) for the year | - | - | - | (21,438,571) | (21,438,571) |
| **Balance on 31 december 2016** | **85,000,000** | **13,474** | **(5,920,685)** | **(21,438,571)** | **57,654,218** |

**BY THE CHARTERED ACCOUNTANT**
Nuno Filipe dos Santos Fernandes

**THE BOARD OF DIRECTORS**
Francisco José Queiroz de Barros de Lacerda
Luís Maria França de Castro Pereira Coutinho
Luís Miguel Agoas Correia Amado
João Maria de Magalhães Barros de Mello Franco
Pedro Rui Fontela Coimbra
André Manuel Pereira Gorjão de Andrade Costa
José Manuel Gonçalves de Morais Cabral
Rui Afonso Galvão Mexia de Almeida Fernandes
Clementina Maria Dâmaso de Jesus Silva Barros

# NOTES TO THE FINANCIAL STATEMENTS

## Introductory Note

Banco CTT, S.A was incorporated on 24 August 2015 through the transformation of CTT Serviços, S.A. – a company incorporated on 6 February 2015 specifically to implement the Bank, in its Project phase. During this phase, it needed to collect all the information stipulated as a condition precedent to beginning its activity and present it to the Bank of Portugal, as detailed in the Bank of Portugal authorisation granted in 2013 and renewed in 2014.

The process began with the 2013 authorisation request to create the Postal Bank. Authorisation was granted by the Bank of Portugal, following which CTT carried out various market surveys and in-depth reflections on the business model, by which it confirmed the Project's timeliness and worth.

Thereby, CTT's Board of Directors approved, on 4 November 2014, the launch of the then Postal Bank, thereby continuing to pursue its strategy of expanding the offer of financial products and services. It was authorised by the Bank of Portugal to begin operating on 27 November 2015.

Banco CTT's mission is to provide competitive no frills financial products, excellent service and to forge relationships built on trust and innovation, while ensuring:

- An integrated solution for each customer's needs;
- Trust as one of the institution's assets and outcomes;
- Development of a sustainable corporate strategy and risk profile;
- Continuous innovation that ensures the success of its mission both today and in the future.

Two share capital increases took place in 2016, one in May in the amount of 26 million euros and another in October in the amount of 25 million euros. Currently, Banco CTT has a share capital of 85 million euros.

## Note 1 – Basis of preparation

In accordance with Regulation no. 5/2015 from the Bank of Portugal, as of 1 January 2016 the financial statements of all the institutions under this entity's supervision must be prepared in accordance with the International Reporting Financial Standards (IFRS), as adopted in the European Union (EU) as at the date of its presentation. Thus, since 1 January 2016 Banco CTT prepared its financial statements in accordance with the IFRS, in replacement of the Adjusted Accounting Standards (NCA), as established by the Bank of Portugal.

Until 31 December 2015, Banco CTT financial statements were prepared in accordance with the NCA as established by the Bank of Portugal on Regulation no. 1/2005 of 21 February and Instruction no. 9/2005, of 11 March.

This change had no impact in the financial statements of Banco CTT as at 31 December 2015.

In accordance with regulation (CE) no. 1606/2002 of European Parliament and the Council, of 19 July 2002 and Regulation no. 5/2015 from the Bank of Portugal, the financial statements of Banco CTT are prepared in accordance with the International Reporting Financial Standards (IFRS), as adopted in the European Union (EU) as at the date of its presentation.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor bodies.

These financial statements of the Bank for the period ending 31 December 2016 were prepared in accordance with IFRS effective and adopted for use in the EU until 31 December 2016.

These financial statements are expressed in euros and have been prepared under the historical cost convention, except for the assets and liabilities accounted for at fair value, namely available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the Bank's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates that are significant to the financial statements are disclosed in Note 3.

These financial statements were approved by the Board of Directors in a meeting held on 6 March 2017.



## 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**

Foreign currency transactions are translated into the functional currency using the exchange rates in force at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates in force at the balance sheet date. Non-monetary assets and liabilities in a foreign currency that are measured at historical cost are not updated.

Foreign exchange differences arising on translation are recognized in the income statement.

**2.2 Loans and Advances to Customers**

Loans and advances to customers include loans and advances originated by the bank, which are not intended to be sold in the short term. Loans and advances to customers are recognized when cash is advanced to borrowers.

Loans and advances to customers are derecognized from the balance sheet when i) the contractual rights to receive their cash flows have expired, ii) the bank has transferred substantially all risks and rewards of ownership or iii) although retaining some but not substantially all of the risks and rewards of ownership, the bank has transferred the control over the assets.

Loans and advances to customers are initially recorded by its nominal value and cannot be reclassified to the remaining classes of financial assets.

The bank assesses, regularly, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognized in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition and ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

According to the IFRS, Loan and Advances to customers' value must be corrected, based on rigor and prudence criteria, to reflect its realizable value at all times.

When a loan is considered by the bank as uncollectible and an impairment loss of 100% was recognized, it is written off against the related allowance for loan impairment.

**2.3 Other Financial Assets**

Classification, initial recognition and subsequent measurement

Financial assets are recognized on trade date – the date on which the bank commits to purchase asset – and are classified considering the underlying intention in the following categories.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that: i) the bank intends to held for an indefinite period of time, ii) are designated as available for sale at initial recognition or iii) that are not classified as financial assets at fair value through profit or loss or held-to-maturity investments.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs. Available for sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in their fair value are recognized directly in equity, until the financial assets are derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Accumulated gains and losses recognized in fair value reserves arising from the sale of available for sale financial assets are recognized in the income statement, in the caption "Income/(expense) from available for sale financial assets".

Interests from debt instruments are recognized using the effective interest rate method under Net Interest Income, including a premium or discount, when applicable. Dividends are recognized in results when the right to receive is attributed.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold until its maturity and that are not classified to any other category of financial assets. These financial assets are recognized at fair value in the inception date and are subsequently measured at amortized cost.

Interest is calculated through the effective rate method and recognized in the income statement. Impairment losses are recognized in the income statement when identified.

Any reclassification or sale of assets recognized in this category made not close to the maturity, or that does not fall within the exceptions laid down in the IFRS, will oblige the bank to reclassify this entire portfolio as Available-for-sale financial assets and will unable the bank for two years to classify any financial asset in this category.

**2.4 Financial Liabilities**

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include mainly deposits from customers.

The financial liabilities are recognized i) initially at fair value less transaction costs and ii) subsequently at amortized cost, using the effective interest rate method.

**2.5 Financial Instruments Offsetting**

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

**2.6 Equity Instruments**

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences 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 recognized under equity as a deduction from the proceeds. Amounts paid or received related to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs.

Distributions to holders of an equity instrument are deducted directly to equity as dividends, when declared.

**2.7 Tangible Assets**

Tangible assets are measured at cost less accumulated depreciation and impairment losses, when applicable. The acquisition cost includes:

i) the acquisition price of the asset;

ii) the expenditure that is directly attributable to the acquisition of the items.

Depreciation of tangible assets, net of residual value, is calculated using the straight-line method, starting in the month when they become available for use and during their estimated useful lives, which is determined considering their expected usage.

The depreciation rates in place correspond, in average, to the following estimated useful lives for the different class of assets:

| | Years of useful life |
|---|---|
| Improvements in leasehold property | 10 |
| Security equipment | 8 |
| Other equipment | 1-5 |

Depreciation ceases when assets are reclassified to held for sale category.

At each balance sheet date, an assessment is performed by the Bank as to whether there is objective evidence of impairment. When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount be estimated and an impairment loss recognized in the income statement when the net book value of the asset exceeds its recoverable amount. The recoverable amount is determined as the greater of its net selling price and value in use.

Assets under construction represent tangible assets in construction/production phase, being recorded at acquisition cost or production cost. These assets start to be depreciated after being available for use.

Repair and maintenance costs are charged in the income statement as incurred. Big repairs that originate an increase in benefits or in the estimated useful life are recorded as tangible assets and depreciated at the expected useful life rates. The replaced component is identified and written off.

Income and expenses generated in the sale of tangible assets are determined by the difference between the selling value and the book value and are recorded in the income statement under the caption "Other operating income" or "Other operating expense".

**2.8 Intangible Assets**

Intangible assets are measured at cost less accumulated depreciation and impairment losses, when applicable. Intangible assets are only recognized when it is probable that future economic benefits flow to the bank and that those can be reliably measured.

Intangible assets include essentially software expenditures (whenever this is separable from hardware and be associated to projects in which is possible to measure the generation of economic benefits), licenses and other usage rights. Also include development costs of R&D every time there is an intent and technical ability to fulfil that development, with the objective of being available to sell or use. Research expenditure when searching new technical or scientific knowledge or in the search of alternative solutions are recognized in the income statement when incurred.

Intangible assets are amortized using the straight-line method, starting in the month when they become available for use and during their estimated useful lives, which is usually between three to five years. In the specific case of the core business system, after specific analysis on the expected effective useful life of the asset, the bank decided to apply an amortization period of 15 years.

The bank performs impairment tests whenever there is events or circumstances that indicate that the net book value exceeds the recoverable amount, being the difference recognized in the income statement. The recoverable amount is determined as the greater of its 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 and expenses generated in the sale of intangible assets are determined by the difference between the selling value and the book value and are recorded in the income statement under the caption "Other operating income" or "Other operating expense".

**2.9 Leases**

The Bank classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Finance leases are registered at the inception of the lease, as assets and liabilities at the fair value of the leased assets, or if lower, to the present value of the future lease payments. The discount rate to be used should be the lease implicit rate. If this rate is not disclosed than the bank´s financing rate for this types of investments should be used. The depreciation policy of this assets follows the tangible assets policy of the bank. The financial interest included in the rentals as well as the depreciation of the tangible asset are recognize in the income statement of the period they relate.

In operational leases, rentals are recognized as an expense in the income statement during the lease term (Note 9).

**2.10 Employee Benefits**

In accordance with IAS 19 - Employee benefits, the variable remuneration (profit sharing, bonus and others) to employees and to the Board of Directors is recognized in the income statement in the year to which they relate.

**2.11 Income Tax**

Income tax for the period comprises current tax and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. In this case, deferred tax are also recognized in equity.

Current tax is the tax expected to be paid on the taxable profit for the period, calculated using tax rates enacted or substantively enacted at the balance sheet date. Taxable profit differs from the profit for the period, once excludes several expenses and income that will only be deductible or taxable in other periods. Taxable profit also excludes expenses and income that will never be deductible or taxable.

Deferred taxes refer to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted or when deferred tax liabilities exists and its reversal is expectable to occur in the same period of the deferred tax assets. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is calculated using the tax rates enacted or substantively enacted at the balance sheet date and that are expected to be applied when the temporary difference is reversed.

The Bank is under the Special Taxation of Corporate Groups Regime (RETGS) that includes all companies were CTT have, directly or indirectly, at least 90% of the share capital and that simultaneously are residents in Portugal and taxable under Corporate Income Tax. In this context, Banco CTT receives from its shareholder the amount related with its fiscal loss that contributes to the Groups' consolidated Corporate Income Tax and, equally, pays to its shareholder the amount related with its positive contribute to the consolidated Corporate Income Tax of the group.

**2.12 Provisions**

Provisions are recognized when: (i) the Bank has present legal or constructive obligation, based in past events (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made. The provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate charged as a financial expense in the caption "Interest and other similar charges".

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate at that date.

**2.13 Interest Income and Expenses**

Interest income and expense are recognized in the income statement under interest and similar income and interest expense and similar charges for all non-derivative financial instruments measured at amortized cost, using the effective interest rate 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, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. In the case of financial assets or groups of similar financial assets for which an impairment loss was recognized, interest income is calculated using the interest rate used to measure the impairment loss.

**2.14 Recognition of Fees and Commission Income**

Fees and commissions income are recognized as follows:

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

**2.15 Earnings per Share**

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares.

**2.16 Cash and Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with Central Banks.

## Note 3 – Critical Accounting Estimates and Judgements In Applying Accounting Policies

IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Bank's reported results and related disclosure.

A broader description of the accounting policies employed by the Bank is shown in Note 2 to the Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Bank's reported results would differ if a different treatment were chosen.

Management believes that the choices made by it are appropriate and that the financial statements present the Bank's financial position and results fairly in all material respects.

**3.1 Impairment of Available for Sale Financial Assets**

The Bank determines that available for sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgment based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility of the markets, the Bank has considered the following parameters when assessing the existence of impairment losses:

i) Equity securities: significant decline in market value in relation to the acquisition cost or market value below the acquisition cost for a prolonged period;

ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets. In addition, valuations are generally obtained through market quotation (mark to market) or valuation models (mark to model) that may require assumptions or judgment in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognized with a consequent impact in the income statement of the Bank.

**3.2 Held-to-maturity Investments**

The bank classifies its non-derivate financial instruments with fixed or defined payments and maturities as held-to-maturity, according to the requirements of IAS 39. This classification requires significant judgment.

In assessing the judgment, the bank evaluates its intention and capacity to retain this asset until maturity. If the bank does not retain this asset until maturity date, except for specific circumstances – for example, selling an insignificant part close to maturity – is required to reclassify the entire portfolio to Available-for-sale financial assets, with its measurement at fair value.

Held-to-maturity investments are subject to impairment tests made by the bank. The use of different assumptions and estimates could have an impact on the income statement.

**3.3 Deferred Taxes**

The recognition of the deferred tax assets relating to tax losses assumes the existence of future taxable income. Deferred tax assets and liabilities were determined based on the tax legislation currently in place for the bank, using the tax rates enacted or substantively enacted at the balance sheet date. Changes in the tax legislation can influence the value of deferred taxes.

**3.4 Provisions**

The bank makes considerable judgment when measuring and recognizing provisions. Due to the inherent uncertainties in the evaluation process, real losses can be different from the originally estimated. These estimates are subject to changes as new information becomes available. Reviews to these estimations can affect future results.

When relevant, judgment includes the gauging the probabilities that a litigation has to be successful. Provisions are recorded when the bank expects that litigations in course will result in outflows for the bank, the loss is probable and can be reliably estimated.

## Note 4 – Net Interest Income

This balance includes:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| **Interest and similar income** | **416,006** | **18,187** |
| Interest on held to maturity financial assets | 306,145 | - |
| Interest on deposits and investments at credit institutions | 64,721 | 17,845 |
| Interest on loans and advances | 29,329 | - |
| Interest on available for sale financial assets | 15,811 | 342 |
| **Interest and similar income** | **389,955** | **-** |
| Interest on deposits from customers | 386,168 | - |
| Others | 3,787 | - |
| **Net interest income** | **26,051** | **18,187** |

## Note 5 – Net Fees and Commissions Income

This balance includes:

| | (amounts in euros) | |
|---|---|---|
| | 2016 | 2015 |
| **Fees and commissions received** | **614,028** | 11 |
| From banking services | 614,028 | 11 |
| **Fees and commissions paid** | **192,612** | 22,771 |
| From banking services | 164,920 | 22,771 |
| From securities operations | 10,763 | - |
| From other services | 16,929 | - |
| **Net Fees and Commissions Income** | **421,416** | (22,760) |

The caption Fees and commissions received – From banking services includes 237,097 euros related to commissions from intermediation of credit products.

## Note 6 – Net Gains/(losses) Arising from Available for Sale Financial Assets

This balance includes:

| | (amounts in euros) | |
|---|---|---|
| | 2016 | 2015 |
| **Gains arising from available for sale financial assets** | **12,459** | - |
| Fixed income | 12,459 | - |
| **Losses arising from available for sale financial assets** | **788** | - |
| Fixed income | 788 | - |
| **Net gains/(losses) arising from available for sale financial assets** | **11,671** | - |

## Note 7 – Other Operating Income/(expenses)

This balance includes:

| | (amounts in euros) | |
|---|---|---|
| | 2016 | 2015 |
| **Operating income** | **309,984** | 1,662 |
| Other operating income | 309,984 | 1,662 |
| **Operating expenses** | **145,495** | 55,508 |
| Donations and contributions | 60,651 | - |
| Annual supervisory fee (SSM) | 1,896 | - |
| Contribution over the banking sector | 744 | - |
| Contribution for the resolution fund | 600 | - |
| Contribution for the deposit guarantee fund | 80 | 50,000 |
| Indirect taxes | 48 | 4,435 |
| Contribution for the single resolution fund | - | 1,000 |
| Other operating expenses | 81,476 | 73 |
| **Other operating income/(expenses)** | **164,489** | (53,846) |

The Single Supervisory Mechanism (SSM) is one of the three pillars of the Banking Union (Single Supervisory Mechanism, Single Resolution Mechanism and Common Deposit Guarantee Scheme). The SSM's supervision model distinguishes between the significant credit institutions (under the direct supervision of the ECB) and the less significant credit institutions (under indirect supervision of the ECB and direct supervision of the national competent authorities, articulating with and reporting to the ECB), based on quantitative and qualitative criteria. Banco CTT is classified as a 'less significant credit institution', having paid in 2016, 1,896 euros of supervisory fee.

The balance Contribution over the banking sector is estimated according to the terms of the Decree-Law no. 55-A/2010. The determination of the amount payable is based on: i) the annual average liabilities deducted by core capital (Tier 1) and supplementary (Tier 2) and deposits covered by the Deposit Guarantee Fund, and ii) notional amount of derivatives.

The balance Contribution to the Resolution Fund corresponds to the periodic contributions that must be paid to the Fund, as set forth in Decree-Law no. 24/2013. The periodic contributions are determined by a base rate, established by the Bank of Portugal, through an Instruction, to be applied in each year and which may be adjusted to the credit institution's risk profile. Periodical contributions are calculated based on the liabilities of credit institution, as per the article 10 of the above referred Decree-Law, deducted from the elements that are part of the Tier 1 and Tier 2 capital and from the deposits covered by the Deposit Guarantee Fund.



The initial contribution to the Deposit Guarantee Fund is pays in 2015 accordance with the Article 160 paragraph 1 of RGICSF, being the amount of 50,000 euros set in the Bank of Portugal Notice no. 7/2001.

The caption Contribution for the single resolution fund refers to the estimate of the ex ante contribution for the Single Resolution Fund, under the Unique Resolution Mechanism and in accordance with paragraph 2 of Article 70 of Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014.

## Note 8 – Staff Costs

This balance includes:

| | (amounts in euros) | |
|---|---|---|
| | 2016 | 2015 |
| Salaries | 6,314,301 | 1,798,940 |
| Mandatory social security charges | 1,462,865 | 418,193 |
| Employees with a plurality of employers regime | 528,552 | - |
| Incentives and performance premiums | 1,192,894 | - |
| Insurance for accidents at work and occupational diseases | 71,845 | 15,792 |
| Other costs | 55,860 | 19,376 |
| **Staff Costs** | **9,626,317** | 2,252,301 |

The total amount of fixed remuneration of the Management and Supervisory Board, in 2016 recorded in the caption remunerations amounted to 999,631 euros. During 2016, regarding the Management and Supervisory Boards, were also incurred costs with contributions to Social Security in the amount of 235,918 euros. Within the caption Incentives and performance premiums, as at 31 December 2016, there are 525,550 euros attributable to the Management. The caption Other costs included 35,000 euros of retirement savings plan granted to the Management (2015: 18,958 euros).

The staff of the branch network is in a plurality of employers' regime, as set in the article 101 of the Labor Code, accumulating functions with the postal service of CTT. During 2016, the cost with these shared employees with CTT was 528,522 euros.

In 2016, Management and Supervisory Boards were not granted with any amounts relating to variable remunerations.

As at the end of 2016 and 2015, effective workers in the service of the Bank, excluding employees with a plurality of employers regime, distributed by professional category, were as follows:

| | 2016 | 2015 |
|---|---|---|
| Board of directors[1] | 9 | 9 |
| Intermediary management | 22 | 14 |
| Technical functions | 134 | 45 |
| Administrative | 2 | 1 |
| | **167** | 69 |

[1] Includes 2 non-executive directors and 3 members of the Audit Committee.

## Note 9 – General and Administrative Expenses

This balance includes:

| | (amounts in euros) | |
|---|---|---|
| | 2016 | 2015 |
| Water, electricity and fuel | 99,001 | 17,159 |
| Consumables | 58,579 | 5,265 |
| Hygiene and cleaning supplies | 5,801 | - |
| Rents | 948,161 | 209,095 |
| Communications | 382,315 | 4,699 |
| Travel, hotel and representation costs | 120,611 | 67,012 |
| Advertising | 3,583,955 | 144,760 |
| Maintenance and related services | 46,452 | 21,941 |
| Training costs | 41,253 | 48,128 |
| Insurance | 72,853 | 8,656 |
| Information technology services | 6,533,381 | 1,200,398 |
| Consulting and advisory services | 2,172,280 | 2,951,417 |
| Other specialized services | 1,079,353 | 246,566 |
| Other supplies and services | 1,295,024 | 141,021 |
| **General and Administrative Expenses** | **16,439,019** | 5,066,117 |

Consulting and advisory services and Information technology services balances record costs incurred with the implementation of the Bank, namely information technology, processes and procedures consultancy and IT infrastructure.

The Bank has entered into operating leases contracts whose outstanding due rents as at 31 December 2016 amounts to 1,844,770 euros (2015: 422,971 euros). These contracts are considered operating leases since they do not meet the criteria to be considered financial leases, in accordance with the International Accounting Standard 17 – Leases. The above mentioned amount is payable as follows:

(amounts in euros)

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Properties | Vehicles | Total | Properties | Vehicles | Total |
| Up to 1 year | 629,124 | 231,497 | **860,621** | - | 124,413 | **124,413** |
| 1 to 5 years | 524,607 | 459,542 | **984,149** | - | 298,558 | **298,558** |
| | **1,153,731** | **691,039** | **1,844,770** | **-** | **422,971** | **422,971** |

Costs incurred with statutory audit and related services are presented as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Legal certification | 160,238 | 40,000 |
| Other assurance services | 202,568 | 997 |
| | **362,806** | **40,997** |

## Note 10 – Earnings per Share

Earnings per share is calculated as follows:

| | 2016 | 2015 |
|---|---|---|
| Net income | (21,438,571) | (5,920,685) |
| Average number of shares | 54,909,836 | 20,902,736 |
| Basic earnings per share (euros) | (0.39) | (0.28) |
| Diluted earnings per share (euros) | (0.39) | (0.28) |

The Bank's share capital is €85,000,000 and is fully subscribed and paid-up. It is represented by 85,000,000 ordinary registered, book-entry shares, with no nominal value and there are no different categories of shares.

Basic earnings per share are calculated by dividing net profit/(loss) for the period by the weighted average number of common shares outstanding during the year.

Diluted earnings per share are calculated by adjusting the effect of all dilutive potential ordinary shares to the weighted average number of common shares outstanding and net profit/(loss) for the period.

As at 31 December 2016, the Bank didn´t have dilutive potential ordinary shares and therefore the diluted earnings per share is equal to basic earnings per share.

## Note 11 – Cash and Deposits at Central Banks

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Cash | 14,348,934 | 14,550 |
| Demand deposits at Bank of Portugal | 3,792,334 | 15,847 |
| **Cash and deposits at Central Banks** | **18,141,268** | **30,397** |

Cash balance in the amount of euros 14,348,934 (2015: euros 14,550) is represented by banknotes and coins denominated in euros.

