Annual Report 2018

Banco CTT. It makes all the difference.

We are a young bank, but solid and with the confidence of the Portuguese. The path has taught us to believe in simplicity, transparency and the will to innovate. And that makes all the difference. Only then could we arrive, in just 3 years where we are today, proud of a short but successful story, with the certainty that the best is yet to come.

Annual Report 2018

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Banco CTT, S.A.
Registered Office: Avenida D. João II, nº 13, Edifício Báltico, Piso 11º, 1999-001 Lisboa
Sole registration and taxpayer number at the Commercial Registry Office: 513 412 417
Share capital: € 156,400,000.00
Tel.: +351 210 471 786
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bancoctt.pt
(hereinafter "Bank", "Banco CTT" or "Company")

Chairman's Statement

Francisco de Lacerda
Chairman of the Board of Directors

2018 has been yet another important year for Banco CTT. With only 3 years of history and on its way to 500 thousand customers, we continue to take significant steps along the path of affirmation in the national market.

This last year saw various conquests of the Bank, demonstrating the existing capacities to ensure the growth of this project which is yet another fundamental driver of CTT's expansion. The launch of the Bank was a step that I consider to make full sense within the Group's strategy, as the operational indicators have progressively corroborated.

We closed the year of 2018 with clear evidence of the acceptance and growth of the banking franchise, with the number of customers and accounts having increased significantly (more than 50% compared to 2017), from 430 thousand and 348 thousand respectively, and with close to 884 million euros in deposits, corresponding to an increase of 42.8% in relation to 2017. These are very positive signs of the confidence entrusted in us by the Portuguese. Moreover, we confirm that the launch of mortgage loans is going towards the meeting real needs among Portuguese families. By the end of 2018 we had granted a total of 238 million euros of mortgage loans, with this product having been distinguished with the award "Prémio Cinco Estrelas" in early 2019 due to its high level of satisfaction.

But this was also a year of innovation, expansion of the offer and footprint. We initiated our presence in off-balance sheet saving products with the launch of the PPR (Retirement Savings Plan) offer in the last quarter, whose performance has been very positive. We have integrated Payshop in the Bank so as to assure a single vision and strategy in the management of payments activity at CTT. And last, but not least, in July we announced the acquisition of 321 Crédito, a specialised credit company for the purchase of used motor vehicles. This business has high potential synergy with the Bank and its acquisition (albeit subject to regulatory authorisations), expected to be concluded in the first semester of 2019, has accelerated the financial performance and supplemented our offer and skills.

Recurring revenues have grown by 27% and represent, 3 years after the its opening, 3% of the turnover of CTT. The Bank thus contributes positively to the fundamental strategy of diversification of the Group and will be an essential part of CTT's future development.

I thank all the teams that are dedicated to making the Bank grow, that prove being up to this challenge on a daily basis. We are a Bank "just like the others, but different from all the rest". Let us continue to prove this...

14 March 2019

CEO's Statement

Luís Pereira Coutinho
Chairman of the Executive Committee

Three years after opening our doors to the public, 2018 consisted of just the second full year of business activity of Banco CTT, and shall remain marked by the sustainable growth of its business and by important novelties in terms of corporate structure.

In the retail business for individuals, we shall continue focused on confirming, every day, the attractiveness of the Bank's value proposition, maintaining our focus on the retail business for individuals with an accessible, simple but complete offer.

The very significant rate of capture of accounts and resources has led to the Bank having finished the year with close to 348 thousand accounts and 884 million euros of deposits, of which around 75% are in demand deposit accounts. On the credit side, mortgage loans stand out with the first full year of activity having achieved a total portfolio of 238 million at the end of the year. Banco CTT is now a relevant player in the national market, showing a competitive offer and agile processes, based on next generation workflows. This strategy had a recent corollary, with the recognition obtained through the award "Prémio Cinco Estrelas", plus the very positive feedback given by our customers.

2018 was also marked by the launch of the PPR Poupança Banco CTT (Retirement Savings Plan). Designed based on the principles of simplicity and transparency, underlying all business decisions of Banco CTT, the success observed immediately upon the placement of this new product confirms the vocation of the CTT network and network for the attraction of Portuguese family resources.

In terms of the corporate structure, the foremost mention should go to the integration of Payshop, as a subsidiary of Banco CTT, from January 2018. The payment business has a historical tradition in the CTT Group, driving the competitive advantages of network capillarity and proximity among the population. Integrated in Banco CTT, Payshop will now write a new chapter of its history, maintaining the strength of its network, with over 4,500 agents, but repositioning themselves for the new era of "digital payments".