As at 31 December 2016, the balance Demand deposits at Bank of Portugal includes mandatory deposits in order to meet the legal requirements to maintain a minimum cash reserve.

In accordance with Regulation (EU) No. 1358/2011 of European Central Bank of 14 December 2011, minimum cash requirements kept as demand deposits at Bank of Portugal amounts to 1% of deposits and other liabilities. As at 31 December 2016, the minimum reserve period in place was from 14 December 2016 to 24 January 2017. For this period, the daily average requirement for the period was 1,928,000 euros.

As at 31 December 2015 the Bank did not have minimum reserve requirements yet. At this date, the reference period was 31 October 2015; as at this date Banco CTT did not have deposits from customers.

## Note 12 – Deposits with Banks

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Credit institutions in Portugal | 105,200,460 | 1,458,350 |
| Amounts due for collection | 1,173,518 | - |
| **Deposits with Banks** | **106,373,978** | **1,458,350** |

The balance Amounts due for collection represents cheques due for collection on other financial institutions.



## Note 13 – Available for Sale Financial Assets

This balance is analysed as follows:

(amounts in euros)

| 2016 | Amortised Cost | Fair Value Reserve | Impairment | Total |
|---|---|---|---|---|
| **BONDS AND OTHER FIXED INCOME SECURITIES** | | | | |
| Government bonds | | | | |
| Domestic | 679,406 | 174 | - | **679,580** |
| Other issuers | | | | |
| Foreign | 5,754,445 | 13,300 | - | **5,767,745** |
| **Available for Sale Financial Assets** | **6,433,851** | **13,474** | **-** | **6,447,325** |

(amounts in euros)

| 2015 | Amortised Cost | Fair Value Reserve | Impairment | Total |
|---|---|---|---|---|
| **BONDS AND OTHER FIXED INCOME SECURITIES** | | | | |
| Government bonds | | | | |
| Domestic | 130,684 | (540) | - | **130,144** |
| **Available for Sale Financial Assets** | **130,684** | **(540)** | **-** | **130,144** |

The analysis of Available for sale financial assets by remaining maturity is as follows:

(amounts in euros)

| 2016 | Up to 3 months | From 3 to 12 months | From 1 to 3 years | More than 3 years | Total |
|---|---|---|---|---|---|
| **BONDS AND OTHER FIXED INCOME SECURITIES** | | | | | |
| Government bonds | | | | | |
| Domestic | 14,866 | 124,314 | - | 540,400 | **679,580** |
| Foreign | - | - | - | - | **-** |
| Other issuers | | | | | |
| Domestic | - | - | - | - | **-** |
| Foreign | 562,258 | 1,272,273 | 3,614,529 | 318,685 | **5,767,745** |
| **Available for Sale Financial Assets** | **577,124** | **1,396,587** | **3,614,529** | **859,085** | **6,447,325** |

(amounts in euros)

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | From 3 to 12 months | From 1 to 3 years | More than 3 years | Total |
| **BONDS AND OTHER FIXED INCOME SECURITIES** | | | | | |
| Government bonds | | | | | |
| Domestic | 1,084 | - | 129,060 | - | 130,144 |
| Foreign | - | - | - | - | - |
| Other issuers | | | | | |
| Domestic | - | - | - | - | - |
| Foreign | - | - | - | - | - |
| **Available for Sale Financial Assets** | **1,084** | **-** | **129,060** | **-** | **130,144** |

In accordance with the accounting policy described in Note 2.3, the Bank periodically assesses whether there is objective evidence of impairment on the available for sale financial assets, following the judgment criteria described in Note 3.1.

In 2016 and 2015 no impairment losses were identified and recognized in the financial statements of the bank.

## Note 14 – Investments at Credit Institutions

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Investments at credit institutions in Portugal | 58,718,171 | 17,902,472 |
| **Investments at Credit Institutions** | **58,718,171** | **17,902,472** |

The scheduling of this item by maturity is presented as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Up to 3 months | 42,111,692 | 14,801,896 |
| From 3 to 6 months | 4,500,135 | - |
| From 6 to 12 months | 12,106,344 | 3,100,576 |
| **Investments at Credit Institutions** | **58,718,171** | **17,902,472** |

Investments at credit institutions presented during the period an average annual rate of 0.162% (2015: 0.186%).

## Note 15 – Loans and Advances to Customers

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| **Loans and advances to customers** | **7,104,322** | - |
| Overdrafts | 69,498 | - |
| Factoring | 7,034,824 | - |
| **Impairment for credit risk** | **(417)** | - |
| **Loans and Advances to Customers** | **7,103,905** | - |

All the credits within this balance have a maturity of less than 3 months.

## Note 16 – Financial Assets Held to Maturity

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| **BONDS AND OTHER FIXED INCOME SECURITIES** | | |
| Government bonds | | |
| National | 47,956,965 | - |
| Foreign | 31,784,315 | - |
| Other issuers | | |
| National | 15,142,554 | - |
| Foreign | 210,709 | - |
| **Financial Assets Held to Maturity** | **95,094,543** | - |





The analysis of Financial assets held to maturity by remaining maturity is as follows:

(amounts in euros)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | From 3 to 12 months | From 1 to 3 years | More than 3 years | Total |
| **BONDS AND OTHER FIXED INCOME SECURITIES** | | | | | |
| Government bonds | | | | | |
| National | 800,279 | - | 12,256,862 | 34,899,824 | **47,956,965** |
| Foreign | 77,837 | - | - | 31,706,478 | **31,784,315** |
| Other issuers | | | | | |
| National | 19,603 | - | - | 15,122,951 | **15,142,554** |
| Foreign | 3,214 | 207,495 | - | - | **210,709** |
| **Financial Assets Held to Maturity** | **900,933** | **207,495** | **12,256,862** | **81,729,253** | **95,094,543** |

## Note 17 – Property and Equipment

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| **Buildings** | | |
| Improvements in leasehold property | 40,311 | 35,637 |
| **Equipment** | | |
| Furniture | 2,527 | - |
| Computer equipment | 107,475 | - |
| Interior installations | 1,082 | - |
| Security equipment | 32,037 | 28,910 |
| Other equipment | 5,741 | 2,146 |
| | **189,173** | **66,693** |
| **Accumulated Depreciation** | | |
| Accumulated charge for the previous years | 6,051 | - |
| Charge for the year | 123,395 | 6,051 |
| | **129,446** | **6,051** |
| **Property and Equipment** | **59,727** | **60,642** |

The movements in Property and equipment, during 2016, are analysed as follows:

(amounts in euros)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Balance on 1 january | Aquisitions /Charge | Transfers | Disposals /Charged-off | Balance on 31 december |
| **Buildings** | | | | | |
| Improvements in leasehold property | 35,637 | 4,674 | - | - | 40,311 |
| **Equipment** | | | | | |
| Furniture | - | 2,527 | - | - | 2,527 |
| Computer equipment | - | 107,475 | - | - | 107,475 |
| Interior installations | - | 1,082 | - | - | 1,082 |
| Security equipment | 28,910 | 3,127 | | | 32,037 |
| Other equipment | 2,146 | 3,595 | - | - | 5,741 |
| **Cost** | **66,693** | **122,480** | **-** | **-** | **189,173** |
| **Buildings** | | | | | |
| Improvements in leasehold property | 1,962 | 4,037 | - | - | 5,999 |
| **Equipment** | | | | | |
| Furniture | - | 2,527 | - | - | 2,527 |
| Computer equipment | - | 107,475 | - | - | 107,475 |
| Interior installations | - | 1,082 | - | - | 1,082 |
| Security equipment | 1,943 | 4,679 | - | - | 6,622 |
| Other equipment | 2,146 | 3,595 | - | - | 5,741 |
| **Accumulated depreciation** | **6,051** | **123,395** | **-** | **-** | **129,446** |
| **Property and Equipment** | **60,642** | **(915)** | **-** | **-** | **59,727** |

The movements in Property and equipment, during 2015, are analysed as follows:

(amounts in euros)

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Balance on 6 february | Aquisitions /Charge | Transfers | Disposals /Charged-off | Balance on 31 december |
| **Buildings** | | | | | |
| Improvements in leasehold property | - | 35,637 | - | - | 35,637 |
| **Equipment** | | | | | |
| Security equipment | - | 28,910 | - | - | 28,910 |
| Other equipment | - | 2,146 | - | - | 2,146 |
| **Cost** | - | **66,693** | - | - | **66,693** |
| **Buildings** | | | | | |
| Improvements in leasehold property | - | 1,962 | - | - | 1,962 |
| **Equipment** | | | | | |
| Security equipment | - | 1,943 | - | - | 1,943 |
| Other equipment | - | 2,146 | - | - | 2,146 |
| **Accumulated depreciation** | - | **6,051** | - | - | **6,051** |
| **Property and Equipment** | - | **60,642** | - | - | **60,642** |

## Note 18 – Intangible Assets

Esta rubrica é analisada como segue:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| **Cost** | | |
| Software in use | 18,699,246 | 721,791 |
| Other intangible assets | 15,968 | 15,968 |
| Work in progress | 1,289,794 | 9,109,972 |
| | **20,005,008** | **9,847,731** |
| **Accumulated depreciation** | | |
| Accumulated charge for the previous years | 131,030 | - |
| Charge for the year | 1,418,155 | 131,030 |
| | **1,549,185** | **131,030** |
| **Intangible Assets** | **18,455,823** | **9,716,701** |

Intangible assets include mainly expenditure with the acquisition of software, namely the core banking system and its setup and customization, with the support of external consultants.

The movements in Intangible assets, during 2016, are analysed as follows:

(amounts in euros)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Balance on 1 january | Aquisitions /Charge | Transfers | Disposals /Charged-off | Balance on 31 december |
| **Cost** | | | | | |
| Software in use | 721,791 | 8,867,483 | 9,109,972 | - | 18,699,246 |
| Other intangible assets | 15,968 | - | - | - | 15,968 |
| Work in progress | 9,109,972 | 1,289,794 | (9,109,972) | - | 1,289,794 |
| | **9,847,731** | **10,157,277** | **-** | **-** | **20,005,008** |
| **Accumulated depreciation** | | | | | |
| Software in use | 131,030 | 1,415,858 | - | - | 1,546,888 |
| Other intangible assets | - | 2,297 | - | - | 2,297 |
| | **131,030** | **1,418,155** | **-** | **-** | **1,549,185** |
| **Intangible Assets** | **9,716,701** | **8,739,122** | **-** | **-** | **18,455,823** |

The movements in Intangible assets, during 2015, are analysed as follows:

(amounts in euros)

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Balance on 1 january | Aquisitions /Charge | Transfers | Disposals /Charged-off | Balance on 31 december |
| **Cost** | | | | | |
| Software in use | - | 721,791 | - | - | 721,791 |
| Other intangible assets | - | 15,968 | - | - | 15,968 |
| Work in progress | - | 9,109,972 | - | - | 9,109,972 |
| | **-** | **9,847,731** | **-** | **-** | **9,847,731** |
| **Accumulated depreciation** | | | | | |
| Software in use | - | 131,030 | - | - | 131,030 |
| | **-** | **131,030** | **-** | **-** | **131,030** |
| **Intangible Assets** | **-** | **9,716,701** | **-** | **-** | **9,716,701** |

## Note 19 – Other Assets

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Corporate Income Tax (RETGS) | 7,120,649 | 1,596,131 |
| Operations pending settlement | 332,615 | - |
| Amounts given as pledge | 280,000 | - |
| Debtors | 246,363 | - |
| Deferred costs | 172,125 | 193,171 |
| Public sector | 28,834 | 26,395 |
| Prepayments | 13,435 | 607 |
| Amounts receivable | 3,517 | - |
| **Other Assets** | **8,197,538** | **1,816,304** |

Other assets includes the amount of euros 7,120,649 (2015: euros 1,596,131 ) referring to Corporate Income Tax as a result from the application of Special Taxation of Corporate Groups Regime (RETGS), in accordance with paragraph 2.8 of Note 2.

## Note 20 – Deposits from Customers

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Demand deposits | 114,041,001 | 52,422 |
| Time deposits | 131,417,483 | - |
| Saving accounts | 8,486,356 | - |
| **Deposits from Customers** | **253,944,840** | **52,422** |

This balance is analysed by remaining maturity, as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Demand deposits and saving accounts | 122,527,357 | 52,422 |
| Time deposits | | |
| Up to 3 months | 73,693,366 | - |
| From 3 to 12 months | 57,724,117 | - |
| From 1 to 3 years | - | - |
| More than 3 years | - | - |
| **Deposits from Customers** | **253,944,840** | **52,422** |

## Note 21 – Income Tax

The Bank is subject to taxation in accordance with the corporate income tax code (IRC) and local taxes.

Income taxes (current or deferred) are recognised in the income statement, except in cases where the underlying transactions have been reflected in equity items. In these situations, the corresponding tax is also charged to equity, not affecting the net result for the period.

The current tax of the period 2015 was calculated based on a nominal corporate income tax rate ("IRC") of 21%, in accordance with Law no. 107-B/2003, of 31 December, and Law no. 2/2007, of 15 January.

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date.

As mentioned in Note 2.8, the Bank is covered by the Special Taxation of Corporate Groups Regime that includes all companies were CTT have, directly or indirectly, at least 90% of the share capital and that simultaneously are residents in Portugal and taxable under Corporate Income Tax.

The reconciliation of the income tax rate, regarding the amount recognised in the income statement, can be analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Profit/(loss) before income tax | (27,004,603) | (7,513,918) |
| Current tax rate | 21% | 21% |
| **Expected Tax** | **(5,670,967)** | **(1,577,923)** |
| Deductions for the purpose of calculating the taxable income | - | (15,494) |
| Accruals for the purpose of calculating the taxable income | 98,001 | - |
| Autonomous tax | 4,586 | 184 |
| **Booked Tax** | **(5,568,380)** | **(1,593,233)** |
| **Effective Tax Rate** | **20.6%** | **21.2%** |
| Prior year correction | 2,348 | - |
| **Taxes** | **(5,566,032)** | **(1,593,233)** |

In accordance with the accounting policy described in the note 2.11, the amount related to the corporate income tax is recorded as a receivable from from the shareholder CTT (refer to note 19). As at the date of these financial statements, the amount due for the year of 2015, in the amount of 1,593,782 euros, had already been received.

## Note 22 – Provisions

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Provisions for other risks and charges | 20,927 | - |
| **Provisions** | **20,927** | **-** |

These provisions were constituted in order to face contingencies related to the Bank's activity and whose payment of is likely to happen.

At each reporting date, the Bank revalues the amounts recorded under this caption so that it reflects the best estimate of amount and probability of occurrence.

## Note 23 – Other Liabilities

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Creditors | | |
| Suppliers | 3,003,031 | 2,054,661 |
| Related parties | 321,173 | 189,572 |
| Other creditors | 5,759 | - |
| Due to eployees | 2,105,249 | 525,561 |
| Operations pending settlement | 1,218,206 | 1,162 |
| Public sector | 360,388 | 212,857 |
| **Other Liabilities** | **7,013,806** | **2,983,813** |

## Note 24 – Share Capital

Share capital is €85,000,000 and is fully subscribed and paid-up. It is represented by 85,000,000 shares, with no nominal value.

On 16 May 2016, the Company's share capital was increased from €34,000,000 (thirty four million euros) to €60,000,000 (sixty million euros), via a new cash contribution by the Sole Shareholder (CTT – Correios de Portugal, S.A.), in the amount of €26,000,000 (twenty six million euros). This led to the issue of 26,000,000 new ordinary, registered shares with no nominal value at the issue price of €1 (one euro).

On 24 October 2016, the Company's share capital was increased from €60,000,000 (sixty million euros) to €85,000,000 (eighty five million euros), via a new cash contribution by the Sole Shareholder (CTT – Correios de Portugal, S.A.), in the amount of €25,000,000 (twenty five million euros). This led to the issue of 25,000,000 new ordinary, registered shares with no nominal value at the issue price of €1 (one euro).

As at 31 de December 2016, the Bank's share capital is fully held by CTT – Correios de Portugal, S.A. (a public company).

As at 31 December 2015, share capital in the amount of €34,000,000 was represented by 34,000,000 shares with no nominal value and were fully subscribed and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A. (a public company).

## Note 25 – Legal Reserve

The legal reserve can only be used to absorb accumulated losses or to increase the amount of share capital. Portuguese legislation applicable to the banking sector requires that the legal reserve be credited each year with at least 10% of annual net income, up to a limit equal to the amount of share capital or the sum of the free reserves and retained earnings, if higher.

## Note 26 – Reserves and Retained Earnings

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| **FAIR VALUE RESERVE** | | |
| Available for sale financial assets | 13,474 | (540) |
| **RETAINED EARNINGS** | | |
| Year 2015 | (5,920,685) | - |
| **Reserves and Retained Earnings** | **(5,907,211)** | **(540)** |

## Note 27 – Contingent Liabilities and Commitments

This balance is analysed as follows:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Guarantees given | 1,544,578 | 230,144 |
| Guarantees received | 25,769 | - |
| Commitments | | |
| Revocable Commitments | | |
| Bank overdraft facilities | 230,867 | - |

The amounts recorded as Guarantees given includes mainly securities given as collateral to guarantee the settlement of interbank transactions.

## Note 28 – Related Parties

All business and operations conducted by the Bank with related parties in the domain or group relationship are cumulatively undertaken under normal market conditions for similar operations and are part of the current activity of the Bank.

As at 31 December 2016, the list of related parties was as follows:

| Shareholder |
|---|
| CTT – Correios de Portugal, S.A. (Public Company) |

| Board Members[1] | Board of Directors | Executive Committee | Audit Committee |
|---|---|---|---|
| Francisco José Queiroz de Barros de Lacerda | Chairman | - | - |
| Luís Maria França de Castro Pereira Coutinho | Member | Chairman (CEO) | - |
| Luís Miguel Agoas Correia Amado | Member | Member (COO) | - |
| André Manuel Pereira Gorjão de Andrade Costa | Member | - | - |
| João Maria de Magalhães Barros de Mello Franco[2] | Member | Member (CMO) | - |
| Pedro Rui Fontela Coimbra[3] | Member | Member (CFO) | - |
| José Manuel Gonçalves de Morais Cabral | Member | - | Chairman |
| Rui Afonso Galvão Mexia de Almeida Fernandes | Member | - | Member |
| Clementina Maria Dâmaso de Jesus Silva Barros | Member | - | Member |

[1] Listed above are the Board Members in office as at 31 June 2016. The executive directors Luiana Nunes and Sílvia Correia, performed functions in the first half of 2016, having resigned, both for personal reasons , to the functions of member of the Board of Directors and of the Executive Committee, respectively CFO and CCO, of Banco CTT. Said resignations took effect, respectively, as of March 12, 2016 and March 31, 2016.
[2] Appointed on 14 January 2016 as Member of the Board of Directors and on 15 January 2016 as Member of the Executive Committee.
[3] Appointed on 4 August 2016 as Member of the Board of Directors and on 5 August 2016 as Member of the Executive Committee.

| Other related parties |
|---|
| CTT Expresso – Serviços Postais e Logística, S.A. |
| Payshop Portugal, S.A. |
| CTT Contacto, S.A. |
| Mailtec Comunicação, S.A. |
| Tourline Express Mensajería, SLU. |
| Correio Expresso de Moçambique, S.A. |
| Escrita Inteligente, S.A. |

As at 31 December 2016, the Bank's transactions amounts with related parties, as well as the respective expenses and income recognized in the period are analysed as follows:

(amounts in euros)

| | 2016 | | | |
|---|---|---|---|---|
| | Balance Sheet | | Income Statement | |
| | Assets | Liabilities | Expenses | Income |
| CTT – Correios de Portugal, S.A. | 7,120,649 | 289,844 | 467,117 | - |
| Mailtec Comunicação, S.A. | - | 1,315 | 17,027 | - |
| CTT Expresso – Serviços Postais e Logística, S.A. | - | 18,386 | 104,708 | - |
| CTT Contacto, S.A. | - | 11,628 | 21,258 | - |
| | **7,120,649** | **321,173** | **610,110** | **-** |

As at 31 December 2015, the Bank's transactions amounts with related parties, as well as the respective expenses and income recognized in the period are analysed as follows:

(amounts in euros)

| | 2015 | | | |
|---|---|---|---|---|
| | Balance Sheet | | Income Statement | |
| | Assets | Liabilities | Expenses | Income |
| CTT – Correios de Portugal, S.A. | 1,596,131 | 189,572 | 197,223 | – |
| | **1,596,131** | **189,572** | **197,223** | **–** |

As at 31 December 2016 the amount of Board Members deposits with the Bank is 72,607 euros (2015: 20,643 euros).

## Note 29 – Fair Value

The fair value of financial assets and liabilities is analysed as follows:

(amounts in euros)

| | Amortised Cost | Market prices (Level 1) | Valuation models based on observable data in active markets (Level 2) | Valuation models based on non-observable data in active markets (Level 3) | Fair Value | Book Value |
|---|---|---|---|---|---|---|
| **31 DECEMBER 2016** | | | | | | |
| Cash and deposits at central banks | 18,141,268 | – | – | – | 18,141,268 | 18,141,268 |
| Cash and deposits at central banks | 106,373,978 | – | – | – | 106,373,978 | 106,373,978 |
| Available for sale financial assets | – | 6,447,325 | – | – | 6,447,325 | 6,447,325 |
| Bonds – public issuers | – | 679,580 | – | – | 679,580 | 679,580 |
| Bonds – other issuers | – | 5,767,745 | – | – | 5,767,745 | 5,767,745 |
| Investments at credit institutions | 58,718,171 | – | – | – | 58,718,171 | 58,718,171 |
| Loans and advances to customers | 7,103,905 | | | | 7,103,905 | 7,103,905 |
| Financial assets held to maturity | 95,094,543 | – | – | – | 93,800,938 | 95,094,543 |
| Bonds – public issuers | 79,741,280 | – | – | – | 78,470,486 | 79,741,280 |
| Bonds – other issuers | 15,353,263 | – | – | – | 15,330,452 | 15,353,263 |
| **Financial Assets** | **285,431,865** | **6,447,325** | **–** | **–** | **290,585,585** | **291,879,190** |
| Deposits from customers | 253,944,840 | – | – | – | 253,944,840 | 253,944,840 |
| **Financial Liabilities** | **253,944,840** | **–** | **–** | **–** | **253,944,840** | **253,944,840** |

(amounts in euros)

| | Amortised Cost | Market prices (Level 1) | Valuation models based on observable data in active markets (Level 2) | Valuation models based on non-observable data in active markets (Level 3) | Fair Value | Book Value |
|---|---|---|---|---|---|---|
| **31 DECEMBER 2015** | | | | | | |
| Cash and deposits at central banks | 30,397 | – | – | – | 30,397 | 30,397 |
| Deposits with banks | 1,458,350 | – | – | – | 1,458,350 | 1,458,350 |
| Available for sale financial assets | – | 130,144 | – | – | 130,144 | 130,144 |
| Bonds – public issuers | – | 130,144 | – | – | 130,144 | 130,144 |
| Bonds – other issuers | – | – | – | – | – | – |
| Investments at credit institutions | 17,902,472 | – | – | – | 17,902,472 | 17,902,472 |
| **Financial Assets** | **19,391,219** | **130,144** | **–** | **–** | **19,521,363** | **19,521,363** |
| Deposits from customers | 52,422 | – | – | – | 52,422 | 52,422 |
| **Financial Liabilities** | **52,422** | **–** | **–** | **–** | **52,422** | **52,422** |

The fair value is based on market prices, whenever available. When unavailable, the fair value is estimated via internal models based on discounted cash flow techniques. Cash flow generated from different instruments is carried out based on their respective financial characteristics. The used discount rates are part of both the market interest rate's curve and the respective issuer's current levels of risk.

Therefore, the obtained fair value is influenced by the parameters used in the assessment model, which necessarily contain a certain degree of subjectivity and only reflect the value attributed to the various financial instruments.

The Bank uses the following fair value hierarchy, with three levels for evaluating financial instruments (assets and liabilities), which reflects the degree of judgement, the observability of the data used and the importance of the applied parameters in determining the instrument's fair value evaluation, according to IFRS 13:

**Level 1:** The fair value is determined based on non-adjusted quoted prices from transactions in active markets involving financial instruments identical to the instruments being evaluated. If there is more than one active market for the same financial instrument, the relevant price is the one that prevails in the instrument's main market or the most advantageous market to which there is access;

**Level 2:** The fair value is calculated using valuation techniques based on observable data in active markets, whether direct data (prices, rates, spreads) or indirect data (derivatives) and valuation assumptions similar to those which a non-related party would use in estimating the fair value of the same financial instrument. It also includes instruments whose valuation is obtained via disclosed prices by independent entities whose markets have a lesser degree of liquidity; and

**Level 3:** The fair value is determined based on non-observable data in active markets, with recourse to techniques and assumptions that market participants would use to assess those same instruments, including hypotheses on inherent risks, the used valuation technique, the input used and expected revision processes of the acumen of the values obtained thereby.

The Bank takes into consideration an active market for a financial instrument, on the measurement date, depending on the turnover and liquidity of the transactions carried out, the volatility of quoted prices and the readiness and availability of information and shall, therefore, verify the following minimum conditions:

- Existence of frequent daily trading prices in the last year;
- If the above-mentioned prices change regularly;
- If there are executable prices from more than one entity;

A parameter used in a valuation technique 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 the conditions for an active market have been met, save for trading volume conditions; and
- The value of the parameter may be obtained by inverse calculation of the financial instrument's prices and/or derivatives, where the remaining parameters needed for an initial valuation are observable in a liquid market or in an OTC market that complies with the foregoing paragraphs.

During 2016 and 2015, there were no financial assets or liabilities valued by using methods with parameters that were not observable in the market (level 3).

The main methodologies and assumptions used in estimating the fair value of the assets and liabilities registered in the balance sheet at the amortised cost are analysed as follows:

- **Cash and Deposits with Central Banks, Deposits with other Credit Institutions and Investments in Central Banks and Other Credit Institutions**
  These assets have very short maturities and therefore the book value is a reasonable estimate of their respective fair value.
- **Held-to-maturity investments**
  The fair value of these financial instruments is based on market prices, when available. If unavailable, the fair value is estimated based on updated expected cash flows from capital and interest for those instruments in the future.
- **Customer Credit**
  Customer credit has very short maturities overall and, therefore, the book value is a reasonable estimate of its respective fair value.
- **Resources from Central Banks and Other Credit Institutions**
  These assets have very short maturities and, therefore, the book value is a reasonable estimate of its respective fair value.
- **Client Resources and Other Loans**
  The fair value of these financial instruments is based on updated expected cash flows from capital and interest. The used discount rate is the one that reflects the rates used for deposits with similar characteristics, as at the balance sheet date. Given that the applicable interest rates are renewed for periods of less than a year, there is no material difference in their fair value.

## Note 30 – Risk Management

The Bank is exposed to various risks within the activity it carries out.

The Bank's Risk Management and Internal Control policy strives to ensure the effective implementation of a risk management system, by continuously monitoring its adequacy and efficiency, while flagging, assessing, monitoring and controlling all material risks to which the instruction has exposure, both internally and externally.

In this regard, it is important to monitor and control the main types of financial risk – credit, liquidity, interest rate, market and operational risk – to which the Bank's activity is exposed.

**Credit Risk**

Credit risk is related to the degree of uncertainty of attaining expected returns due to either a borrower's or a contractual counterparty's inability to satisfy his/her undertakings.

Credit risk management in the Bank includes flagging, measuring, assessing and monitoring different credit exposures, ensuring risk management across the various stages of the credit process.

The Risk Department and Risk Committee will regularly monitor credit risk, namely the evolution of credit exposures and monitoring losses.

In the first half-year of 2016, the Bank began offering banking overdrafts linked to Banco CTT accounts. However, as at 31 December 2016, the balance sheet exposure thereto was not yet significant, with a total used amount of 69,498 euros. On the present date, the Bank's credit portfolio also included non-recourse factoring exposures to Central Authorities.

The Bank is also currently exposed to credit risk from its other activities. These necessarily include direct exposure to credit risk from investments and deposits in other credit institutions (counterparty risk), public debt securities issued by Eurozone countries (Portugal, Spain and Italy), debt instruments from other issuers (credit institutions and companies), securitisation transactions and receivables.

The following table shows information on gross exposures to the Bank's credit risk (original risk position), as at 31 December 2016 and 2015:

(amounts in euros)

| | 2016 | 2015 |
|---|---|---|
| Central Authorities or Central Banks | 91,248,017 | 145,991 |
| Other Credit Institutions | 165,249,900 | 19,360,822 |
| Companies | 5,264,156 | - |
| Retail customers[1] | 299,948 | - |
| Securitisation | 15,142,555 | - |
| Other elements | 23,204,959 | 1,897,546 |
| **Risk line item** | **300,408,835** | **21,404,359** |

[1] Includes revocable credit limits.

As at 31 December 2016, amounts pertaining to public debt, in the amount of 80,420,860 euros, were included in the "Central Authorities or Central Banks" line item (31 December 2015: 130,144 euros).

Gross exposure to public debt of Eurozone countries is detailed as follows:

(amounts in euro)

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Available for sale financial assets | Financial assets held to maturity | Total | Available for sale financial assets | Financial assets held to maturity | Total |
| Portugal | 679,580 | 47,956,965 | **48,636,545** | 130,144 | - | **130,144** |
| Spain | - | 15,326,953 | **15,326,953** | - | - | **-** |
| Italy | - | 16,457,362 | **16,457,362** | - | - | **-** |
| | **679,580** | **79,741,280** | **80,420,860** | **130,144** | **-** | **130,144** |

The "Other Credit Institutions" line item includes amounts pertaining to investments, deposits and debt instruments of credit institutions, as at 31 December 2016 and 2015, of 165,249,900 euros and 19,360,822 euros respectively, as detailed below:

(amounts in euro)

| | 2016 | 2015 |
|---|---|---|
| Deposits with banks | 105,200,460 | 1,458,350 |
| Investments at credit institutions | 58,718,171 | 17,902,472 |
| Available for sale financial assets | 714,298 | - |
| Others | 616,971 | - |
| **Gross Exposure** | **165,249,900** | **19,360,822** |

As at 31 December 2016, the value of the gross credit exposure to clients per segment was detailed as follows:

(amounts in euro)

| Segment | Gross Amount | Accumulated impairment | Total |
|---|---|---|---|
| Loans to individuals[1] | 300,365 | 417 | **299,948** |
| Public sector | 7,034,824 | - | **7,034,824** |
| | **7,335,189** | **417** | **7,334,772** |

[1] Includes revocable credit facilities committed.

The "State and other public entities" line item regards exposure to non-recourse factoring on Central Authorities.

**Liquidity Risk**

Liquidity risk reflects the possibility of incurring significant losses arising from worsening financial conditions (financing risk) and/or the sale of assets under market value (market liquidity risk).

Overall, the liquidity risk management strategy is entrusted to the Executive Committee and executed by the Treasury Department. It is based on constant vigilance of exposure indicators and is closely monitored by the Risk Committee.

The Risk Committee is responsible for controlling liquidity risk exposure. It does so by analysing liquidity positions and assessing their conformity to the applicable regulatory rules and limitations, as well as to the Bank's goals and guidelines.

The Bank's liquidity risk is assessed by using regulatory indicators stipulated by the supervisory authorities, as well as other internal metrics.

As at 31 December 2016, assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in euro)

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | At sight | Up to 3 months | From 3 to 12 months | From 1 to 3 years | More than 3 years | Total |
| **ASSETS** | | | | | | |
| Cash and deposits at central banks | 18,141,268 | - | - | - | - | **18,141,268** |
| Deposits with banks | 106,373,978 | - | - | - | - | **106,373,978** |
| Available for sale financial assets | - | 577,124 | 1,396,587 | 3,614,529 | 859,085 | **6,447,325** |
| Investments at credit institutions | - | 42,111,692 | 16,606,479 | - | - | **58,718,171** |
| Loans and advances to customers | 69,081 | 7,034,824 | - | - | - | **7,103,905** |
| Financial assets held to maturity | - | 900,933 | 207,495 | 12,256,862 | 81,729,253 | **95,094,543** |
| **Total Assets** | **124,584,327** | **50,624,573** | **18,210,561** | **15,871,391** | **82,588,338** | **291,879,190** |
| **LIABILITIES** | | | | | | |
| Deposits from customers | 122,527,357 | 73,693,366 | 57,724,117 | - | - | **253,944,840** |
| **Liabilities** | **122,527,357** | **73,693,366** | **57,724,117** | **-** | **-** | **253,944,840** |
| **Gap (Assets-Liabilities)** | **2,056,970** | **(23,068,793)** | **(39,513,556)** | **15,871,391** | **82,588,338** | **37,934,350** |
| **Accumulated Gap** | **2,056,970** | **(21.011.823)** | **(60,525,379)** | **(44,653,988)** | **37,934,350** | |

As at 31 December 2015, assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in euro)

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | At sight | Up to 3 months | From 3 to 12 months | From 1 to 3 years | More than 3 years | Total |
| **ASSETS** | | | | | | |
| Cash and deposits at central banks | 30,397 | - | - | - | - | **30,397** |
| Deposits with banks | 1,458,350 | - | - | - | - | **1,458,350** |
| Available for sale financial assets | - | - | - | 130,144 | - | **130,144** |
| Investments at credit institutions | - | 14,801,896 | 3,100,576 | - | - | **17,902,472** |
| Loans and advances to customers | - | - | - | - | - | **-** |
| Financial assets held to maturity | - | - | - | - | - | **-** |
| **Total Assets** | **1,488,747** | **14,801,896** | **3,100,576** | **130,144** | **-** | **19,521,363** |
| **LIABILITIES** | | | | | | |
| Deposits from customers | 52,422 | - | - | - | - | **52,422** |
| **Liabilities** | **52,422** | **-** | **-** | **-** | **-** | **52,422** |
| **Gap (Assets-Liabilities)** | **1,436,325** | **14,801,896** | **3,100,576** | **130,144** | **-** | **19,468,941** |
| **Accumulated Gap** | **1,436,325** | **16,238,221** | **19,338,797** | **19,468,941** | **19,468,941** | |

In addition, as regards the regular monitoring of the liquidity situation, the Bank calculated the liquidity gap according to Bank of Portugal Instruction 13/2009.

The Bank's one-year liquidity gap is calculated in light of the asset, liability and off-balance sheet positions with expected and estimated financial flows for a one year time frame. They shall be tiered by their corresponding residual maturities or the monetary flows' entry/exit date or, when applicable, behavioural maturities, based on the following time periods: on demand and up to 1 week, over 1 week up to 1 month, over 1 month up to 3 months, over 3 months and up to 6 months and over 6 months up to 12 months. The remaining asset, liability and off-balance sheet positions that fall under the line items set out in the reporting tables shall be recorded in the time period greater than 12 months.

Banco CTT's liquidity gap was 464%, as at 31 December 2016, as compared to 141% at 31 December 2015.

**Interest Rate Risk**

Interest Rate risk pertains to losses arising from the impact of interest rate fluctuations on sensitive balance sheet or off-balance-sheet items.

As at 31 December 2016 and 2015, pursuant to Bank of Portugal Instruction 19/2005, the balance sheet positions and off-balance sheet elements that are interest rate-sensitive and included in the banking portfolio, distributed among the various time tiers, are as follows:

(amounts in euros)

| | | | | 2016 |
|---|---|---|---|---|
| Maturity bucket | Assets | Liabilities | Contingent | Position |
| At sight - 1 month | 116,997,117 | 155,843,173 | 230,867 | (38,615,189) |
| 1 – 3 months | 45,394,378 | 40,117,797 | - | 5,276,581 |
| 3 – 6 months | 9,076,640 | 23,457,626 | - | (14,380,986) |
| 6 – 12 months | 13,730,220 | 34,179,246 | - | (20,449,026) |
| 1 – 2 years | 6,500,324 | - | - | 6,500,324 |
| 2 – 3 years | 8,478,954 | - | - | 8,478,954 |
| 3 – 4 years | 25,915,405 | - | - | 25,915,405 |
| 4 – 5 years | 29,969,737 | - | - | 29,969,737 |
| 5 – 7 years | - | - | - | - |
| 7 – 10 years | 20,294,382 | - | - | 20,294,382 |
| 10 – 15 years | - | - | - | - |
| 15 – 20 years | - | - | - | - |
| > 20 years | - | - | - | - |
| **Total** | **276,357,157** | **253,597,842** | **230,867** | **22,990,182** |

(amounts in euros)

| | | | | 2015 |
|---|---|---|---|---|
| Maturity bucket | Assets | Liabilities | Contingent | Position |
| At sight - 1 month | 14,800,000 | - | - | 14,800,000 |
| 1 – 3 months | 100,000 | - | - | 100,000 |
| 3 – 6 months | - | - | - | - |
| 6 – 12 months | 3,000,000 | - | - | 3,000,000 |
| 1 – 2 years | - | - | - | - |
| 2 – 3 years | 130,144 | - | - | 130,144 |
| 3 – 4 years | - | - | - | - |
| 4 – 5 years | - | - | - | - |
| 5 – 7 years | - | - | - | - |
| 7 – 10 years | - | - | - | - |
| 10 – 15 years | - | - | - | - |
| 15 – 20 years | - | - | - | - |
| > 20 years | - | - | - | - |
| **Total** | **18,030,144** | - | - | **18,030,144** |

Given the observed interest rate gaps, as at 31 December 2016, an instantaneous and parallel positive change in interest rates of 100 base points would have led to a fall in the expected economic value of the banking portfolio of nearly 6,744 thousand euros (2015: -61 thousand euros).

**Market Risk**

Market Risk broadly signifies any loss arising from an adverse change in the value of a financial instrument as a result of a variation in interest rates, exchange rates, share prices, prices of goods or real estate, volatility and credit spreads.

The Bank does not have a trading portfolio and most of its investment portfolio is recorded as Held-to-maturity investments and residually as assets available for sale. Credit risk, and not the risk of market prices, is the main risk arising from its investments.

**Operational Risk**

Given the nature of its activity, the Bank is exposed to potential losses or reputational risk, as a result of human error, system and/or procedural failures, unexpected interruptions in activity or third-party failure in terms of procurement or the provision of services.

The approach to operational risk management is based on end-to-end processes, ensuring the effective adequacy of the controls involving operational units that intervene therein. Throughout 2016, the Bank began flagging and assessing procedural risks and controls thereby ensuring compliance thereof with the Internal Control System's requirements and principles.

## Note 31 – Capital Management and Solvability Ratio

The main goal of capital management is ensuring compliance with the Bank's strategic goals as regards capital adequacy, thereby complying and enforcing compliance with the minimum capital requirements stipulated by the supervisory authorities.

In calculating capital requirements, Banco CTT used the standard method for credit risk and the basic indicator method for operational risk.

Capital, calculated pursuant to Directive 2013/36/EU and Regulation (EU) no. 575/2013 of the European Parliament and of the Council and Bank of Portugal Notice 6/2013, include Tier 1 and Tier 2 capital. Tier 1 includes Common Equity Tier 1 (CET1) and additional Tier 1 capital.

The Bank's Common Equity Tier 1 includes: a) paid-up capital and retained earnings and reserves, b) regulatory deductions related to intangible assets and losses for the financial year underway. The Bank has no additional Tier 1 capital, nor Tier 2 capital.

The legislation in force stipulates a transition period for capital requirements under national law and those calculated under EU law, in order to gradually phase-out previously included elements and to phase-in new elements. Under the new prudential framework, institutions shall report Common Equity Tier 1, Tier 1 and total ratios of no less than 7%, 8.5% and 10.5% respectively, including a 2.5% conservation buffer and a 0% countercyclical buffer, but with the benefit of a transition period until the end of 2019.

Bank of Portugal Notice 6/2013 governs the transition period set out in the CRR as regards capital, by stipulating capital preservation measures and providing a Common Equity Tier 1 (CET1) ratio of no less than 7% during the transition period, in order to ensure adequate compliance with forecast capital requirements.

As at 31 December 2016 and 31 December 2015, the Bank had the following capital ratios, calculated pursuant to the transitory provisions set out in the CRR:

(amounts in euro)

| | 2016 | | 2015 | | |
|---|---|---|---|---|---|
| | CRR Phasing in | CRR Fully Implemented | CRR Phasing in | CRR Fully Implemented | Notes |
| **OWN FUNDS** | | | | | |
| **Share Capital** | **85,000,000** | **85,000,000** | **34,000,000** | **34,000,000** | 24 |
| **Retained Earnings*** | **(5,920,685)** | **(5,920,685)** | – | – | 26 |
| **Prudential Filters** | **8,084** | **13,474** | **(216)** | **(540)** | 26 |
| Fair value reserve | 8,084 | 13,474 | (216) | (540) | |
| **Deduction to the main Tier 1 elements** | **(39,894,394)** | **(39,894,394)** | **(15,637,386)** | **(15,637,386)** | |
| Losses for the period | (21,438,571) | (21,438,571) | (5,920,685) | (5,920,685) | |
| Intangible assets | (18,455,823) | (18,455,823) | (9,716,701) | (9,716,701) | 18 |
| **Common Equity Tier 1** | **39,193,005** | **39,198,395** | **18,362,398** | **18,362,074** | |
| **Tier 1 Capital[1]** | **39,193,005** | **39,198,395** | **18,362,398** | **18,362,074** | |
| **Total Own Funds** | **39,193,005** | **39,198,395** | **18,362,398** | **18,362,074** | |
| **RWA** | | | | | |
| Credit Risk | 75,557,706 | 75,557,706 | 8,235,621 | 8,235,621 | |
| Operational Risk[1] | 14,087,682 | 14,087,682 | 14,087,682 | 14,087,682 | |
| Market Risk | – | – | – | – | |
| | **89,645,388** | **89,645,388** | **22,323,303** | **22,323,303** | |
| **CAPITAL RATIOS** | | | | | |
| Common Equity Tier 1 | 43.72% | 43.73% | 82.26% | 82.26% | |
| Tier 1 ratio | 43.72% | 43.73% | 82.26% | 82.26% | |
| Total capital ratio | 43.72% | 43.73% | 82.26% | 82.26% | |

[1] RWA calculated based on conservative estimates for the banking product.





## Note 32 – Recently Issued Accounting Standards and Interpretations

Recently issued pronouncements already adopted by the Group in the preparation of the financial statements are the following:

**IAS 19 (Revised) – Defined Benefit Plans: Employee Contributions**

The IASB, issued on 21 November 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1 July 2014. These amendments were endorsed by Commission Regulation (EU) 29/2015, 17 December 2014 (defining entry into force at the latest, as from the commencement date of first financial year starting on or after 1 February 2015).

The amendment clarifies the guidance on attributing employee or third party contributions linked to service and requires entities to attribute the contributions linked to service in accordance with paragraph 70 of IAS 19 (2011). Therefore, such contributions are attributed using plan's contribution formula or on a straight line basis.

The amendment addresses the complexity by introducing a practical expedient that allows an entity to recognise employee or third party contributions linked to service that are independent of the number of years of service (for example a fixed percentage of salary), as a reduction in the service cost in the period in which the related service is rendered.

The Group had no impact from the adoption of this amendment on its financial statements.

Improvements to IFRS (2010-2012)

The annual improvements cycle 2010-2012, issued by IASB on 12 December 2013, introduce amendments, with effective date on, or after, 1 July 2014, to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. These amendments were endorsed by EU Commission Regulation 28/2015, 17 December 2014 (defining entry into force at the latest, as from the commencement date of first financial year starting on or after 1 February 2015).

**IFRS 2 – Definition of vesting condition**

The amendment clarifies the definition of 'vesting conditions' in Appendix A of IFRS 2 Share-Based Payment by separating the definition of performance condition and service condition from the definition of vesting condition to make the description of each condition clear.

**IFRS 3 – Accounting for contingent consideration in a business combination**

The objective of this amendment is to clarify certain aspects of accounting for contingent consideration in a business combination, namely classification of contingent consideration in a business combination and subsequent measurement, taking into account if such contingent consideration is a financial instrument or a non-financial asset or liability.

**IFRS 8 – Aggregation of operation segments and reconciliation of the total of the reportable segments' assets to entity's assets**

The amendment clarifies the criteria for aggregation of operating segments and requires entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. To achieve consistency, reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker.

**IFRS 13 – Short-term receivables and payables**

IASB amends the basis of conclusion in order to clarify that, by deleting IAS39, AG79 IASB did not intend to change the measurement requirements for short-term receivables and payables with no interest, that should be discount if such discount is material, noting that IAS 8.8 already permits entities not apply accounting polices set out in accordance with IFRSs when the effect of applying them is immaterial.

**IAS 16 & IAS 38 – Revaluation Method – proportionate restatement accumulated depreciation or amortization**

In order to clarify the calculation of the accumulated depreciation or amortization at the date of the revaluation, IASB amended paragraph 35 of IAS 16 and paragraph 80 of IAS 38 to clarify that: i) the determination of the accumulated depreciation (or amortization) does not depend on the selection of the valuation technique; and ii) the accumulated depreciation (or amortization) is calculated as the difference between the gross and the net carrying amounts.

**IAS 24 – Related party transactions – key management personal services**

In order to address the concerns about the identification of key management personal (KMP) costs, when KMP services of the reporting entity are provided by entities (management entity e.g. in mutual funds), IASB clarifies that, the disclosure of the amounts incurred by the entity for the provision of KMP services that are provided by a separate management entity shall be disclosed but it is not necessary to present the information required in paragraph 17.

The Bank had no relevant impact from the adoption of this amendments on its financial statements.

### Improvements to IFRS (2012-2014)

The annual improvements cycle 2012-2014, issued by IASB on 25 September 2014, introduce amendments, with effective date on, or after, 1 January 2016, to the standards IFRS 5, IFRS 7, IAS19 and IAS 34. These amendments were endorsed by EU Commission Regulation 2343/2015, 15th December 2015.