Also at a corporate level, we highlight the conclusion of the agreement for the acquisition of the company 321 Crédito (a transaction still subject to the applicable regulatory authorisations). 321 Crédito is a consumer credit institution, specialised in financing used motor vehicles and operating through a network of more than 1,300 partner points of sale. In addition to being a distinctive asset, with a market share above 10% in a highly profitable market, 321 Crédito can now make the most of Banco CTT's capacity to generate funding. This funding synergy, combined with the agenda of technological renovation already under implementation by the management team of 321 Crédito, gives us a very optimistic outlook for this asset.

Banco CTT's current strategic plan thus argues in favour of entering into a new stage, maintaining the bank's strategic matrix as a retail bank for individuals, but evolving towards an increasingly more digital presence and diversifying income sources, materialising the Banco CTT Group around 3 pillars:

- The retail banking business, which will consolidate its activity in a context of active portfolio and risk management, boosting revenues based on cross-selling, namely through off-balance sheet saving products;
- The specialised credit business, which will enable entering into a segment marked by high returns, with a credit portfolio showing growth, enhancing the economic value of Banco CTT as a retail bank with high capacity to attract resources (funding synergies);
- The payment business, with the incorporation of Payshop, a profitable company and with a unique presence and recall in the national payment market, with a view to its repositioning to take advantage of a sector under major digital transformation.

2018 was a great year for Banco CTT.

I would like to finalise, on behalf of the Executive Committee and in my own name, by recognising the quality of the work and dedication of all who have participated in this project of innovation, from the employees of the central services of Banco CTT to the employees of the Retail Network and remaining CTT world.

Together, we renew, on a daily basis, our commitment of dedication, proximity and transparency to our customers.

14 March 2019

Annual Report 2018

Information on the Banco CTT Group

The difference is in the course

It makes all the difference starting from scratch with the solidity and legacy of a brand with 500 years of history.

BANCO CTT GROUP

History

August 2013	On 5 August 2013, CTT submitted request to Banco de Portugal to grant a concession for creation of the postal bank.
November 2013	On 27 November 2013, Banco de Portugal issued authorisation for the creation of the postal bank.
February 2015	CTT's constitution of CTT Serviços, S.A. for purposes of development of the preparatory work as necessary and/or convenient for the constitution of the Bank.
August 2015	On 24 August 2015, after authorisation of Banco de Portugal, CTT Serviços was transformed into Banco CTT, with share capital of 34 million euros.
November 2015	On 18 November 2015, Banco CTT presented its corporate identity, with Proximity, Simplicity and Transparency being its main attributes. Banco CTT started to operate on 27 November 2015, under the soft opening model available only for employees of CTT and Banco CTT.
March 2016	Banco CTT opened to the public on 18 March, with 52 branches simultaneously, spread over the 18 districts of Portugal and with a strong presence in digital channels.
May 2016	Share capital increase of 26 million euros, to 60 million euros.
July 2016	Banco CTT opened its one hundredth branch on 22 July.
October 2016	Share capital increase of 25 million euros, to 85 million euros.
December 2016	Banco CTT achieves a presence of 202 branches.
January 2017	With 9 months of activity, Banco CTT reaches 100 thousand customers. Banco CTT launched Mortgage Lending, presenting a simple and low-cost solution for those wishing to purchase a house or move, maintaining the values associated to its launch: that of an accessible, comprehensive and useful offer.
April 2017	Banco CTT received authorisation from ASF (Portuguese Insurance and Pension Funds Supervisory Authority) to present insurance products to its customers, enabling the offer of Life Insurance, Housing and Health Multi-Risk Insurance. Share capital increase of 25 million euros, to 125 million euros.
January 2018	Incorporation of Payshop (Portugal), S.A. in the consolidation perimeter of Banco CTT, through a share capital increase in kind of 6.4 million euros, fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., elevating the share capital to 131.4 million euros.
March 2018	Share capital increase of 25 million euros, to 156.4 million euros.
July 2018	Banco CTT agreed to purchase 321 Crédito, a specialised consumer credit institution (motor vehicles used by retail), which has extended Banco CTT's presence among the Portuguese and made the product offer more complete.
October 2018	Introduction of off-balance sheet saving products with the launch of the offer of PPR (Retirement Savings Plans).

Corporate Governance

Banco CTT has adopted the Anglo-Saxon governance model, with the members of its corporate bodies in office on the present date having been appointed at the General Meeting for the term of office corresponding to the four years 2015-2018.

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

There are also two other committees: a Selection Committee, elected by the General Meeting, with powers over the selection and assessment of the adequacy of the members of the corporate bodies and holders of key positions, pursuant to the policy on selection and assessment of the adequacy assessment policy of the members of the corporate bodies and holders of key positions (available on the Bank's website at www.bancoctt.pt) and a Salary Committee, elected by the General Meeting with powers to establish the remuneration of the Directors.