**IFRS 5 Non-current Assets held for Sale and Discontinued Operations: Change of Disposal Method**

The amendments to IFRS 5 clarify that if an entity reclassifies an asset (or disposal group) directly from being "held for sale" to being "held for distribution to owners" (or vice versa) then the change in classification is considered a continuation of the original plan of disposal. Therefore, no re-measurement gain or loss is accounted for in the statement of profit or loss or other comprehensive income due to such change.

**IFRS 7 Financial Instruments: Disclosures: Servicing contracts**

The amendments to IFRS 7 Financial Instruments: Disclosures: Servicing contracts clarify – by adding additional application guidance – when servicing contracts constitute continuing involvement for the purposes of applying the disclosure requirements in paragraph 42C of IFRS 7.

**IFRS 7 Financial Instruments: Disclosures: Applicability of the Amendments to IFRS 7 on offsetting financial assets and financial liabilities to condensed interim financial statements**

The amendment to IFRS 7 clarifies that the additional disclosures required that were introduced in December 2011 by the Amendments to IFRS 7 –Offsetting Financial Assets and Financial Liabilities – are not required in interim periods after the year of their initial application unless IAS 34 Interim Financial Reporting requires those disclosures.

**IAS 19 Employee Benefits: Discount rate: regional market issue**

The amendments to IAS 19 Employee Benefits clarify that the high quality corporate bonds used to estimate the discount rate should be determined considering the same currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds should be assessed at currency level rather than at country level. If such a deep market does not exist, the market yield on government bonds denominated in that currency shall be used.

**IAS 34 Interim Financial Reporting: Disclosure of information "elsewhere in the interim financial report"**

The amendments clarify that the 'other disclosures' required by paragraph 16A of IAS 34 shall be presented either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or a risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time.

The amendments to IAS 34 also clarify that if users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete.

The Bank had no relevant impact from the adoption of this amendments on its financial statements.

**IAS 27: Equity method in separate financial statements**

IASB issued on 12 August 2014, amendments to IAS 27, with an effective date of application for periods beginning on or after 1 January 2016, introducing an option for the measurement of subsidiaries, associates or joint ventures the equity method in the separate financial statements.

These amendments were endorsed by EU Commission Regulation 2441/2015, 18 December 2015.

The Bank has no subsidiaries, associates or joint ventures.

**Consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)**

The IASB, issued on 18 December 2014, with an effective date of application for periods beginning on or after 1 January 2016, amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception. The application exemption on consolidation is permitted to investment companies that comply with certain requirements.

These amendments were endorsed by EU Commission Regulation 1703/2016, 22 September 2016.

These amendments are not applicable to the Bank.

**Other amendments**

It was also issued by IASB in 2014, with an effective date of application for periods beginning on or after 1 January 2016, the following amendments:

- Amendments to IAS 16 and IAS 41: Bearer Plants (issued on 30 June 2014 and endorsed by EU Commission Regulation 2113/2015, 23 November);
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and endorsed by EU Commission Regulation 2231/2015, 2 December);
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014 and endorsed by EU Commission Regulation 2173/2015, 24 November);
- Amendments to IAS 1: Disclosure Initiative (issued on 18 December 2014 and was endorsed by EU Commission Regulation 2406/2015, 18 December).

The Bank had no impact from the adoption of these amendments on its financial statements.

## Note 33 – Standards, Interpretations, Amendments and Adopted Revisions by European Union and Which the Bank Decided To Not To Early Apply

The Bank decided against early application of the following standards and interpretations, which were endorsed by the EU, considering that they do not fall under the 2016 scope of Banco CTT:

**IFRS 9 Financial Instruments (issued in 2009 and revised in 2010, 2013 and 2014)**

IFRS 9 was endorsed by EU Commission Regulation 2067/2016, 22nd November 2016 (with an effective date of application for periods beginning on or after 1 January 2018).

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces the hedging requirements. IFRS 9 (2014) introduces limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains three measurement categories for financial assets: amortised, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL). A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding. If the debt instrument that are SPPI are held under a business model whose objective achieved both by collecting contractual cash flows and by selling, the measurement would be at fair value through other comprehensive income (FVOCI), keeping the revenue form interest presenting in profit or loss.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI (FVOCI). Those amounts recognized in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment.

All other financial assets, either the financial assets held under a business model of trading, either other financial instruments who do not comply with SPPI criteria, would be measured at fair value through profit and loss (FVTPL).

In this situation, includes Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI that would be measured at fair value with changes in fair value recognised in profit or loss (FVTPL).

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety, confirming that exist embedded derivatives, it should be measured at fair value through profit and loss (FVTPL).

The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

IFRS 9 (2014) established a new impairment model base on "expected losses" that replace the current "incurred losses" in IAS 39.

So, loss event will no longer need to occur before an impairment allowance is recognised. This new model will accelerate recognition of losses form impairment on debt instruments held that are measured at amortised cost or FVOCI.

If the credit risk of financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12 month expected credit losses.

If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses thereby increasing the amount of impairment recognised.

As soon as the loss event occur (what is current define as "objective evidence of impairment"), the impairment allowance would be allocated directly to financial asset affected, which provide the same accounting treatment, from that point, similar to the current IAS 39, including the treatment of interest revenue.

The mandatory effective date of IFRS 9 is 1 January 2018.

The Bank has started the process of evaluating the potential effect of this standard but given the nature of the Bank's operations, this standard is expected to have a relevant impact on the Bank's financial statements.

**IFRS 15 – Revenue from contracts with customers**

The IASB, issued on 28 May 2014, IFRS 15 Revenue from Contracts with Costumers. IFRS 15 was endorsed by EU Commission Regulation 1905/2016, 22 September 201, with an effective date of application for periods beginning on or after 1 January 2018.

An early applications is allowed. This standard will revoke IAS 11 Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programs, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue- Barter Transactions Involving Advertising Services.

IFRS 15 provides a model based on 5 steps of analysis in order to determine when revenue should be recognized and the amount. The model specifies that the revenue should be recognized when an entity transfers goods or services to the customer, measured by the amount that the entity expects to be entitled to receive. Depending on the fulfilment of certain criteria, revenue is recognized:

- At a time when the control of the goods or services is transferred to the customer; or
- Over the period, to the extent that represents the performance of the entity.

The Bank is still evaluating the impact from the adoption of this standard.

## Note 34 – Recently Issued Pronouncements that are Not Yet Effective for the Bank

**IFRIC 12 – Foreign Currency Translations and Advance Consideration**

It has been issued on 8 December 2016, IFRIC 22, effective for annual periods beginning on or after 1 January 2018.

This new IFRIC 22 defines that, has been an advance in foreign currency for an asset, expense or revenue, applying paragraphs 21-22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency (or if there are multiple payments or receives, the foreign currency exist at each advance consideration date).

The Bank does not expected a significant impact form this interpretation.

**IFRS 16 - Leases**

The IASB, issued on 13 January 2016, IFRS 16 Leases, effective (with early application if applied at the same time IFRS 15) for annual periods beginning on or after 1 January 2019. This new standard replaces IAS 17 Leases.

IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases.

Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements.

The Bank has not carry out a full analysis of the application of the impact of this standard yet.

**Other amendments**

It was also issued by IASB:

- On 19 January 2016, and applicable for annual periods beginning on or after 1 January 2017, amendments to IAS 12 clarifying the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice.
- On 29 January 2016, and applicable for annual periods beginning on or after 1 January 2017, amendments to IAS 7 Disclosure initiative require companies to provide information about changes in their financing liabilities in order to provide information that helps the investors to better understand changes in a company's debt.
- On 29 June 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IFRS 2 on Classification and Measurement of Share-based Payment Transactions.
- On 8 December 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IAS 40 on Transfers of Investment Property to clarify whether an entity should transfer property under construction or development to, or from, investment property when there is a change in the use of such property which is supported by evidence other than specifically listed in paragraph 57 of IAS 40.
- The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendments, with effective date for annual periods beginning on or after, 1 July 2018, to the standards IFRS 1 (deletion of short-term exemption for first-time adopters) and IAS 28 (measuring an associate or joint venture at fair value) and amendments, with effective date on, or after, 1 January 2017 to IFRS 12 (clarification of the scope of the Standard).

The Bank expects no impact from the adoption of this amendment on its financial statements.

## Note 35 – Subsequent Events

On 26 January 2017, the launch of Mortgage Loans by Banco CTT was disclosed to the market. This is a relevant addition to the Bank's offer to the extent it answers its target audience's need for more common financial services and is also an important driver in Banco CTT's ability to generate revenue.

## DECLARATION OF CONFORMITY

The Board of Directors is responsible for drafting the management report and preparing the financial statements. These must provide a true and fair view of the Bank's financial position and operational results. The Board of Directors is further responsible for the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system that allows possible errors or irregularities to be prevented and flagged.

We confirm that, to the best of our knowledge and belief:

1. all financial information contained in the financial reporting documents for the 2016 financial year was prepared in compliance with the applicable accounting standards, and provides a true and fair view of the Bank's assets and liabilities, financial position and results;

2. the management report faithfully describes the business evolution, the performance and position of the Bank, in compliance with legal requirements.

Lisbon, 6 March 2017

**The Board of Directors,**

**Chairman**

Francisco José Queiroz de Barros de Lacerda

**Member of Board of Directors and C.E.O.**

Luís Maria França de Castro Pereira Coutinho

**Member of the Board of Directors and Executive Committee**

Luís Miguel Agoas Correia Amado

**Member of the Board of Directors and Executive Committee**

João Maria de Magalhães Barros de Mello Franco

**Member of the Board of Directors and Executive Committee**

Pedro Rui Fontela Coimbra

**Member of Board of Directors**

André Manuel Pereira Gorjão de Andrade Costa

**Member of Board of Directors and Chairman of the Audit Committee**

José Manuel Gonçalves de Morais Cabral

**Member of the Board of Directors and Audit Committee**

Rui Afonso Galvão Mexia de Almeida Fernandes

**Member of the Board of Directors and Audit Committee**

Clementina Maria Dâmaso de Jesus Silva Barroso

# ANNUAL REPORT OF THE AUDIT COMMITTEE

for the 2016 financial year

## 1. Introduction

Banco CTT, S.A ("Bank" or "Banco CTT")'s Audit Committee hereby presents the report on its supervisory activities for the 2016 financial year, pursuant to article 423-F(g) of the Portuguese Companies Code.

Notwithstanding any further powers bestowed upon it by law and the Articles of Association, the Audit Committee is namely entrusted with:

a) Monitoring and supervising the Board of Directors' activities;

b) Overseeing compliance with rules prescribed by law, regulation and the Articles of Association;

c) Continually supervising and safeguarding the solidity and effectiveness of the Bank's internal governance system;

d) Supervising the effectiveness of the Bank's risk management, internal control and internal audit systems, in particular, monitoring the Bank's risk strategy and risk appetite;

e) Receiving irregularity reports from shareholders, Bank employees and others (whistleblowing);

f) Monitoring and supervising the preparation and disclosure of financial information, including the conformity and precision of financial reporting books, records and documents and other accounting documents, as well as making recommendations to ensure the integrity thereof;

g) 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 General Regime for Credit Institutions and Financial Companies approved by Decree-Law 298/92 of 31 December, in its current wording, to the extent Banco CTT is not considered a significant credit institution in terms of size, internal organisation and nature, scope and complexity of its activities. In this regard, it is namely entrusted with:

a) Advising the Board of Directors on the Bank's risk appetite, general risk strategy, current and future, assisting it in supervising the execution of the institution's risk strategy;

b) Analysing whether the terms and conditions of products and services offered by the Bank to its clients take into account the Bank's business model and risk strategy and presenting a corrective plan to the Board of Directors, whenever necessary;

c) Examining if incentives set out in the Bank's remuneration policy take into account risk, capital, liquidity and result forecasts.

## 2. Supervisory activities carried out in 2016

During the period of 2016 in which it carried out its duties, the Audit Committee monitored the management and evolution of the Bank's activities and exercised the powers set forth above, having namely:

**a) Supervised the approval and implementation of policies and internal rules on the Bank's internal control environment and governance model;**

**b) Monitored the preparation of the Bank's opening to the general public on 18 March 2016;**

**c) Supervised the agreements entered into by the Bank with related parties;**

**d) Supervised the preparation of financial information and verified the adopted accounting policies, in particular as regards the annual financial reporting documents;**

**e) Supervised the effectiveness of the Bank's risk management, internal control and internal audit systems;**

**f) Been available to receive irregularity reports (whistleblowing) from shareholders, Bank employees and others;**

**g) Supervised the statutory auditor's activity;**

**h) Monitored the institution's risks (in carrying out risk committee duties).**

The referenced oversight activity was carried out namely by (a) its members' participation in Board of Directors' meetings, (b) contacts with the Bank's Executive Committee and top tier officers, including control officers and (c) the analysis of the financial and business information made available, as well as correspondence between the Bank and the Bank of Portugal.

While exercising those powers, the Committee held 20 (twenty) meetings throughout 2016. The meetings had the regular attendance of the Bank's Executive Directors, in particular the CEO, the Bank's Executive Director with the Financial purview (CFO) (until 12 March 2016), the Bank's Executive Director with the Financial purview (CFO) (as of 5 August 2016), the Executive Director with the Operations and IT purviews (COO), the Executive Director with the purview of the CTT Channel (CCO) (until 31 March 2016) and the Executive Director with the Marketing (CMO) and Commercial (CCO) purviews, the latter as a Substitute Director as of 15 January 2016 and 10 March 2016, respectively.

The Audit Committee also summoned the following people to its meetings to clarify and provide information relevant to the exercise of the powers entrusted thereto: (a) the head of Internal Audit or, failing that, other Internal Audit employees, as regards the analysis of mainly the internal audit's scope, activity plan, resources and headcount therefor; (b) the head of Compliance and the head of Risk, as regards in particular the activity plan, resources and headcount of those departments; (c) the head of Legal Services as of 20 June 2016, to clarify the Bank's governance model and internal control procedures, as well as other matters of a legal nature related to the activities of this body; and (d) the heads of Planning and Control and Accounting, as regards the monitoring and preparation of financial information.

**a) Supervising the approval and implementation of policies and internal rules on the Bank's internal control environment and governance model**

The Committee monitored the Bank's approval and implementation of its more relevant policies and processes, in particular i) the Risk Management, Internal Control, Operational Risk Management, Fraud Risk Management, Liquidity Management, Investment, Compliance, Prevention of Money Laundering and Financing of Terrorism, Whistleblowing, Business Continuation Management and Handling of Complaints Policies; and ii) the Internal Control System, Suspect Transaction Management, Regulatory Reporting Governance, Proprietary Account Transaction Rules and Controls, Counterparty Management, Prevention of Money Laundering and Financing of Terrorism Maintenance Methodologies, Client Analysis and Internal Capital Adequacy Assessment (ICAAP) Manuals.

The Audit Committee further assessed the Performance Assessment Models for Executive Directors and Relevant Employees for 2016, as well as amendments to the Remuneration Policy for Management and Supervisory Body Members and Relevant Employees for the 2015-2018 period, following the approval of the referenced Performance Assessment Models.

Also in terms of internal governance, in 2017 with reference to the 2016 financial year, the Audit Committee monitored the activities of the Bank's Board of Directors (including its Executive Committee), Remuneration Committee and Selection Committee. This culminated in the analysis, until the present date, of the Board of Directors' and Remuneration Committee's activities and self-assessment reports for 2016. The Audit Committee also analysed all the minutes of the Executive Committee's meetings held in 2016, as well as those of the Board of Directors' internal committees during 2016, namely, the Risk Committee, the Credit and Investment Committee and the Commercial and Product Committee, while also positively assessing the respective internal regulation projects.

**b) Monitoring the preparation of the Bank's opening to the general public on 18 March 2016**

Additionally, the Audit Committee monitored the preparation of the Bank's opening for business to the general public, in particular as regards implementing the Bank's IT systems and operating processes and activities carried out to open branches in the Retail Network, according to the Bank's engagement model as regards physical and human resources.

**c) Supervising the agreements entered into by the Bank with related parties**

During the 2016 financial year, this Committee assessed and issued a favourable opinion regarding 16 agreements the Bank entered into with related parties, Group CTT companies, under the engagement model stipulated therefor.

**d) Supervising the preparation of financial information and verifying the adopted accounting policies, in particular as regards the annual financial reporting documents**

Since the Bank opened for business, the Audit Committee has carried out monthly assessments of financial information and the evolution of the Bank's business, as provided by the Bank's CFO and the Bank's Planning and Control and Accounting Managers. In 2017 and with reference to the 2016 financial year, this body analysed the annual financial reporting documents and the profit allocation proposal included in the 2016 Annual Report and shall issue its Opinion thereon following the respective Qualified Audit Report.

**e) Supervising the effectiveness of the Bank's risk management, internal control and internal audit systems**

The Audit Committee monitored the preparation of the Assessment Manual of the Bank's internal control system. It also monitored the drafting of the Internal Control Report entrusted to the Board of Directors, with the participation of control officers (Compliance, Risk, Internal Audit), and issued a favourable opinion thereon, which was sent to the Bank of Portugal in June 2016.

Simultaneously, the Audit Committee monitored the drafting of the Prevention of Money Laundering and Financing of Terrorism Report, for which it issued a favourable opinion.

In addition and throughout 2016, it monitored the action plans and implementation of recommendations set out in the Internal Control Report and Prevention of Money Laundering and Financing of Terrorism Report.

**f) Receiving irregularity reports (whistleblowing) from shareholders, Bank employees and others**

The Audit Committee assessed and issued a favourable opinion on the Whistleblowing Policy that sets out the procedures for receiving, handling and filing irregularity reports received by Banco CTT, on matters related to the Bank's management, accounting organisation and internal oversight or the breach of the Bank's duties, namely regarding money laundering and financing of terrorism, insider dealing, fraud or corruption under a professional capacity by corporate body members, employees or any supplier of goods or services, as well as the breach of Banco CTT's values or ethical standards as set out in its Code of Conduct, as long as related thereto.

During the 2016 financial year, no irregularity reports were received regarding those matters.

**g) Supervising the statutory auditor's activity**

The Audit Committee also met with the Statutory Auditor/External Auditor, KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., to discuss their interaction model and to monitor the works carried out during 2016 financial year, as well as the analysis and assessment of the respective profits.

The Committee carried out a prior assessment of proposals to engage the Bank's Statutory Auditor/External Auditor, including fees, regarding the following audit and audit-related services: i) annual audit of the Bank's financial statements for the financial year ending on 31 December 2016; ii) limited review of the financial statements of 30 June 2016 and desktop reviews for the 3-month period ending on 31 March 2016 and 9-month period ending on 30 September 2016; iii) issue of the opinion set out in article 25 (5) (b) of Bank of Portugal Notice 5/2008, on the Bank's internal control system; iv) issue of the external auditor's report on the adequacy assessment of the quantification process of the credit portfolio's impairment and the reasonableness of the individual and collective impairment pursuant to Bank of Portugal Instruction 5/2013; and (v) other audit-related and internal control services, including namely tax compliance and verification of adequacy and effectiveness of the internal control system for preventing money laundering and the financing of terrorism.



As regards the provision of additional services, the Audit Committee pre-approved, with good reason and to preserve the adequate independence safeguards that the Statutory Auditor/External Auditor provide audit related and non-audit related services. This Committee further oversaw the Statutory Auditor/External Auditor's independence by obtaining a statement confirming that independence with reference to 2016.

Throughout 2016, the Audit Committee analysed reports on the activities carried out by the Statutory Auditor/External Auditor and, in 2017 and with reference to the 2016 financial year, analysed the conclusions of the review of the Bank's financial statements with reference to the 2016 financial year and shall issue its Opinion on the Annual Report following the respective qualified audit report.

**h) Monitoring the institution's risks (in carrying out risk committee duties)**

The Audit Committee monitored the Bank's definition of its risk strategy, as well as overseeing the monitoring of risks to which the Bank is exposed, namely strategic risk, operational risk, credit risk, market risk, interest rate risk and the evolution of capital and the Bank's capital requirements. It also favourably assessed the Risk Strategy approved by the Risk Committee, including the Risk Appetite Statement set out therein.

## 3. Conclusions

With its powers, the Committee requested and obtained all information and clarifications relevant therefor and faced no constraints to its actions and effective exercise thereof.

The Committee received from the Executive Committee, as well as from all the Bank's bodies, committees and structural units and operational areas, all requested information in a timely and adequate fashion.

The Audit Committee expresses its gratitude to all corporate bodies and all those involved in the activities it carries out.

Lisbon, 6 March 2017

**The Chairman of the Audit Committee,**

José Manuel Gonçalves de Morais Cabral

**The Members of the Audit Committee,**

Rui Afonso Galvão Mexia de Almeida Fernandes

Clementina Maria Dâmaso de Jesus Silva Barroso

## AUDIT COMMITTEE OPINION

for the 2016 financial year

The Audit Committee of Banco CTT, S.A (Banco CTT) examined Banco CTT's Management Report and Financial Statements for the financial year ended on 31 December 2016, which include the balance sheet, income statement, comprehensive income statement, change in equity statement and cash flow statement, as well as the respective annexes, all of which have earned its approval.

The Financial Statements were prepared according to the International Financial Reporting Standards (IFRS), as adopted by the European Union.

The Audit Committee assessed the terms of the Qualified Audit Report on the Financial Statements approved by the Board of Directors and issued on 8 March 2017 by KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., which states its favourable opinion on those Financial Statements, with no reservations or qualifications.

Given the abovementioned and the actions it carried out itself, and in compliance with article 420(5) and (6) of the Portuguese Companies Code, applicable by reference of article 423-F(2) thereof, the Audit Committee is of the opinion that Banco CTT's Management Report and Financial Statements, for the financial year ended on 31 December 2016, as well as the Profit Allocation Proposal found in the Management Report are in accordance with the applicable accounting, legal and bylaw provisions.

Therefore, the Audit Committee recommends Banco CTT's General Meeting approve Banco CTT's Annual Report, as well as the Profit Allocation Proposal for the financial year ended on 31 December 2016.

Lisbon, 8 March 2017

**The Chairman of the Audit Committee,**

José Manuel Gonçalves de Morais Cabral

**The Members of the Audit Committee,**

Rui Afonso Galvão Mexia de Almeida Fernandes

Clementina Maria Dâmaso de Jesus Silva Barroso





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## STATUTORY AUDITOR'S REPORT

**(This report is a free translation to English from the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.)**

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying financial statements of **Banco CTT, S.A.** (the Entity), which comprise the statement of financial position as at 31 December 2016 (showing a total of 318,633,791 euros and total equity of 57,654,218 euros, including a net loss of 21,438,571 euros), 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 the accompanying notes to the financial statements that include a summary of the significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Banco CTT, S. A.** as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are further described under section "Auditor's responsibilities for the audit of the financial statements" below. We are independent from the Entity in accordance with the law and we fulfilled our other ethical responsibilities in accordance with the Code of Ethics for Professional Accountants of the Portuguese Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

**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.

| ***Intangible Assets – Software*** | |
|---|---|
| **Risk**<br>The amounts recorded as Intangible assets by Banco CTT, as presented in note 18, refer mostly to software acquisition, namely its core banking system and its implementation and customization projects, with the support of external consultants.<br>The policies ruling the capitalization of these expenses and its amortization periods, having in consideration the estimated useful life, and that are described in note 2.8, require judgment, having this been considered a significant matter for the 2016 audit. | **Our Response**<br>Among other, we developed the following procedures:<br>– Inquiring and evaluation of the design and implementation of controls related to software acquisition;<br>– Analysis, trough sampling, of supplier invoices;<br>– Evaluation of the adequacy criteria for capitalization and the expected useful life defined, according to the regulatory requirements and considering specific facts and circumstances of each item; and,<br>– Evaluation of the disclosures made by the entity, according to the applicable accounting requirements. |

| ***Computer systems and controls*** | |
|---|---|
| **Risk**<br>Considering that the Bank's accounting is highly dependent on IT systems (IT) implemented recently and subject to continuous development and improvement, we considered this area as a significant matter for 2016 audit. | **Our Response**<br>For the relevant IT systems to produce the financial reporting, our procedures included, among other, the evaluation of the following controls:<br>– In what relates to General IT Controls (GITC), we evaluated the controls over software changes, access to software and data and IT operations; and,<br>– In what relates to application level controls, we evaluated the automatic and manual with automatic component controls identified as having a material impact on financial reporting.<br>To perform the referred procedures, we used the services of our IT specialists, which performed audit procedures, on the extension we considered relevant for our work. |



KPMG

| ***Start of activity*** | |
|---|---|
| **Risk**<br>As referred in the introductory note of the notes to the financial statements, the Bank started its activity in late 2015, being 2016 the year of public opening, which occurred in March, and a year to continue on the investment strategy and the increase of branch network.<br>The development stage of a bank's activity is relevant for the audit strategy, being particularly relevant the adjustment and the monitoring of the financial model, approved by the shareholder, to the market conditions in each moment, having in consideration the risks and opportunities. | **Our Response**<br>Among other procedures, we analyzed the evolution of activity during 2016, as well as the revised budget for 2017, and we examined the deviations from the initially approved plan.<br>We discussed with the management the entity's future expectations, namely the beginning of the lending activity, funding strategy, shareholder support and expected profitability. |

**Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the financial position, the financial performance and the cash flows of the Entity, in accordance with the International Financial Reporting Standards, as adopted by the European Union;
- the preparation of the management report, in accordance with the applicable legal and regulatory requirements;
- the implementation and maintenance of an appropriate internal control system to enable the preparation of the financial statements that are free from material misstatement whether due to fraud or error;
- the adoption of accounting policies and criteria adequate to the circumstances; and
- the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, the matters that may cast significant doubt on the going concern of the operations.

Those charged with governance are responsible for overseeing the Entity's financial reporting preparation 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 misstatements whether due to fraud or error, and to issue a report comprising our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with the 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit and 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 Entity'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 Entity'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, events or future conditions may cause the Entity to cease to continue as a going concern;

- 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 to those charged with governance, including the oversight body, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiency in the internal control identified during our audit;

- from the matters communicated with those charged with governance, including the oversight 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 auditors' report unless law or regulation precludes public disclosure about the matter; and

- we state to the oversight body, that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification of the consistency of the information included in the management report with the financial statements.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

**About the management report**

In compliance with article 451, nr. 3, e) of the Portuguese Companies Code, we are of the opinion that the management report has been prepared in accordance with the applicable legal and regulatory requirements, the information contained therein is consistent with the audited financial statements and, taking into account the knowledge and appreciation of the Entity, we have not identified material inaccuracies.

**On the additional elements provided for in article nr. 10 of Regulation (EU) nr. 537/2014**

In compliance with Article nr. 10 of 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 auditors of the Entity for the first time at the shareholders' meeting held on the 24th of August of 2015 for a mandate comprised between 2015 and 2017.
- Management confirmed to us that it is not aware of the occurrence of any fraud or suspected fraud material to the financial statements. In the planning and execution of our audit under ISA we have maintained professional skepticism and designed audit procedures to respond to the possibility of material misstatement of financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud.
- We confirm that the audit opinion we issue is consistent with the additional report we prepared and delivered to the Entity's oversight body on the 8th of March of 2016.
- We inform that, in addition to the audit on the financial statements, we provided to the Entity the following services allowed by the ruling laws and regulations:
  - Opinion, according to the terms of paragraph b) of no. 5 of article 25 of Aviso nr. 5/2008 from Bank of Portugal, regarding the internal control system of the Entity;
  - Support to the Entity's oversight body in verifying the adequacy and effectiveness of the internal control system regarding Anti-Money Laundering and Terrorism Financing.

Lisbon, 6 March 2017

SIGNED ON THE ORIGINAL

**KPMG & Associados**
**Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)**
represented by
Vítor Manuel da Cunha Ribeirinho (ROC nr. 1081)

Our value

# conveniency

# 07

# Corporate Governance Report

## A. SHAREHOLDER STRUCTURE

### I. Capital Structure

Banco CTT, S.A. ("Bank" or "Banco CTT")'s share capital is €85,000,000 and is fully subscribed and paid-up. It is represented by 85,000,000 ordinary registered, book-entry shares, with no nominal value and there are no different categories of shares.

The Bank's shares are fully owned by CTT- Correios de Portugal, S.A. ("CTT") and are not subject to any limitations (whether by law or the articles of association) regarding their transfer or ownership or the number of votes that may be exercised.

Although the Bank's and CTT's shares are freely transferable, the acquisition thereof entails, following the commercial registration date of Banco CTT (a credit institution fully owned by CTT), compliance with the legal requirements on direct or indirect qualified shareholdings, set out in the Legal Framework of Credit Institutions and Financial Companies, in its current version ("LFCIFC").

In particular and pursuant to article 102 of the LFCIFC, anyone intending to hold a qualified shareholding in CTT and indirectly in the Bank (i.e. a direct or indirect holding equal to or higher than 10% of the share capital or voting rights or which, for whatever reason, enables significant influence over management to be exercised) should previously inform the Bank of Portugal of their project for the purpose of the latter's non-opposition thereto. In turn, the Bank of Portugal shall also be informed of any of the acts or facts that trigger the acquisition of a shareholding of at least 5% of the share capital or voting rights in CTT, and indirectly in the Bank, within 15 days of its occurrence, pursuant to article 104 of the LFCIFC.

As at 31 December 2016 and until the date of this report, the Bank held no own shares and no transactions were carried out by the Bank over its own shares.

### II. Share and Bond Holdings

Members of the Bank's management and supervisory bodies, as at 31 December 2016, held no shares issued by the Bank, nor did they enter into any transactions involving those securities in 2016 that would be relevant for the purposes of article 447 of the Portuguese Companies Code ("PCC"), in its current version.

Also under article 447(5) of the PCC, during 2016 and pursuant to the communications made to the Company, the number of shares representing the share capital of companies in a controlling or group relationship with the Bank held by members of the Bank's management and supervisory bodies and their closely related parties pursuant to that provision, as well as all their acquisitions, encumbrances or disposals of ownership, were as indicated in the following lists:

| Board of Directors[1] | No. of Shares as at 31.12.2015[2] | Date | Acquisition | Encumbrance | Disposal | Price | No. of Shares as at 31.12.2016[2] |
|---|---|---|---|---|---|---|---|
| Francisco José Queiroz de Barros de Lacerda[3] | 3,100 | – | – | – | – | – | 3,100 |
| Luís Maria França de Castro Pereira Coutinho | 500 | – | – | – | – | – | 500 |
| Luís Miguel Agoas Correia Amado | – | – | – | – | – | – | – |
| João Maria de Magalhães Barros de Mello Franco[4] | – | – | – | – | – | – | – |
| Pedro Rui Fontela Coimbra[5] | – | – | – | – | – | – | – |
| André Manuel Pereira Gorjão deAndrade Costa[6] | 3,890 | – | – | – | – | – | 3,890 |
| José Manuel Gonçalves de Morais Cabral | – | – | – | – | – | – | – |
| Rui Afonso Galvão Mexia de Almeida Fernandes | – | – | – | – | – | – | – |
| Clementina Maria Dâmaso de Jesus Silva Barroso | – | – | – | – | – | – | – |

| Closely related party | No. of Shares as at 31.12.2015[2] | Date | Acquisition | Encumbrance | Disposal | Price | Shares as at 31.12.2016[2] |
|---|---|---|---|---|---|---|---|
| Susana Gorjão Costa[7] | 3,100 | – | – | – | – | – | 3,100 |





| Statutory Auditor and External Auditor | No. of Shares as at 31.12.2015[2] | Date | Acquisition | Encumbrance | Disposal | Price | No. of Shares as at 31.12.2016[2] |
|---|---|---|---|---|---|---|---|
| KPMG & Associados, SROC, S.A. | – | – | – | – | – | – | – |
| Vítor Manuel da Cunha Ribeirinho | – | – | – | – | – | – | – |
| Maria Cristina Santos Ferreira | – | – | – | – | – | – | – |

[1] Such members do not hold nor carried out transactions on shares representing share capital of other companies in a controlling or group relationship with the Bank.
[2] Such transaction was carried out in the regulated market.
[3] On 31 January 2017, 148,142 shares representing CTT's share capital were awarded/accepted by this Director as long-term variable remuneration under the Share Award Plan approved by CTT's General Meeting held on 5 May 2015. As strictly necessary to satisfy the tax obligations arising from the acquisition thereof, this Director disposed of 83,270 of those shares on the following day, 1 February 2017, in a way intended to not interfere with the market's normal operation and in compliance with the referenced Share Award Plan (which, although precluding the transfer of shares, allows shares to be transferred in an amount equivalent to the total taxes and contributions to be paid under the total fiscal and para-fiscal impact on the Director as a result of being awarded those shares). On that date, the Director retained 67,982 CTT shares.
[4] Appointed as Member of the Board of Directors on 14 January 2016 and Member of the Executive Committee on 15 January 2016.
[5] Appointed as Member of the Board of Directors on 4 August 2016 and Member of the Executive Committee on 5 August 2016.
[6] On 31 January 2017, 117,876 shares representing CTT's share capital were awarded/accepted by this Director as long-term variable remuneration under the Share Award Plan approved by the General Meeting held on 5 May 2015. As strictly necessary to satisfy the tax obligations arising from the acquisition thereof, this Director disposed of 66,258 of those shares on the following day, 1 February 2017, in a way intended to not interfere with the market's normal operation and in compliance with the referenced Share Award Plan (which, although precluding the transfer of shares, allows shares to be transferred in an amount equivalent to the total taxes and contributions to be paid under the total fiscal and para-fiscal impact on the Director as a result of being awarded those shares). On that date, the Director retained 55,508 CTT shares.
[7] Person closely related to André Gorjão Costa.

In 2016, neither Banco CTT nor companies in a controlling or group relationship with the Bank issued any debt securities.

## B. CORPORATE BODIES AND COMMITTEES

### I. General Meeting

Under the Bank's Articles of Association, the Board of the General Meeting is made-up of a Chairperson and Secretary, elected at the General Meeting. In 2016 and at present, the composition of the Board of the General Meeting is as follows (members appointed for the 2015/2018 term of office):

| Members | Office |
|---|---|
| Maria da Graça Farinha de Carvalho e Sousa Góis | Chairwoman |
| Magda Alexandra Jesus Viçoso | Secretary |

As at 31 December 2016, the Bank's Selection Committee, elected at the General Meeting was made-up of (members appointed for a term of office matching that of the corporate body's):

| Members[1] | Office |
|---|---|
| António Sarmento Gomes Mota | Chairman |
| Francisco José Queiroz de Barros de Lacerda | Member[2] |
| Rui Miguel de Oliveira Horta e Costa | Member[3] |
| José Manuel Baptista Fino | Member |

[1] António Vitorino tendered his resignation as a Member of the Selection Committee on 30 May 2016.
[2] Because Francisco José Queiroz de Barros de Lacerda is the Bank's Chairman, he is barred from participating and voting in resolutions where there is a conflict of interest, namely in his individual assessment.
[3] Rui Miguel de Oliveira Horta e Costa tendered his resignation as a Member of the Selection Committee on 8 February 2017, effective immediately.

Under the policy for the selection and adequacy assessment of management and supervisory body members and key function holders, as approved in the General Meeting of 24 August 2015 and amended thereby on 10 March 2016 ("Selection Policy") and its Internal Regulation, the Selection Committee is entrusted with:

a) Identifying, selecting and recommending possible members of managing and supervisory bodies and senior officers, verifying if such candidates meet the necessary adequacy requisites (both individual and collective);

b) Drafting the adequacy assessment model, assessing the adequacy assessment and reassessment reports and preparing the authorisation and registration applications with the Bank of Portugal;

c) Ensuring the representation of both men and women and the diversity of the necessary qualifications and skills;

d) Assessing at least annually the selection policy, structure and size of management and supervisory bodies, the integrity, professional qualification, independence, diversity and availability, as well as adequacy performance of its members and key function holders;

e) Assessing and discussing the annual training plan with the competent bodies and committees.

As at 31 December 2016, the Bank's Salary Committee, elected at the General Meeting of 12 May 2016, was made-up of (members appointed for a term of office matching that of the corporate body's):

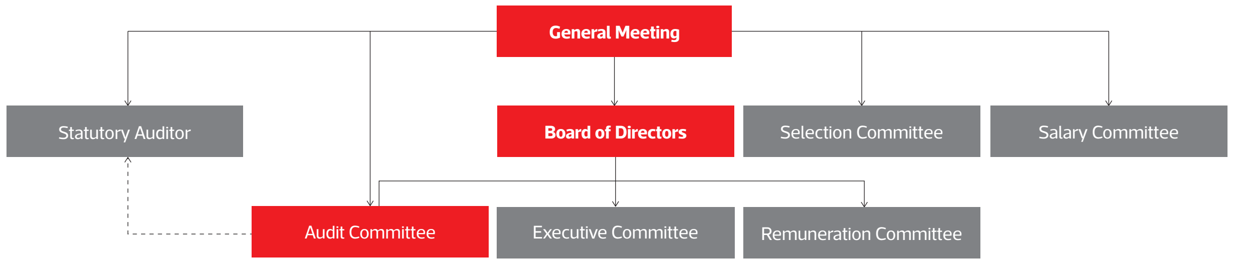
| Members | Office |
|---|---|
| Francisco José Queiroz de Barros de Lacerda | Presidente |
| António Sarmento Gomes Mota | Vogal |
| Rui Miguel de Oliveira Horta e Costa[1] | Vogal |

1 Rui Horta e Costa tendered his resignation as a Member of the Salary Committee on 8 February 2017.

## II. Management and Supervision

### 1. Adopted governance model

Banco CTT adopts the Anglo-Saxon governance model, according to which the Board of Directors is responsible for the Company's management and the Audit Committee (comprised of non-executive independent Directors) and Statutory Auditor are responsible for its oversight.




This model has implemented a number of good governance practices in line with the Bank's specificities (namely its size and activity), as described in this Report. This promotes the effective performance of duties and coordination of corporate bodies, in addition to the smooth operation of a checks and balances system and the accountability of management to its stakeholders.

In this context, the General Meeting has powers to: i) elect corporate body members (including the members of the Board of the General Meeting, Board of Directors and Audit Committee, as well as the Statutory Auditor, the latter elected following a proposal by the Audit Committee); ii) assess the Board of Directors' annual report and Audit Committee's opinion; iii) stipulate the allocation of profits; and iv) pass resolutions amending the Articles of Association; and v) stipulate remuneration of corporate body members. Director remuneration shall be stipulated by the General Meeting or the Salary Committee, whose members are elected by the General Meeting. For this purpose, on 12 May 2016, the General Meeting created a Salary Committee and elected its three members.





In turn, in the context of its management duties, the Board of Directors delegated day-to-day management powers to the Executive Committee (as described in section B.II.2. below).

The Audit Committee (at present exclusively made up of independent members), together with the Statutory Auditor, perform the oversight duties resulting from applicable legal and regulatory provisions. The Audit Committee is responsible, in particular, for promoting the independence of the Statutory Auditor/External Auditor and of the internal audit of the Company, with a view to contributing to the quality of financial information and the effectiveness of internal control, risk management and internal audit systems (as described in section B.III. below).

The Remuneration Committee (made up exclusively of non-executive, mostly independent, members of the Board of Directors) is responsible for making informed and independent judgements on the Bank's remuneration policy and practices that are consistent with the sound and prudent management of the risks and incentives created for the purposes of risk, capital and liquidity management (as described in section D.II. below).

In addition, the Selection Committee (made up of independent members, according to the Bank's Selection Policy and elected by the General Meeting) is responsible for identifying, selecting and assessing the adequacy of persons to be appointed as members of the Bank's management and supervisory bodies, Statutory Auditor and senior officers (as described in section B.I. above).

### 2. Board of Directors and internal committees

Pursuant to the Bank's Articles of Association, the Board of Directors is made-up of 7 to 11 members and the Executive Committee is made-up of 3 to 5 Directors, for a 4-year 2015-2018 term of office.

The Company's Board of Directors, in office at 31 December 2016, is made-up of the following 9 Directors, appointed for the 2015/2018 term of office, whose curricula can be found in Annex I hereto:

| Members | Board of Directors | Executive Committee[1] | Audit Committee | Independent[2] |
|---|---|---|---|---|
| Francisco José Queiroz de Barros de Lacerda | Chairman | - | - | - |
| Luís Maria França de Castro Pereira Coutinho | Member | Chairman (CEO) | - | - |
| Luís Miguel Agoas Correia Amado | Member | Member (COO) | - | - |
| João Maria de Magalhães Barros de Mello Franco[3] | Member | Member (CMO) | - | - |
| Pedro Rui Fontela Coimbra[4] | Member | Member (CFO) | - | - |
| André Manuel Pereira Gorjão de Andrade Costa | Member | - | - | - |
| José Manuel Gonçalves de Morais Cabral | Member | - | Chairman | Yes |
| Rui Afonso Galvão Mexia de Almeida Fernandes | Member | - | Member | Yes |
| Clementina Maria Dâmaso de Jesus Silva Barroso | Member | - | Member | Yes |

[1] Resigned from their offices as Members of Banco CTT's Executive Committee on 29 January 2016 for Luiana Nunes (effective 12 March 2016) and 19 February 2016 for Silvia Correia (effective 31 March 2016).
[2] Pursuant to the criteria set out in article 414 (5) of the PCC (applicable by reference of article 31-A (3) of the LFCIFC).
[3] Appointed as Member of the Board of Directors on 14 January 2016 and Member of the Executive Committee on 15 January 2016.
[4] Appointed as Member of the Board of Directors on 4 August 2016 and Member of the Executive Committee on 5 August 2016.

The Board of Directors is the corporate body responsible for the Company's management and representation, both by law and the Articles of Association. It is entrusted with all acts and operations pertaining to the corporate purpose that do not fall within the powers of the Bank's other corporate bodies.

Under the Articles of Association and its internal Regulation, the Board of Directors is responsible, namely, for:

a) Approving annual, half-yearly and quarterly reports and accounts;

b) Defining and monitoring the execution of the Bank's strategic guidelines, risk policy and other general policies, as well as the Bank's corporate structures, budgets and investment and financial plans;

c) Passing resolutions on merger, demerger and transformation projects, important expansions or down-sizing of the Bank's operations, entering into, terminating or amending any partnership, cooperation, sharing or joint venture agreements that are long-lasting and important;

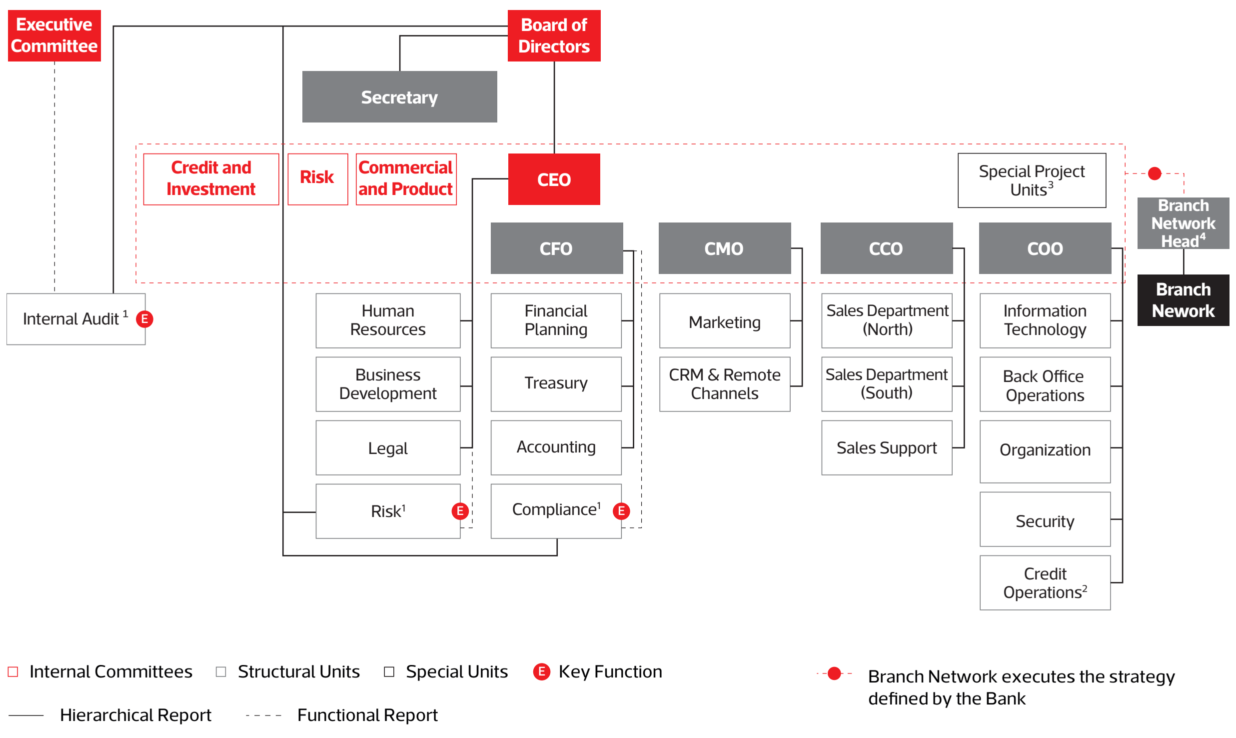
d) Supervising and ensuring the Bank is equipped with effective systems for internal control and internal audit and for information processing and disclosure and compliance with information duties with the Bank of Portugal, as well as risk identification, management, control and communication processes;

e) Defining the Bank's internal governance system and organizational structure, to procure the Bank's effective and prudent management, including the division of powers within the organization and prevention of conflicts of interest; and

f) Appointing and removing those responsible for risk management, compliance and internal audit, as well as stipulating their remuneration and the resources allocated thereto.

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 to one or more of its members the exercise of certain powers). In line with the law and best practices, the aforesaid delegation excludes, in addition to matters reserved by law, the matters set out in the sub-paragraphs 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 2016, the purviews of the Bank's Executive Committee and its organizational structure were distributed as follows:




[1] The appointment, removal, stipulation of remuneration and allocation of resources to the functions of Internal Audit, Risk and Compliance is a responsibility of the Board of Directors.
[2] Credit Operations department will be created as soon as the activity of the Bank justifies such creation.
[3] Special Project Units are created upon the approval of projects that, due to its complexity and duration, justifies such creation.
[4] DRL – Branch Network Head: top of the Branch Network structure, in a plurality of employers' regime with CTT – Correios de Portugal, S.A., with hierarchical relation to the CEO and functional relation with all other members of the Executive Committee and control functions.

According to the specificities of the governance model, the Bank's Board of Directors created three internal Committees, in order to ensure better coordination among the various departments, better involvement in the decision-making process and better support for the Executive Committee's management activities. The committees are the Risk Committee, the Credit and Investment Committee and the Commercial and Product Committee.

As regards managing the relationship with CTT under the agreements entered into between CTT and the Bank, on which the respective CTT/Bank engagement model is based, there are four discussion forums that are external to the Bank. These were created in the context of the referenced agreements and cover the multiple-employer regime, availability of resources in the Retail Network and CTT Channel partnership, as well as the provision of services. They are the Retail Network Committee, the Shared Services Committee, the Products Committee and the Partnership Governing Committee.

On 31 December 2016, the existing Committee structure, as regards the Bank's Executive Committee and governance of the partnership with CTT, was as follows:

| | |
|---|---|
| Committees supporting the Executive Committee | Risk Committee |
| | Credit and Investment Committee |
| | Commercial and Product Committee |
| Committees governing the CTT partnership | Partnership Governing Committee |
| | Retail Network Committee |
| | Products Committee |
| | Shared Services Committee |

The Bank also has the benefit of a Remuneration Committee, created and appointed by the Board of Directors, namely for the purposes set out in Bank of Portugal Notice 10/2011, whose composition and powers are set out in section D. II. below.

## III. Oversight

According to the Bank's Articles of Association, the Audit Committee is made-up of 3 Board Members, including its Chairperson, all elected at the General Meeting (for the current 4-year term of office) together with the remaining Board Members. The lists of candidates for the Board of Directors must indicate which members will serve on the Audit Committee and who shall be its Chairperson.

The Bank's Audit Committee in office as at 31 December 2016 and at the present date, is made-up of the following members (appointed for the 2015/2018 term of office):

| Members | Office |
|---|---|
| José Manuel Gonçalves de Morais Cabral | Chairman |
| Rui Afonso Galvão Mexia de Almeida Fernandes | Member |
| Clementina Maria Dâmaso de Jesus Silva Barroso | Member |

All the referenced members are independent, pursuant to article 414 (5) of the PCC, by reference of article 31-A (3) of the LFCIFC, and have higher education and skills adequate to their duties and responsibilities. Together they have the necessary experience, according to the law and the Bank's Articles of Association and Selection Policy and at least 1 member has accounting knowledge.

The Audit Committee is entrusted by law, the Articles of Association and its internal Regulation with the following main powers:

i) Overseeing the Company's management;

ii) Verifying the precision of the financial reporting documents;

iii) Overseeing the preparation and disclosure of financial information;

iv) Overseeing the effectiveness of the risk management, the internal control and the internal audit systems;

v) Proposing the appointment of the Statutory Auditor to the General Meeting;

vi) Overseeing the statutory audit of the Bank's financial reporting documents; and

vii) Overseeing the Statutory Auditor's independence, namely as concerns the engagement of additional services.

Within those powers, the Audit Committee is namely responsible for:

i) Overseeing the implementation of the Bank's strategic goals, risk strategy and internal governance and assessing its effectiveness at least annually;

ii) Giving a technical opinion on the appointment and removal of the person responsible for internal audit, issuing a statement on his/her work plan and resources, assessing his/her objectivity, resources and independence, as well as analysing his/her reports;

iii) Supervising the Bank's risk identification, management, control and communication policy and processes;

iv) Drafting the detailed annual opinion on the adequacy and effectiveness of the Bank's internal control system;

v) Overseeing the integrity of accounting and financial information systems and supervising the Bank's disclosure and compliance with information duties to the Bank of Portugal;

vi) Assessing whether the adopted accounting policies and procedures and valuation criteria are consistent with Generally Accepted Accounting Principles and whether they are suitable to the correct presentation and valuation of the Bank's assets, liabilities and results;

vii) Supervising compliance with and 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; and

viii) Drafting an annual activity report and issuing an opinion on the annual management report, the year's accounts and the proposals presented by the Board of Directors to the Annual General Meeting.

The Audit Committee, as a supervisory body, acts as Banco CTT's risk committee, pursuant to and for the purposes of article 115-L of the LFCIFC and is namely entrusted with:

i) Advising the Board of Directors on the Bank's risk appetite, general risk strategy, current and future, assisting it in supervising the execution of the institution's risk strategy;

ii) Analysing whether the terms and conditions of products and services offered by the Bank to its clients take into account the Bank's business model and risk strategy and presenting a corrective plan to the Board of Directors, whenever necessary;

iii) Examining if incentives set out in the Bank's remuneration policy take into account risk, capital, liquidity and result forecasts.

## IV. Statutory Auditor

As at 31 December 2016 and at present, for the 2015/2018 term of office, KPMG & Associados, SROC, S.A. ("KPMG"), Statutory Auditor no. 189, represented by its partner Vítor Manuel da Cunha Ribeirinho (Statutory Auditor no. 1081), renders statutory audit services to the Company. The Company's Alternate Statutory Auditor is Maria Cristina Santos Ferreira (Statutory Auditor no. 1010).

The rules to be followed in engaging additional services from the Statutory Auditor/External Auditor are set out in the Regulation on the Provision of Additional Services by the Statutory Auditor, adopted by Banco CTT, approved in line with the provisions of Law 140/2015 of 7 September and Law 148/2015 of 9 September, which review the Legal Framework for Audit Oversight and the Bylaws of the Portuguese Institute of Statutory Auditors.

Under this Regulation, the Bank's Audit Committee is responsible for assessing requests to engage additional services from the Statutory Auditor/External Auditor. That engagement is subject to the prior authorisation of the Audit Committee, which is in turn limited by the need for similar authorisation from the supervisory body of CTT, as the Bank's parent company.

## V. External Auditor

As at 31 December 2016 and on the present date, the Bank's External Auditor is also KPMG, represented by its partner Vítor Manuel da Cunha Ribeirinho, as described in section IV.

The Regulation for the Provision of Services by the Statutory Auditor sets out mandatory rotation rules to be followed by the Bank in line with the recent amendment of the Bylaws of the Portuguese Institute of Statutory Auditors.

The annual assessment of the External Auditor and the assessment of its independence is entrusted to the Audit Committee, notwithstanding powers granted to the Selection Committee as regards matters of adequacy assessment and reassessment.

The table below shows the values corresponding to the fees of KPMG for audit, statutory audit, assurance, tax consultancy and services other than statutory audit and audit services engaged, accounted for and paid/invoiced for in 2016:





| | Year of Engagement of Services | Engaged Services[1] | | Accounted Services in 2016[2] | | Invoiced/Paid Services in 2016[1] | |
|---|---|---|---|---|---|---|---|
| | | Amount (€) | % | Amount (€) | % | Amount (€) | % |
| **1. Statutory audit and audit services** | Total | 399,135 | 92% | 330,593 | 91% | 167,028 | 85% |
| | 2015 | 132,225 | 80% | 92,588 | 74% | 132,588 | 81% |
| | 2016 | 266,910 | 100% | 238,005 | 100% | 34,440 | 100% |
| 1.1 Statutory audit and audit services | Total | 199,875 | 46% | 160,238 | 44% | 84,003 | 43% |
| | 2015 | 49,200 | 30% | 9,563 | 8% | 49,563 | 30% |
| | 2016 | 150,675 | 56% | 150,675 | 63% | 34,440 | 100% |
| 1.2 Assurance services | Total | 127,920 | 30% | 110,085 | 30% | 33,825 | 17% |
| | 2015 | 33,825 | 20% | 33,825 | 27% | 33,825 | 21% |
| | 2016 | 94,095 | 35% | 76,260 | 32% | - | - |
| 1.3 Other audit services[3] | Total | 71,340 | 17% | 60,270 | 17% | 49,200 | 25% |
| | 2015 | 49,200 | 30% | 49,200 | 39% | 49,200 | 30% |
| | 2016 | 22,140 | 8% | 11,070 | 5% | - | - |
| **2. Additional Services** | Total | 33,210 | 8% | 32,213 | 9% | 30,443 | 15% |
| | 2015 | 33,210 | 20% | 32,213 | 26% | 30,443 | 19% |
| | 2016 | - | - | - | - | - | - |
| 2.1 Tax consultancy services | Total | 33,210 | 8% | 32,213 | 9% | 30,443 | 15% |
| | 2015 | 33,210 | 20% | 32,213 | 26% | 30,443 | 19% |
| | 2016 | - | - | - | - | - | - |
| **Total** | Total | 432,345 | 100% | 362,806 | 100% | 197,471 | 100% |
| | 2015 | 165,435 | 100% | 124,801 | 100% | 163,031 | 100% |
| | **2016** | **266,910** | **100%** | **238,005** | **100%** | **34,440** | **100%** |

[1] VAT included at the applicable rate.
[2] Includes invoiced amounts and specialised amounts of the financial year.
[3] Includes audit-related services on matters of prevention of money-laundering and financing terrorism.

# C. INTERNAL ORGANISATION

## I. Articles of Association

The General Meeting is responsible for approving and passing resolutions amending the Bank's Articles of Association (available on the Bank's website at www.bancoctt.pt).

## II. Reporting irregularities (whistleblowing)

The LFCIFC and the European Banking Authority's Guidelines on Internal Governance (GL44) require credit institutions implement specific, independent and autonomous means to receive, handle and file serious irregularity reports 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.

As result of those requirements, the Bank's Code of Conduct, in section 7.4., provides mechanisms for reporting irregularities in matters of accounting, internal accounting controls, anti-corruption, banking and financial crime by shareholders, employees, customers, suppliers, with reference to the specific rules set out by the Bank. The Bank further undertakes that those who file reports will suffer no retaliation and those flagged will be treated fairly. In particular, the Employee that reports or prevents an illegality from being carried out by acting reasonably and carefully cannot be harmed in any way therefor. Any such notifications shall be treated confidentially and may not give rise, in of themselves, to any disciplinary, civil or criminal proceedings against its author, save if they are intentionally and manifestly groundless.

Throughout 2016, the Bank approved a Whistleblowing Policy to enact the provisions set forth in its Code of Conduct. According to the provisions of that Policy, any irregularities may be reported by employees, shareholders, clients, suppliers and other stakeholders to the following e-mail address: irregularidades@bancoctt.pt. According to the Bank's Articles of Association, the referenced Policy and the respective Regulation, the Audit Committee is responsible for receiving submitted irregularity reports, having delegated to the Compliance Department powers to support receiving, handling and filing submitted reports. The Audit Committee, nonetheless, retains its decision power relative to closing a submitted report or adopting other adequate measures (ex. reporting to the competent regulatory authorities; initiating judicial proceedings, filing a criminal complaint or analogous measure; disciplinary proceedings or loss of corporate body member status within the Bank).

The Whistleblowing Policy also implements procedures to ensure confidential treatment of submitted reports and protection of the whistleblower's and suspect's personal data, further stipulating that control officers have a duty to give the Audit Committee notice of any irregularities they become aware of.

During the 2016 financial year, no irregularities were reported to the Audit Committee.

## III. Internal control and risk management

From the outset, Banco CTT's management and supervisory bodies have attributed an edifying importance to its internal control, risk management and internal audit systems. For further information, please see the section of this Annual Report entitled "Internal Control System" and "Risk Management" found above.

The Board of Directors ensures the effectiveness of the internal control, risk management and internal audit systems, encouraging a culture of control throughout the organization. The Audit Committee, as Banco CTT's supervisory body, is responsible for the effective oversight of these systems, as described in its Internal Regulation.

## IV. Investor Relations

Because it is not a listed company with shares admitted to trading, Banco CTT does not have an Investor Relations Department.

However, the Bank's sole shareholder, as a listed company with shares admitted to trading on the regulated market, has an Investor Relations Department, which is responsible for ensuring a solid and lasting relationship with, on one hand, shareholders, investors and analysts, the Portuguese Securities 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 the current evolution of CTT, in economic, financial and governance terms.

## V. Website

Banco CTT's website is: www.bancoctt.pt.

# D. REMUNERATION

## I. Powers to Stipulate Remuneration

Pursuant to the Bank's Articles of Association, the General Meeting or Salary Committee elected on 12 May 2016 by the General Meeting is competent to stipulate the remunerations of corporate body members. The General Meeting and the Salary Committee receive support from the Remuneration Committee mentioned in section D.II. above.

## II. Remuneration Committee

The Remuneration Committee was created within the Board of Directors with the following members and its term of office matches that of the Board of Directors:

| Members | Office |
|---|---|
| Francisco José Queiroz de Barros de Lacerda | Chairman |
| José Manuel Gonçalves de Morais Cabral | Member |
| Clementina Maria Dâmaso de Jesus Silva Barroso | Member |

Under its Internal Regulation, this Committee is responsible, namely, for:

i) Preparing proposals and recommendations for General Meeting decisions on matters of remuneration of corporate body members (notwithstanding delegation to the Salary Committee), as well as for Board of Directors decisions (notwithstanding delegation to the Executive Committee) on the remuneration of relevant employees pursuant to article 115-C of the LFCIFC. This includes decisions on the remuneration policy and decisions affecting the Bank's risk and risk management;

ii) Analysing and assessing, at least annually, the remuneration policies for corporate body members and the mentioned relevant employees, especially their effect on the institution's management of risk, capital and liquidity; and

iii) Preparing proposals and recommendations for the competent bodies on the stipulation, calculation and payment of the variable remuneration component and on proposals assessing whether or not goals under that model have been met.

## III. Remuneration Structure

*1. Annual policy statement on the remuneration of management and supervisory body members in 2016*

Reproduced below is the remuneration policy statement for members of the Bank's management and supervisory bodies:

**"Annual policy statement on the remuneration of Banco CTT, S.A's Management and Supervisory Body Members for the 2016 financial year**

*I. Introduction*

*The present annual statement for 2016 was approved by Banco CTT, S.A. ("Bank" or "Company")'s Remuneration Committee and assessed by its Board of Directors and Audit Committee, to the extent of their respective powers and the terms and purposes of Law 28/2009 of 19 June of the Legal Framework for Credit Institutions and Financial Companies ("LFCIFC") and Bank of Portugal Notice 10/2011 ("Notice 10/2011"), for the purposes of its approval by the Bank's Annual General Meeting.*

*This statement concerns the remuneration of members of the Bank's management and supervisory bodies ("Remuneration Policy") that was approved by the Bank's General Meeting in November 2015 following the Bank's special registration and was amended on 22 July 2016, by resolution of the Bank's Salary Committee:*

*a) This amendment was approved based on the Remuneration Committee's recommendation. Representatives of Mercer (Portugal) – Recursos Humanos, Lda. (an external consultant on human resource matters, engaged for the purpose of "Stipulating the Variable Remuneration Model for Banco CTT's Executive Directors and Relevant Employees") were also at the Committee meeting, in addition to the Human Resources, Legal and Tax, Compliance, Risk and Internal Audit Managers, following an assessment by the Audit Committee under its respective powers;*

*b) That amendment originated in the approval of the Executive Committee member Performance Assessment Model for the referenced 2016 cycle ("EC Performance Assessment Model"); and*

*c) It is available on the Bank's website at www.bancoctt.pt.*

*The Bank's Remuneration Committee was created within the Board of Directors with the following members and its term of office matches that of the Board of Directors (2015/2018):*

| *Members* | *Office* |
|---|---|
| *Francisco José Queiroz de Barros de Lacerda* | *Chairman* |
| *José Manuel Gonçalves de Morais Cabral* | *Member* |
| *Clementina Maria Dâmaso de Jesus Silva Barroso* | *Member* |

*In 2016, the General Meeting held 7 meetings in which it passed resolutions on matters of remuneration. The Salary Committee held 3 meetings and the Remuneration Committee 6 meetings on matters of remuneration.*

*The Remuneration Policy was stipulated in light of the Bank's activity, structure and size (in particular, given its size, internal organization and nature, scope and complexity of its operations in the term of office of the Bank's launch), as well as market practices, for 2015-2018 (notwithstanding its possible amendment given the nature, scope and complexity of the Bank's activity, its structure, size and any possible regulatory developments).*

*II. General principles and components of the remuneration of Board of Directors and Executive Committee members*

*The Remuneration Policy strives to attain the following goals, among others:*

*a) Attract, motivate and retain highly talented employees, that enable the creation of long-term value and an increase in the organisation's productivity;*

*b) Foster people's commitment and motivation and enhance excellent performance by acknowledging and rewarding merit, rewarding professional responsibility and ensuring internal equity and external competitiveness;*

*c) Create incentives that ensure risk-taking is compatible with the credit institution's strategy, tolerance and risk culture, as well as the sound and prudent management of risk, by discouraging risk-taking beyond the credit institution's tolerated risk level;*

*d) Sustainably implement the Bank's long-term strategic goals, values and interests, in a way compatible with its strategy (namely with the business plan, financial model and budget);*

*e) Include measures preventing conflicts of interest;*

*f) Develop an offer that meets the banking and financial needs of depositors and customers, aligned with high levels of banking availability and financial inclusion; and*

*g) Create long-term value for shareholders and other institution stakeholders.*

*Given its responsibilities and dedication to the performance of these duties, the Remuneration Policy distinguishes members of the Audit Committee (as non-executive members with a supervisory duty), remaining non-executive members of the Board of Directors, members of the Executive Committee (for their role in implementing the strategy defined for the institution) and the respective members that chair and/or carry out duties as members of the Board of Directors' internal committees.*

*The remuneration of Audit Committee members and of the remaining non-executive members of the Board of Directors shall only include a fixed component, paid 14 times a year, regardless and unrelated in any way to the institution's performance or results.*

*The amount of that fixed remuneration is stipulated by the General Meeting or Salary Committee in light of the skills, responsibilities, dedication, availability, experience and professional qualifications associated to the performance of each office.*

*The remuneration of members of the Executive Committee shall include, in addition to that fixed component, a variable component, under the terms set out in the Remuneration Policy and further detailed in section III. below. That variable component: i) shall not limit the Bank's ability to reinforce its capital base and will take into account, when awarded, all types of risk, both present and future; ii) shall be subject to a number of conditions, criteria, assumptions and limitations; and (iii) shall serve to align interests of management body members with the Bank's interests, in line with the Bank's risk strategy, tolerance and culture.*

*Other benefits may be granted to members of the Executive Committee under terms specified by the General Meeting or Salary Committee, including namely insurance-related benefits, vehicles and meal allowances. No supplementary pension or early retirement schemes have been provided for.*

*In the event members of the Board of Directors terminate office, the compensation rules prescribed by law shall apply, as no compensation clauses were agreed upon or established in the remuneration policy. During the financial year of 2016, no compensation was paid or became due to members of the Bank's Executive Committee relating to the termination of their office during the financial year.*

### *III. Variable remuneration component of Executive Committee members*

*The Remuneration Policy provides for a variable component in the remuneration of Executive Directors.*

*The variable remuneration in question is paid in cash. Notwithstanding, until the full or partial payment of the variable remuneration and at the Bank's exclusive initiative, an alternative model may be implemented therefor by the General Meeting or Salary Committee, namely wherein half of that variable remuneration (including the deferred portion described below) be paid in financial instruments and be subject to a lock-up policy.*

*Pursuant to the Remuneration Policy, the variable remuneration component is subject to the rules set out therein, as well as the criteria, assumptions and limitations provided in the EC Performance Assessment Model approved for 2016 by the Salary Committee, following a Remuneration Committee recommendation, in consultation with control, human resources and legal and tax service officers and subsequent to the Audit Committee's assessment under its respective powers, as briefly described below:*

*a) Pursuant to the Remuneration Policy, this component depends on a number of performance assessment criteria being met (of both a qualitative and quantitative nature, as well as financial and non-financial). These shall be analysed on an annual and multi-annual basis, as set out in the EC Performance Assessment Model;*

*b) Further pursuant to the terms of the Remuneration Policy, the fixed remuneration component shall represent at least 2/3 of the total annual remuneration of each member and the variable remuneration component shall not exceed, in each year, 1/3 of the annual fixed remuneration of each Executive Committee member, notwithstanding its annual review by the General Meeting or Salary Committee;*

*c) In addition, according to the Bank's Articles of Association, a variable component may be added to the fixed remuneration, as provided by law, in a maximum percentage of consolidated profits for that financial year of no more than 10% annually;*

*d) In turn, the EC Performance Assessment Model provides for two distinct remuneration systems that depend on differentiated conditions and criteria (qualitative, quantitative and non-communicating) corresponding to "Corporate Performance VR" with a 70% weight in the total annual variable remuneration and to "Individual Performance VR" with a 30% weight in the total annual variable remuneration;*

*e) Notwithstanding these two separate remuneration systems, the awarding of variable remuneration under any of these systems is subject to awarding eligibility conditions related to: i) a minimum level of attainment of the goals identified in the EC Assessment Model; and ii) the starting date and continued duties in the Bank and beneficiary commitments, as required under section q) below;*

*f) In order to discourage excessive risk-taking and encourage alinement with the institution's interests, the awarding of variable remuneration under any of the referenced systems is subject, as set out in the EC Performance Assessment Model for 2016, to the following caps and the ratios referenced in section b) above are adjusted accordingly. Overall reference targets are also stipulated (equivalent to 100% satisfaction of Corporate KPIs and Skills referenced below regarding respectively Corporate Performance VR and Individual Performance VR), although its awarding depends on various levels of attainment of the performance criteria and assessment levels set forth therein: i) as regards the CEO, variable remuneration shall not exceed 32.5% of total annual remuneration if the overall target is attained, nor 41.6% of the total annual remuneration in the event of maximum attainment; and ii) as regards Members of the Executive Committee, variable remuneration shall not exceed 25.2% of total annual remuneration if the overall target is obtained, nor 33.6% of total annual remuneration in the event of maximum attainment;*

*g) Awarding Corporate Performance VR depends on and its amount is calculated depending on the weighted average of attainment of the following quantitative indicators/goals exclusively related to the Bank's performance ("Corporate KPIs") with various weights: i) Opex, Capex and operational losses; ii) number of "live" accounts; iii) volume of current accounts; iv) volume of generated commissions; and v) net results;*

*h) Awarding Individual Performance VR depends on and the respective amount is calculated based on the weighted average of skill assessment (associated with qualitative performance criteria) of each Executive Director ("Skills") weighted by leadership; strategic vision and knowledge of the business and activity; Executive Committee activity; internal and external communication and compliance with governance rules; customer satisfaction and evolution of the Banco CTT brand; relationship with stakeholders; alinement with the Bank's risk appetite; and business and activity expertise in the respective areas of activity;*

*i) In stipulating variable remuneration, adjustment mechanisms that may limit its award and payment on a multi-annual basis (namely, taking into consideration the types of risk exposure, the cost of capital and the institution's liquidity needs and sustainability, given the financial situation) shall also be taken into consideration , as detailed in the EC Performance Assessment Model;*

*j) Therefore and in line with the Remuneration Policy, the annual and multi-annual assessment for 2016 under the EC Performance Assessment Model takes into account i) the institution's performance (in a manner fitting its long-term risk profile and aligned with the business plan, financial model and budget), ii) the performance of the structural unit of which the beneficiary is part and iii) the beneficiary's individual performance in light of his/her goals, in order to promote the institution's sustainability, the creation of long-term value and the beneficiary's surpassing what is required of him/her;*

*k) The calculation of Corporate Performance VR and Individual Performance VR is carried out under the mentioned model by the Remuneration Committee, whose proposal shall be put to the approval of the General Meeting or Salary Committee;*

*l) Corporate Performance VR and Individual Performance VR are awarded within one month as of the General Meeting that approves the 2016 accounts, notwithstanding the applicable adjustment and deferral rules;*

*m) The payment of half of the awarded variable remuneration (whether Corporate Performance VR or Individual Performance VR) is made within one month of the General Meeting or Salary Committee resolution awarding it, pursuant to paragraph l). In order to align the variable component with the institution's long-term performance, the remaining amount is deferred over three years as of the payment date of the undeferred portion of the Corporate Performance VR and Individual Performance VR.*

*n) The right to payment of the deferred portion is vested proportionally throughout the deferral period and is conditional during that three-year period on i) the Bank's positive performance and a sustainable financial situation, to the extent there is a positive evolution of both the Bank's net position and net results in each of those financial years as compared to the preceding year (based on the accounts therefor), notwithstanding any adjustments or revision of this payment condition as approved by the General Meeting or Salary Committee, following a favourable Remuneration Committee proposal/recommendation; and ii) a positive assessment of the beneficiary's performance; in both cases in such a way as to carry out the EC Performance Assessment Model;*

*o) The variable remuneration has therefore been subject, to the extent applicable by law and regulation and pursuant to the referenced model, to mechanisms that may totally or partially reduce the awarded and deferred component, whose payment is not yet an acquired right (malus) and that may reverse remuneration already paid or whose payment has already become an acquired right (clawback);*

*p) As further regards adjustments, the conditions and mechanisms referenced in paragraphs i), n) and o) above are especially taken into consideration, namely, the following situations pertaining to the beneficiary and detailed in the EC Performance Assessment Model: i) action that resulted in significant losses for the Bank and approval (whether individual or within the structural unit of which the beneficiary is a part) of transactions or acts that resulted in significant losses for the Bank; ii) failure to comply with adequacy and integrity criteria, pursuant to the selection and assessment policy in force at any time; iii) serious breach of the Bank's code of conduct or internal rules; iv) false statements in the Bank's financial statements; v) the Bank being subject to a penalty with a significant impact thereon to which the objective conduct of the beneficiary made a decisive contribution; vi) significant deviation/depreciation in the evolution of the Bank's net position; vii) serious failure in the Bank's or structural unit's control or risk management; viii) failure to comply with capital and liquidity ratios and/or limits to the ability to reinforce its capital; for all the previously referenced situations, pursuant to the EC Performance Assessment Model;*

*q) Awarding variable remuneration depends on the beneficiary: i) accepting the mechanisms referenced in paragraph o); and ii) refraining from entering into agreements to hedge/transfer risk or for payment via special purpose vehicles or similar methods.*

*IV. Conclusions*

*Pursuant to article 115-C (6) of the LFCIFC and articles 7 and 14 of Notice 10/2011, the Bank's Remuneration Committee carried out the annual review of the Remuneration Policy described above and in particular of its implementation. It took into account that the policy was approved under the Bank's opening for business on 27 November 2015 and was amended on 22 July 2016 under the EC Performance Assessment Model. For this purpose, it consulted the Bank's control officers, who actively participated in developing the referenced assessment exercise, and submitted the assessment report and present statement to the Bank's Audit Committee and Board of Directors, within its duties and for the purpose of obtaining approval of the Bank's General Meeting.*

*As a result of that assessment, the Bank's Remuneration Committee considers the Remuneration Policy: i) to be adequate in light of the Bank's activity, structure and size (in particular its size, internal organisation, nature, scope and complexity of its operations in the term of office of its launch); ii) to be aligned with the principles and applicable legal and regulatory requirements; iii) able to ensure consistency with sound, prudent and responsible risk management, enabling its adjustment to the Bank's financial position and the need to continuously ensure a solid capital base, alignment with the Bank's and various stakeholders' long-term interests and discouragement of excessive risk-taking, by discouraging risk-taking beyond the Bank's tolerated risk level; iv) is duly and adequately stipulated/implemented pursuant to the terms and procedures set out in the EC Performance Assessment Model that applies to the abovementioned variable remuneration component, in light of the 2016-2018 plan, model and budget, the capital, risk strategy and investment policy plan (medium/long-term goals) and the institution's capital structure and liquidity, as well as the legal and regulatory context currently in force.*

*In turn, and pursuant to article 2 (1) of Law 28/2009 of 19 June and article 115-C (4) of LFCIFC, the Bank's Board of Directors puts the present statement on the remuneration policy of members of the Bank's management and supervisory bodies (also found in the Bank's Corporate Governance Report) to the approval of the General Meeting."*

*2. Annual policy statement on the remuneration of relevant employees in 2016*

I. Introduction

The present statement concerns the remuneration policy for the following Bank employees:

a) Bank employees that carry out executive duties and report directly (first line) to the Board of Directors and Executive Committee for day-to-day management, save for employees that fall under all of the remaining sub-paragraphs ("Top Tier Officers");

b) Bank employees responsible for taking-on risk ("Risk Takers");

c) Bank employees responsible for control duties or that carry out risk management duties ("Control Officers" or "Risk Officers");

d) Bank employees whose total remuneration places them in the same remuneration bracket as provided for corporate bodies or the categories referenced in paragraphs a) or b), as long as the respective professional activities have a material impact on the credit institution's risk profile ("Other Risk Takers"); save for employees under the multi-employer regime;

and all the referenced categories are hereinafter jointly referenced as "Relevant Employees".

The identification of Relevant Employees is based on a list of names approved by the Executive Committee, as proposed by the Human Resources, Legal and Tax Services, Compliance and Risk Departments, duly substantiated and subject to the assessment of the Remuneration Committee, Audit Committee and Board of Directors. (Such list is reviewed whenever relevant changes occur and at least annually.)

This statement concerns the policy approved by the Board of Directors on 27 November 2015 following the conclusion of the Bank's special registration and was amended on 21 July 2016, by resolution of the Bank's Board of Directors:

a) This amendment was approved based on the Remuneration Committee's recommendation. Representatives of Mercer (Portugal) – Recursos Humanos, Lda. (an external consultant on human resource matters, engaged for the purpose of "Stipulating the Variable Remuneration Model for Banco CTT's Executive Directors and Relevant Employees") were also at the Committee meeting, in addition to the Human Resources, Legal and Tax, Compliance, Risk and Internal Audit Managers, following an assessment by the Audit Committee under its respective powers;

b) That amendment originated in the approval of the Performance Assessment Model for Relevant Employees for the referenced 2016 cycle ("RE Performance Assessment Model"); and

c) It is available on the Bank's website at www.bancoctt.pt.

II. General principles and components of the remuneration of Relevant Employees

Pursuant to the referenced policy, Relevant Employees receive a fixed monthly remuneration paid out 14 times a year, under their individual employment agreements and the applicable labour regime. The fixed remuneration is stipulated by the Board of Directors or Executive Committee to the extent of the delegation of powers, pursuant to a favourable Remuneration Committee proposal/recommendation.

The stipulation of the referenced fixed remuneration shall be a sufficiently high proportion of the total remuneration to make the application of the policy fully flexible as regards variable remuneration (including the non-payment thereof). Furthermore, it shall essentially take into account the relevant professional experience, organisational responsibility and nature of the employee's duties, as well as the size of the respective structural unit.

Top Tier Officers, Risk Takers and Other Risk Takers may come to receive variable remuneration, if a resolution therefor is passed by the Board of Directors or the Executive Committee to the extent of their delegated powers. This resolution shall be proposed by the Remuneration Committee, namely given Banco CTT's sustainable performance, the performance of its structural unit and individual performance, as well as each employee's responsibilities and duties.

Risk Officers and Control Officers may come to receive variable remuneration, if a resolution therefor is passed by the Board of Directors, pursuant to a Remuneration Committee proposal. The possible awarding of this component shall comply with the following principles: i) remuneration shall be mainly based on the fixed component; and ii) the variable component shall be stipulated depending on the individual attainment of specific goals associated with his/her duties and independently from the performance of the structural units under his/her control.

The variable remuneration in question is paid in cash. Notwithstanding, until the full or partial payment of the variable remuneration and at the Bank's exclusive initiative, an alternative model may be implemented therefor by the competent bodies, namely wherein half of that variable remuneration (including the deferred portion described below) be paid in financial instruments and be subject to a lock-up policy.

Relevant Employees may receive other benefits under the terms that may be approved by the Board of Directors or the Executive Committee to the extent of its delegated powers. For the financial year underway, those benefits, as regards first line officers, entailed the use of a vehicle (including fuel) and health-care insurance.

### III. Variable remuneration component of Relevant Employees

Pursuant to the approved Remuneration Policy, and notwithstanding the provisions of the individual employment agreements and the applicable labour regime, any award of a variable remuneration component to Relevant Employees is subject to the principles and rules set out above for the variable remuneration of Executive Committee members, as well as the criteria, assumptions and limitations provided in the RE Performance Assessment Model approved for 2016 by the Board of Directors and Executive Committee, to the extent of the respective delegation of powers, following a favourable Remuneration Committee recommendation, in consultation with the control, human resources and legal and tax service officers and Audit Committee under its respective powers, as briefly described below:

a) This component depends on a number of performance assessment criteria being met (of both a qualitative and quantitative nature, as well as financial and non-financial). These shall be analysed on an annual and multi-annual basis, as set out in the RE Performance Assessment Model;

b) In turn, the RE Performance Assessment Model provides for two distinct remuneration systems that depend on differentiated conditions and criteria (qualitative, quantitative and non-communicating) corresponding to "Corporate Performance VR" (based on quantitative criteria) with a 40% weight in the total annual variable remuneration and to "Individual Performance VR" with a 60% weight in the total annual variable remuneration (save for Control Officers and Risk Officers in which those relative weights correspond to 30% and 70% respectively);

c) Notwithstanding these two separate remuneration systems, awarding variable remuneration under any of these systems is subject to awarding eligibility conditions referenced above under the remuneration policy statement for management and supervisory body members;

d) In order to discourage excessive risk-taking and encourage alinement with the institution's interests, awarding variable remuneration under any of the referenced systems is subject, as set out in the RE Performance Assessment Model for 2016, to the following caps and overall reference targets (equivalent to 100% satisfaction of Corporate KPIs, Structural Unit KPIs and Skills referenced below regarding respectively Corporate Performance VR and Individual Performance VR), notwithstanding its awarding depends on various levels of attainment of the performance criteria and assessment levels set forth therein: i) as regards Control Officers and Risk Officers, variable remuneration shall not exceed 12.6% of total annual remuneration if the overall target is attained, nor 17.8% of total annual remuneration in the event of maximum attainment; and ii) as regards the remaining Relevant Employees, variable remuneration shall not exceed 16.1% of total annual remuneration if the overall target is attained, nor 22.4% of total annual remuneration in the event of maximum attainment;

e) Awarding Corporate Performance VR is limited to and the respective amount calculated based on the weighted average of the level of attainment of the Corporate KPIs referenced above, under the remuneration policy statement for management and supervisory body members;

f) Awarding Individual Performance VR depends on and the respective amount is calculated based on the weighted average of the assessment a) of a number of quantitative performance indicators/goals of the structural unit of which the employee is a part ("Structural Unit KPIs") and b) a number of skills (related to qualitative performance criteria) of each employee ("Skills") regarding mainly leadership and resilience, collaboration, focus on results, focus on clients and a culture of control, as further detailed in the referenced RE Performance Assessment Model and pursuant to the considerations set out therein for Relevant Employees from the Business Units and Support Areas and for Control Officers and Risk Officers;

g) In stipulating variable remuneration, adjustment mechanisms that may limit its award and payment on a multi-annual basis (namely, taking into consideration the types of risk exposure, the cost of capital and the institution's liquidity needs and sustainability, given the financial situation) shall also be taken into consideration, as detailed in the RE Performance Assessment Model;

h) Therefore and in line with the Remuneration Policy, the annual and multi-annual assessment for 2016 under the RE Performance Assessment Model takes into account i) the institution's performance (in a manner fitting its long-term risk profile and aligned with the business plan, financial model and budget), ii) the performance of the structural unit of which the beneficiary is part and iii) the individual performance of that beneficiary in light of his/her goals, in order to promote the institution's sustainability, the creation of long-term value and the beneficiary's surpassing what is required of him/her;

i) The calculation of Corporate Performance VR and Individual Performance VR under the mentioned model is i) as regards variable remuneration to be awarded to Control Officers and Risk Officers, carried out by the Remuneration Committee (starting with operational reporting assessment) under a proposal put to the approval of the Board of Directors and ii) as regards other Relevant Employees, subject to an Executive Committee resolution (starting with an assessment by the Director with that purview), subject to a favourable opinion by the Salary Committee;

j) Corporate Performance VR and Individual Performance VR are awarded within one month as of the General Meeting that approves the 2016 accounts, notwithstanding the applicable adjustment and deferral rules;

k) The payment of half of the awarded variable remuneration (whether Corporate Performance VR or Individual Performance VR) is made within one month of the approval and award resolution referenced in the preceding paragraph and, in order to align the variable component with the institution's long-term performance, the remaining amount is deferred over three years as of the payment date of the undeferred portion of the Corporate Performance VR and Individual Performance VR;

l) The right to payment of the deferred portion is vested proportionally throughout the deferral period and is conditional upon the Bank's sustainable financial situation and the positive assessment of its beneficiary's performance throughout that 3-year period, in both cases in compliance with the RE Performance Assessment Model;

m) The variable remuneration has therefore been subject, to the extent applicable by law and regulation and pursuant to the referenced model, to mechanisms that may totally or partially reduce the awarded and deferred component, whose payment is not yet an acquired right (malus) and that may reverse remuneration already paid or whose payment has already become an acquired right (claw-back);

n) As further regards adjustments, the conditions and mechanisms referenced in paragraphs g), l) and m) above are especially taken into consideration, namely, the following situations pertaining to the beneficiary and detailed in the RE Performance Assessment Model: i) action that resulted in significant losses for the Bank and approval (whether individual or within the structural unit of which the beneficiary is a part) of transactions or acts that resulted in significant losses for the Bank; ii) failure to comply with adequacy and integrity criteria, pursuant to the selection and assessment policy in force at any time; iii) serious breach of the Bank's code of conduct or internal rules; iv) false statements in the Bank's financial statements and/or material omissions therein; v) the

Bank being subject to a penalty with a significant impact thereon to which the objective conduct of the beneficiary made a decisive contribution; vi) significant deviation/depreciation in the evolution of the Bank's net position; vii) serious failure in the Bank's or structural unit's control or risk management; viii) failure to comply with capital and liquidity ratios and/or limits to the ability to reinforce its capital; for all the previously referenced situations, pursuant to the RE Performance Assessment Model;

o) Awarding variable remuneration depends, to the extent permitted by law and regulation (namely mandatory labour provisions), on the beneficiary: i) accepting the mechanisms referenced in paragraph m); and ii) refraining from entering into agreements to hedge/transfer risk or for payment via special purpose vehicles or similar methods.

### IV. Conclusions

Pursuant to article 115-C (5) and (6) of the LFCIFC and articles 7 and 14 of Notice 10/2011, the Bank's Remuneration Committee carried out the annual review of the Remuneration Policy for Relevant Employees and in particular of its implementation. It took into account that the policy was approved on 27 November 2015 and was amended on 21 July 2016 by a Board of Directors resolution following an assessment by the Remuneration Committee under the approval of the RE Performance Assessment Model for the 2016 cycle. For this purpose, it consulted the Bank's control officers, who actively participated in developing the referenced assessment exercise, and submitted the assessment report and present statement to the Bank's Audit Committee and Board of Directors, as falls within their powers.

As a result of that assessment, the Bank's Remuneration Committee considers the Remuneration Policy: i) to be adequate in light of the Bank's activity, structure and size (in particular its size, internal organisation, nature, scope and complexity of its operations in the term of office of its launch); ii) to be aligned with the principles and applicable legal and regulatory requirements; iii) able to ensure consistency with sound, prudent and responsible risk management, enabling its adjustment to the Bank's financial position and the need to continuously ensure a solid capital base, alignment with the Bank's and various stakeholders' long-term interests and discouragement of excessive risk-taking, by discouraging risk-taking beyond the Bank's tolerated risk level; iv) is duly and adequately stipulated/implemented pursuant to the terms and procedures set out in the RE Performance Assessment Model that applies to the above-mentioned variable remuneration component, in light of the 2016-2018 plan, model and budget, the capital, risk strategy and investment policy plan (medium/long-term goals) and the institution's capital structure and liquidity, as well as the legal and regulatory context currently in force.

## IV. Disclosure of Remuneration

The following table shows the aggregate and individual gross amount of remuneration paid by the Bank, with reference to the period from 1 January 2016 to 31 December 2016, to members of the Board of Directors and Audit Committee. During 2016, João Maria Magalhães Barros Mello Franco was appointed as an Executive Committee Member on 15 January 2016, as was Pedro Rui Fontela Coimbra on 5 August 2016. Also in 2016, Luiana Cristina Vieira Nunes Carvalho dos Santos tendered her resignation as at 29 January 2016, effective 12 March 2016, and Sílvia Maria Correia tendered her resignation on 19 February 2016, effective 31 March 2016:

(amounts in euro)

| Members | Office | Fixed Remuneration[1] | Variable Remuneration[2] | Exceptional Bonus[3] | Total |
|---|---|---|---|---|---|
| Luís Maria França de Castro Pereira Coutinho | Chief Executive Officer (CEO) | 395,433 | - | 131,250 | **526,683** |
| Luís Miguel Agoas Correia Amado | Member of the Executive Committee (COO) | 164,371 | - | 27,300 | **191,671** |
| João Maria Magalhães Barros Mello Franco | Member of the Executive Committee (CMO) | 207,138 | - | - | **207,138** |
| Pedro Rui Fontela Coimbra | Member of the Executive Committee (CFO) | 109,713 | - | - | **109,713** |
| Luiana Cristina Vieira Nunes Carvalho dos Santos | Member of the Executive Committee (CFO) | 28,412 | - | - | **28,412** |
| Sílvia Maria Correia | Member of the Executive Committee (CCO) | 42,754 | - | - | **42,754** |
| **Total for the Executive Committee** | | **947,821** | **-** | **158,550** | **1,106,371** |





(amounts in euro)

| Members | Office | Fixed Remuneration[4] |
|---|---|---|
| José Manuel Gonçalves de Morais Cabral | Non-Executive Director, Audit Committee Chairman and Member of the Remuneration Committee | 70,000 |
| Rui Afonso Galvão Mexia de Almeida Fernandes | Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee | 60,000 |
| Clementina Maria Dâmaso de Jesus Silva Barroso | Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee | 60,000 |
| **Total for the Audit Committee** | | **190,000** |
| Francisco José Queiroz de Barros de Lacerda | Chairman of the Board of Directors and of the Remuneration Committee | - |
| André Manuel Pereira Gorjão de Andrade Costa | Non-Executive Director | - |
| **Total for Non-Executive Directors that are not part of the Audit Committee[5]** | | **-** |
| **Total for the Board of Directors and Audit Committee** | | **1,296,371** |

[1] Includes the fixed base remuneration, amounts regarding annual meal allowance and, when applicable, the fixed amount paid on a monthly basis to be allocated to a Retirement Savings Plan (RSP) and amount of payment in kind regarding permanent vehicle use. Furthermore, Executive Directors in office in the same period received the following supplementary non-monetary fixed value benefits, as applicable, that are estimated to amount to €13,955: healthcare insurance, life insurance and personal injury insurance (including travel insurance).

[2] Pursuant to the remuneration policy approved in November 2015 that provides for a variable remuneration component for the Bank's Executive Directors, the respective performance assessment model was defined and approved in terms of the Bank's 2016-2018 business plan, financial model and budget. At the date of the present report, the amounts of variable remuneration to be awarded had not yet been stipulated and so no payments had been made thereunder, there being therefore no deferred remuneration.

[3] In 2016 the Salary Committee passed a resolution awarding payment of an exceptional bonus ("Banco CTT Project Exceptional Bonus"). This was an extraordinary bonus in a fixed amount with a singular one-off motivation (i.e. not permanent, periodic or regular). Its award was not previously guaranteed (and, to that extent, was not relevant/taken into account for base annual remuneration nor for any other benefits or possible compensations). It was stipulated based on general objective criteria on 27 November 2015 (date the Bank began its operations) for all Executive Committee members in office on the payment date of the referenced bonus (i.e. 25 May 2016), regardless of individual or the Bank's performance. The bonus seeks to reward the skills and responsibility showed within the singular milestone of the launch of Banco CTT's operations and opening to the general public.

[4] Amount of fixed remuneration for Non-Executive Directors and members of the Audit Committee that do not receive any variable remuneration according to the remuneration policy for management and supervisory bodies currently in force.

[5] The Bank's General Meeting passed a resolution, following a Remuneration Committee proposal, wherein non-executive members of the Bank's Board of Directors that carry out duties in company(ies) that control the Bank (in light of the concept of control found in article 486 of the PCC) shall be remunerated according to the policy of that (those) company(ies) and will receive or be paid no remuneration by the Bank. Therefore, the Directors Francisco José Queiroz de Barros de Lacerda and André Manuel Pereira Gorjão de Andrade Costa receive no remuneration from the Bank or related to the performance of their duties in the Bank. They shall only be remunerated for the performance of their duties in CTT (the Bank's sole shareholder), as disclosed in that Corporate Governance Report, available on its website at www.ctt.pt.

During the financial year of 2016, no compensation was paid or became due to members of the Bank's Executive Committee relating to the termination of their office during the financial year.

Gross remuneration paid by the Bank to Relevant Employees, with reference to the period from 1 January 2016 to 31 December 2016, as set out in the remuneration policy for management and supervisory body members and relevant employees (in a total of 18 Bank Relevant Employees, 7 of which were newly hired) amounted to an aggregate of €1,348,164. They received no variable remuneration. This remuneration was distributed as follows:

(amounts in thousands of euro)

| Relevant Employees[1] | Fixed Remuneration[2] | Variable Remuneration | Exceptional Bonus[3] |
|---|---|---|---|
| A – Risk Takers and Control Officers (4 employees) | 347,943 | - | 19,821 |
| B – Other Top Tier Employees (14 employees)[a] | 951,130 | - | 29,270 |

[a] Includes a Relevant Employee that terminated his duties on 15 May 2016.
[1] For the purpose of defining Relevant Employees, we took into consideration employees appointed by the Bank's competent corporate bodies to carry out the duties in question.
[2] Includes the fixed base remuneration, amounts regarding annual meal allowance and, when applicable, the amount of payment in kind regarding permanent vehicle use, as of the date of appointment. Relevant Employees received the following supplementary non-monetary fixed value benefit, in the referenced period that is estimated at €4,413: healthcare insurance.
[3] In 2016 the Remuneration Committee passed a resolution, following an Executive Committee proposal, while the Board of Directors, following a Remuneration Committee proposal, passed a resolution regarding control officers, wherein they awarded payment of an exceptional bonus (''Banco CTT Project Exceptional Bonus'') to Relevant Employees who joined the Bank by 27 November 2015 and remained therein on 25 May 2016. This was an extraordinary bonus in a fixed amount with a singular one-off motivation (i.e. not permanent, periodic or regular). Its award was not previously guaranteed (and, to that extent, was not relevant/taken into account for base annual remuneration, holiday subsidy, Christmas subsidy, nor any other benefits or possible compensations). It was stipulated based on general objective criteria for all Relevant Employees on 27 November 2015 (date the Bank began its operations) and that remained therein on the payment date of the referenced bonus (i.e. 25 May 2016), regardless of individual or the Bank's performance. The bonus seeks to reward the skills and responsibility showed under the singular milestone of the launch of Banco CTT's operations and opening to the general public.

There is no (unvested) deferred remuneration awarded to Relevant Employees, nor deferred remuneration due, paid or reduced due to an adjustment based on individual performance. No payment was made in 2016 due to early termination of a labour agreement with Relevant Employees.

## V. Agreements Affecting Remuneration

According to the remuneration policy for management and supervisory body members and relevant employees, awarding variable remuneration to executive members of the Board of Directors depends on the prior written undertaking by its beneficiary that it 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 via special purpose vehicles or other similar methods.

## VI. Share Allocation or Stock Option Plans

Also according to the remuneration policy for management and supervisory body members and relevant employees, namely defined in terms of the nature, scope and complexity of the Bank's activity, the variable remuneration of executive members of the Board of Directors will be paid in cash. Notwithstanding, at the Bank's exclusive initiative and until partial or full payment of the variable remuneration, an alternative model therefor may be implemented as defined by the competent bodies, namely a General Meeting or Salary Committee resolution as proposed by the Remuneration Committee, wherein half of that variable remuneration (including the deferred portion) be paid in financial instruments and be subject to a lock-up policy.

# E. TRANSCATIONS WITH RELATED PARTIES

## I. Control Mechanisms and Procedures

According to the Regulation of the Audit Committee, that Audit Committee shall issue a prior opinion on transactions to be carried out (directly or through a third party) between the Bank, on the one hand, and, on the other, qualifying shareholders (or persons or entities related thereto pursuant to article 13-A(1) of the LFCIFC) or members of the Bank's Board of Directors or Audit Committee (or a third party related to any of these by any relevant business or personal interest).

In this regard and if so requested by the Board of Directors and/or Executive Committee, the engagement, key terms and conditions and goals of the transaction, consistency with the Bank's interests, with market conditions and with the rules in force and further conflict of interest prevention and remedy mechanisms, will be subject to scrutiny.

## II. Transaction Information

Relevant related party transactions are described in Note 28 (Related party transactions), attached to the financial statements in the Annual Report.

Our value

# reliability

# annex

## Curricula of Management and Supervisory Body Members





### Francisco de Lacerda
Chairman

| | |
|---|---|
| DATE OF BIRTH | 24 September 1960, Portugal |
| DATE OF 1st APPOINTMENT | 24 August 2015[1] |
| TERM OF OFFICE | 2015/2018 |

**Education**

**1982** Degree in Business Administration and Management, Universidade Católica Portuguesa

**Internal management and supervisory roles**

- Chairman of the Board of Directors of Banco CTT, S.A.
- Chairman of the Remuneration Committee and Member of the Selection Committee of Banco CTT, S.A.
- Chairman of the Salary Committee (appointed by the General Meeting) of Banco CTT, S.A.

**Other internal roles**

- Chairman of the Board of Directors & CEO of CTT - Correios de Portugal, S.A.
- Chairman of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A. and Tourline Express Mensajería, S.L.U.
- Member of the Corporate Governance, Evaluation and Nominating Committee of CTT – Correios de Portugal, S.A. (tendered resignation on 2 January 2016)
- Chairman of the Board of the General Meeting of Correio Expresso de Moçambique, S.A.

**Professional experience**

CTT CEO since 2012, this being his main professional occupation. He is responsible for Strategy and Development, E-commerce, Brand and Communication, International, Audit and Quality, General Secretariat and Human Resource policies.

For 25 years, until 2008, he carried out several roles in investment, corporate and retail banking, including as CEO of Banco Mello and Executive Member of the Board of Directors of the Portuguese Bank Millennium BCP, listed on the stock exchange and with prominent operations in Central and Eastern Europe, for which he was responsible.

He carried out other roles in listed companies active in Portugal and abroad, having been CEO of Cimpor - Cimentos de Portugal SGPS, S.A. (an international cement group operating in 12 countries and one of the 5 largest companies in the NYSE Euronext Lisbon stock market) and Non-Executive Director and Member of the Audit Committee of EDP Renováveis (then the 3rd largest renewable energy company in the world).

**Management and supervisory roles held in other companies** (last 5 years)

**2015/...** Non-Executive Member of the Board of Directors, Audit Committee, Compliance Committee and Appointment and Remuneration Committee of Endesa Energia, S.A.

**2014 May-Oct** Non-Executive Member of the Board of Directors of Norfin – Portuguese Property Group, S.A.

**2010/12** CEO of Cimpor - Cimentos de Portugal SGPS, S.A. and Chairman of Cimpor Inversiones, S.A. and Cimpor Macau, S.A.

**2008/12** Non-Executive Member of the Board of Directors, Audit Committee (2008-2011) and Appointment and Remuneration Committee (2011-2012) of EDP Renováveis, S.A.

**2008/12** Managing Partner of Deal Winds – Sociedade Unipessoal, Lda

**Other external roles**

**2015/...** Chairman of the Board of COTEC Portugal - Associação Empresarial para a Inovação (Business Association for Innovation)

**2014/...** Member of the Board of Directors of the International Post Corporation

**2014/...** Member of the Board of AEM - Associação de Empresas Emitentes de Valores Cotados em Mercado (Association of Issuers of Securities Listed on the Stock Market)

**2012/...** Member of the Board of Directors of the Portuguese Foundation for Communications (Fundação Portuguesa das Comunicações) (ex-General Council)

**2011/...** Member of the Advisory Board of Nova School of Business and Economics

**2009/...** Member of the Salary Committee of PHAROL SGPS, S.A. (he suspended his activity between August 2012 and March 2014)

**2006/...** Member of the Advisory Board of the Master's Degree in Finance at Católica Lisbon School of Business & Economics

**2006/...** Member of the General Council of the Naval Club of (Clube Naval de Cascais) (appointed Vice-Commodore of this body in 2016)

[1]Date of appointment after the incorporation of Banco CTT, S.A.

## Luís Pereira Coutinho
Chief Executive Officer (CEO)

| | |
|---|---|
| DATE OF BIRTH | 2 March 1962, Portugal |
| DATE OF 1ST APPOINTMENT | 24 August 2015[1] |
| TERM OF OFFICE | 2015/2018 |

**Education**

**1984** Degree in Economics, Universidade Católica Portuguesa

**Internal management and supervisory roles**

- Member of the Board of Directors and Chief Executive Officer (CEO) of Banco CTT, S.A.

**Other internal roles**

--

**Professional experience**

Over 30 years, he has carried out roles in the Portuguese banking sector and in international operations for the Portuguese bank Millennium BCP (namely, in Poland, Greece, Romania, the United States and Switzerland), where he held positons of executive and strategic leadership mainly from 2013 to 2015 in Bank Millennium, S.A. (Poland). In Portugal, he carried out duties in recent years in corporate banking in Banco Comercial Português, S.A. and in digital banking in ActivoBank, S.A.

**Management and supervisory roles held in other companies** (last 5 years)

**2012/15** Member of the Board of Directors and Executive Committee of Banco Comercial Português, S.A.
**2008/12** Executive Member of the Board of Directors of Banco Comercial Português, S.A.
**2009/15** Member of the Supervisory Board of Bank Millennium, S.A. (Poland)
**2012/15** Chairman of the Board of Directors of Banco ActivoBank, S.A.
**2008/15** Chairman of the Board of Directors of Banca Millennium, S.A. (Romania)
**2008/13** Chairman of the Board of Directors of Banque Privée BCP (Suisse), S.A.
**2014/15** Member of the Board of Directors of Pensões Gere – Sociedade Gestora de Fundos de Pensões, S.A.
**2014/15** Member of the Board of Directors of Millennium BCP Ageas, Grupo Segurador, SGPS, S.A.
**2014/15** Member of the Board of Directors of Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
**2014/15** Chairman of the Board of Directors of BCP Capital - Sociedade de Capital de Risco, S.A.
**2011/13** Member of Board of Directors of Millennium Bank, S.A. (Greece)
**2010/11** Chairman of Board of Directors of Millennium Bank, S.A. (Greece)

**Other external roles**

**2003/09** Executive Vice-Chairman of the Board of Directors of Bank Millennium, S.A. (Poland)
**2008/12** Member of Board of Directors of Fundação Millennium BCP
**2008/10** Vice-Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
**2008/09** Member of the Board of Directors of Banco ActivoBank, S.A.
**2008/09** Member of Board of Directors of Millennium BCP – Prestação de Serviços, ACE
**2008/10** Chairman of the Board of Directors of BCP Holdings (USA) INC.
**2003/09** Member of the Supervisory Board of Millennium Lease Sp Zoo (Poland)
**2003/09** Member of the Supervisory Board of Millennium Dom Maklerski, S.A. (Poland)
**2003/09** Member of the Supervisory Board of Bank Millennium Leasing Sp Zoo (Poland)
**1998/00** Vice-Chief Executive Officer and Vice-Chairman of Banco Mello S.A.
**1993/98** Member of the Executive Committee and Board of Directors of Banco Mello S.A.
**1991/93** Member of Board of Directors of Geofinança-Sociedade de Investimentos, S.A.

[1] Date of appointment after the incorporation of Banco CTT, S.A.





## Luís Correia Amado
COO, Executive Director

| | |
|---|---|
| DATE OF BIRTH | 24 January 1972, Portugal |
| DATE OF 1ST APPOINTMENT | 24 August 2015 |
| TERM OF OFFICE | 2015/2018 |

**Education**

**2010/12** Attendance of X MBA - AESE/IESE at AESE – School of Leadership and Business (*Escola de Direção e Negócios*)
**2003** Executive Post-graduate Studies in Management, Universidade Católica Portuguesa
**1997** Degree in Industrial Manufacturing and Management Engineering, Universidade Beira Interior

**Internal management and supervisory roles**

- Member of the Board of Directors and Executive Committee (COO) of Banco CTT, S.A.

**Other internal roles**

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**Professional experience**

For 18 years, he carried out roles in the technological area with a focus on the financial sector, with positions of leadership, project coordination, system maintenance, namely coordination of international projects (gaining knowledge and experience of the regulatory framework as applies to technology, operations, control processes and systems in various geographies), particularly as the Technology Manager at Barclays, PLC (2011-2014). From 1998 to 2011, he carried out consulting activities in information technology, particularly at Accenture PLC (1998-2005), Novabase, S.A. (2005-2008 and 2010-2011) and Safira Tecnologias de Informação (2008-2010).

**Management and supervisory roles held in other companies** (last 5 years)

--

**Other external roles**

**2014/15** Chief Technical Officer at TIMWE Consult-Consultoria Serviços de Telecomunicações Móveis Afins, S.A.
**2011/14** Technology Manager at Barclays, PLC
**2008/10** Senior officer of the Financial Services Business Unit of Safira Tecnologias de Informação

## João Mello Franco
CMO, Executive Director

| | |
|---|---|
| DATE OF BIRTH | 3 March 1972, Portugal |
| DATE OF 1ST APPOINTMENT | 14 January 2016 |
| TERM OF OFFICE | 2015/2018 |

**Education**

**1998** MBA, INSEAD (France)
**1995** Degree in Economics, Universidade Católica Portuguesa

**Internal management and supervisory roles**

- Member of the Board of Directors and Executive Committee (CMO) of Banco CTT, S.A.

**Other internal roles**

--

**Professional experience**

For nearly 20 years, he has carried out roles in 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, with a focus 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 also carried out management duties in credit institutions, including as Chief Marketing Officer and Chief Risk Officer at Novobanco, S.A.

**Management and supervisory roles held in other companies** (last 5 years)

**2014** Member of the Board of Directors and Executive Committee of Novobanco, S.A. (Chief Marketing Officer and Chief Risk Officer)
**2008/14** Non-Executive Member of the Board of Directors of BES dos Açores, S.A.

**Other external roles**

**2014/15** General Manager of Retail Banking and Remote Channels at Novobanco, S.A.
**2013/14** Coordinating Manager of Marketing, Innovation and Channels Department at Banco Espírito Santo, S.A.
**2007/12** Coordinating Manager of Marketing for Retail and Business Clients at Banco Espírito Santo, S.A.
**2003/06** Coordinating Manager of the Strategic Marketing at Banco Espírito Santo, S.A.

## Pedro Coimbra
CFO, Executive Director

DATE OF BIRTH 11 June 1974, Portugal
DATE OF 1ST APPOINTMENT 4 August 2016
TERM OF OFFICE 2015/2018

**Education**

**2006** MBA, INSEAD (France)

**1997** Undergraduate Degree in Business and Management from Universidade Católica Portuguesa

**Internal management and supervisory roles**

- Member of the Board of Directors and Executive Committee (CFO) of Banco CTT, S.A.

**Other internal roles**

--

**Professional experience**

For over 19 years he has carried out duties essentially in the banking sector, more specifically in the finance area, as a financial analyst for international research in the banking sector, as well as carrying out managing duties in corporate projects related to mergers and acquisitions, asset assessment and share capital increases, at Millennium BCP. Also in that Group, he carried out duties as a 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. More recently he was Member of Board of Directors and Executive Committee (CFO) at Global Notícias – Media Group, S.A. with duties in the finance and administrative area, asset planning and management at a Group and subsidiary level.

**Management and supervisory roles held in other companies** (last 5 years)

**2014/16** Member of the Board of Directors and Executive Committee (CFO) of Global Notícias – Media Group, S.A.

**2009/11** Member of the Board of Directors and Executive Committee (CFO) at Banco Millennium BCP Angola

**Other external roles**

--

## André Gorjão Costa
Non-Executive Director

DATE OF BIRTH 1 June 1973, Portugal
DATE OF 1ST APPOINTMENT 24 August 2015[1]
TERM OF OFFICE 2015/2018

**Education**

**1996** Degree in Economics, Universidade Nova de Lisboa

**Internal management and supervisory roles**

- Member of Board of Directors of Banco CTT, S.A.

**Other internal roles**

- Member of the Board of Directors and CFO of CTT - Correios de Portugal, S.A.
- Member of Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A. and Tourline Express Mensajería, S.L.U.
- Chairman of the Board of Directors of Payshop (Portugal), S.A.

**Professional experience**

CTT CFO since 2012, this being his main professional occupation since then. In that capacity, he is responsible for Finance & Risk, Accounting & Treasury and Planning & Management Control, while also taking on responsibility for the Financial Services business unit, as well as Regulation & Competition and Investor Relations.

With a 16-year professional career in commercial and investment banking with the Santander Group, he has held several roles within the Group in Portugal and abroad. He joined the Corporate Finance team of Banco Santander de Negócios in 1996 and subsequently led the cross border team in the Area of Mergers and Acquisitions where he was responsible for several acquisitions in Latin American countries. In 2000, he was appointed Manager of Corporate Banking, being responsible for creating the Department of Global Customers in Santander and for relations with the key Portuguese corporate customers of the bank (as a consultant for large listed companies in many high profile transactions in Portugal, Spain and Brazil).

In 2007, he was appointed Executive Manager of Credit Markets at Banco Santander in Portugal, at a time when Santander was Bookrunner in many Eurobond issues, and Mandated Lead Arranger in some of the most important project finance operations in the renewable and infrastructure sectors in Portugal, as well as financially structuring various M&A transactions.

**Management and supervisory roles held in other companies** (last 5 years)

**2012/...** Non-Executive Member of Board of Directors of Eurogiro A/S and Non-Executive Vice-Chairman since 2015

**2006/12** Managing-Partner at Pleximyng, Lda

**Other external roles**

--

[1]Date of appointment after the incorporation of Banco CTT, S.A.

## José Manuel Morais Cabral

Non-Executive Director, Chairman of the Audit Committee

| | |
|---|---|
| DATE OF BIRTH | 25 October 1946, Portugal |
| DATE OF 1ST APPOINTMENT | 24 August 2015 |
| TERM OF OFFICE | 2015/2018 |

**Education**

**1970** Degree in Economics, Instituto Superior de Ciências Económicas e Financeiras

**Internal management and supervisory roles**

- Member of the Board of Directors and Chairman of the Audit Committee of Banco CTT, S.A.
- Member of the Remuneration Committee (within the Board of Directors) of Banco CTT, S.A.

**Other internal roles**

--

**Professional experience**

As of 1970 and for 45 years, he carried out roles as an advisor, financial manager and director in various companies of relevant size, including Banco de Fomento, S.A., Lisnave S.A., CUF, SGPS, S.A., Efacec Capital SGPS, S.A., José de Mello Energia, LDA, EDP-Energias de Portugal, S.A. and ONI SGPS, S.A.. More recently, he has carried out supervisory duties in various companies of relevant size. Member of the Advisory Board of the Bank of Portugal from 2014-2015.

**Management and supervisory roles held in other companies** (last 5 years)

**2015/...** Chairman of the Audit Board of EFACEC Power Solutions, SGPS, S.A.
**2014/...** Chairman of the Audit Board of José de Mello Saúde, S.A.
**2011/...** Chairman of the Audit Board of Generis Farmacêutica, S.A.

**Other external roles**

**2014/...** Member of the Audit Board of Fórum Para a Competitividade – Associação Para o Desenvolvimento Empresarial (Competition Forum - a Business Development Association)
**2014/15** Member of the Advisory Board of the Bank of Portugal
**2014/15** Member of the Audit Board of PT Portugal, SGPS, S.A.
**2011/13** Director of Escala Vila - Franca – Sociedade Gestora do Estabelecimento, S.A.
**2010/13** Director of CUF – Companhia União Fabril, SGPS, S.A.
**2009/13** Director of Escala Braga – Sociedade Gestora do Estabelecimento, S.A.
**2008/13** Director of Efacec Capital, SGPS, S.A.
**2007/13** Director of José de Mello Energia, S.A.
**2005/07** Director of Imopólis, Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.
**2004/06** Director of Efacec Capital, SGPS, S.A.
**2003/05** Director of ONI, SGPS, S.A.
**2003/05** Director of EDP, Energias de Portugal, S.A.
**2002/09** Director of SOPONATA – Sociedade Portuguesa de Navios Tanques, S.A.





## Rui Almeida Fernandes

Non-Executive Director and Member of the Audit Committee

| | |
|---|---|
| DATE OF BIRTH | 10 October 1947, Portugal |
| DATE OF 1ST APPOINTMENT | 24 August 2015 |
| TERM OF OFFICE | 2015/2018 |

**Education**

**1971** Degree in Economics, Instituto Superior de Ciências Económicas e Financeiras

**Internal management and supervisory roles**

- Member of the Board of Directors and Audit Committee of Banco CTT, S.A.

**Other internal roles**

--

**Professional experience**

For 17 years, he has carried out duties of leadership and management in retail banking, in institutions specialized in consumer credit, mortgage loans, leasing and payment methods for retail, namely as Executive Director at Banco Mello from 1991 to 2000 and as General Manager of Banco Comercial Português, S.A. from 2000 to 2006. Over the last 9 years, he has focused on studying and deepening his knowledge of economic theory, in particular as regards monetary and economic policy.

**Management and supervisory roles held in other companies** (last 5 years)

--

**Other external roles**

**2000/06** General Manager of Banco Comercial Português, S.A.
**2001/06** General Manager of Classis (renting finance unit of the Millennium BCP Group in partnership with GE Capital)
**2000/02** Director of Credibanco – Banco de Crédito Pessoal, S.A.
**1989/01** Director at União Internacional Financeira (UFI)
**1991/00** Executive Director at Banco Mello
**1991/00** Chairman of the Board of Directors of Melloleasing
**1991/00** Chairman of the Board of Directors of Mellocrédito
**1991/00** Chairman of the Board of Directors of Heller Factoring
**1991/00** Executive Director of Banco Mello Imobiliário

## Clementina Barroso

Non-Executive Director and Member of the Audit Committee

DATE OF BIRTH 10 May 1958, Portugal
DATE OF 1ST APPOINTMENT 24 August 2015
TERM OF OFFICE 2015/2018

**Education**

**2015** PhD in Applied Company Management, ISCTE - Instituto Universitário de Lisboa
**1984/85** Masters in Corporate Organization and Management (Attendance of Lectures), ISE
**1981** Degree in Corporate Organization and Management, ISCTE- Instituto Universitário de Lisboa

**Internal management and supervisory roles**

- Member of the Board of Directors and Audit Committee of Banco CTT, S.A.
- Member of the Remuneration Committee (within the Board of Directors) of Banco CTT, S.A.

**Other internal roles**

--

**Professional experience**

For 30 years, she has carried out academic roles, namely in management, financial management, marketing, finance and accounting, risk management, human resource management and remuneration practices. Since 1982, she is an Associate Guest Professor at ISCTE- Instituto Universitário de Lisboa. She has also acted as statutory auditor (Statutory Auditor no. 734 since 1990) and has carried out supervisory duties in financial sector companies.

**Management and supervisory roles held in other companies** (last 5 years)

**2016** Non-executive member of Board of Directors and Chairman of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.
**2012/16** Non-executive member of Board of Directors and Member of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.
**2011/16** Non-executive member of Board of Directors and Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.

**Other external roles**

**2016** Member of the Board of IPCG – Instituto Português de Corporate Governance
**2014/...** Chairwoman of the Board of the General Meeting of Science4you, S.A.
**2008/14** Director of the Management Degree at ISCTE Business School
**2001/13** Member of Management at Instituto para o Desenvolvimento da Gestão Empresarial (INDEG/PROJETOS)
**1999/13** General Manager and Member of Management at Instituto para o Desenvolvimento da Gestão Empresarial (INDEG/ISCTE)

Our value

# efficiency

**Banco CTT, S.A.**

**Registered Office** Av. D. João II, no. 11, Edifício Adamastor, Torre A, 11th Floor, 1999-002 Lisbon
**Sole registration and taxpayer number with the Commercial Registry Office** 513 412 417
**Share Capital** €85,000,000.00
**Tel.** +351 210 471 786
**Fax** +351 210 471 777

**bancoctt.pt**

(hereinafter "Bank", "Banco CTT" or "Company") bancoctt.pt