In turn, the Board of Directors has delegated daily management powers to the Bank's Executive Committee, pursuant to article 407 of the Portuguese Companies Code.

This governance structure also includes a Remuneration Committee created within the Board of Directors, in line with the provisions in Banco de Portugal Notice 10/2011.

Therefore, the Bank's Board of Directors, in office as at 31 December 2018, was composed of 11 Directors, with 7 Non-Executive Directors (including the Chairman of The Board of Directors, who is also Chairman of the Salary Committee and 3 independent Directors) and 4 Executive Directors (including the Chairman of the Executive Committee), showing the following management organisation:

Board of Directors

Francisco de Lacerda
André Gorjão Costa [1]
José Manuel Morais Cabral
Rui Almeida Fernandes
Clementina Barroso
António Pedro Silva
António Corrêa d'Oliveira
Guy Pacheco [2]

Executive Committee

CEO
Luís Pereira Coutinho

CFO
Pedro Coimbra

CCO
João Mello Franco

COO
Luís Correia Amado

[1] André Manuel Pereira Gorjão de Andrade Costa tendered his resignation as Non-Executive Member of the Board of Directors on 19 December 2017, taking effect on 31 January 2018.
[2] Appointed Non-Executive Member of the Board of Directors by deliberation of the General Meeting of 15 June 2018.

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

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

Pursuant to article 17 of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF"), Banco CTT has solid mechanisms for matters of corporate governance that are complete and proportional to the nature, level and complexity of the institution, which include:

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

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

- Assure the Bank's operational capacity based on adequately dimensioned human, material and technical resources;
- Assure the provision of bank services to customers based on multi-employer staff in CTT's Retail Network, after completing a rigorous training programme and with the follow-up and support of the Bank's employees with previous banking experience;
- Articulate non-core functions (especially in terms of shared services) with CTT's structure; and
- Create a "control environment" that is appropriate to the particularities of Banco CTT, supported by the institution's Code of Conduct, by the internal control and risk management policies and procedures, and by an internal organisation based on the model of three lines of defence.

Corporate Bodies

Board of the General Meeting

Chairman:
Maria da Graça Farinha de Carvalho e Sousa Góis

Secretary:
Magda Alexandra Jesus Viçoso

Board of Directors [1 & 2]

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
Pedro Rui Fontela Coimbra
José Manuel Gonçalves de Morais Cabral
Rui Afonso Galvão Mexia de Almeida Fernandes
Clementina Maria Dâmaso de Jesus Silva Barroso
António Pedro Ferreira Vaz da Silva
António Emídio Pessoa Corrêa d'Oliveira
Guy Patrick Guimarães de Goyri Pacheco [3]

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 (CCO)
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 (ROC):
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 on the present date and as at 31 December 2018 are indicated below.
[2] André Manuel Pereira Gorjão de Andrade Costa resigned from his position of Non-Executive Member of the Board of Directors of Banco CTT on 19 December 2017, taking effect on 31 January 2018.
[3] Appointed Non-Executive Member of the Board of Directors of Banco CTT by deliberation of the General Meeting of 15 June 2018.

Executive Committee

Luís Pereira Coutinho
CEO

João Mello Franco
CCO

Pedro Coimbra
CFO

Luís Correia Amado
COO

Brief Summary of the Year and Main Highlights

The year of 2018 started with the integration of Payshop (Portugal), S.A., through a capital increase in kind carried out by CTT, in line with that approved previously by the Boards of Directors of CTT and Banco CTT.

During 2018 the Bank showed strong consistency and dynamism in the capture of customer resources, which reached 884 million euros at the end of the year, representing growth of 43% in relation to December 2017.

In 2018, Banco CTT reached a volume of production of mortgage loans of 179 million euros, representing an estimated market share of 1.8% with the consolidated assets having surpassed 1,000 million euros in December 2018.

The enlargement of Banco CTT's offer continued in 2018, in particular in the saving area, through the launch of Banco CTT's PPR Saving product.

We also highlight, in July 2018, the agreement to purchase 321 Crédito, a specialised consumer credit institution (motor vehicles used by retail), which shall extend Banco CTT's presence among the Portuguese and make the product offer more complete. The accomplishment of the transaction awaits a decision of non-objection to the acquisition of a qualifying stake by Banco de Portugal / European Central Bank.

January 2018
Incorporation of Payshop (Portugal), S.A. in the consolidation perimeter of Banco CTT, through a share capital increase in kind of 6.4 million euros, fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., elevating the share capital to 131.4 million euros.

March 2018
Share capital increase of 25 million euros, fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., increasing the share capital to 156.4 million euros.

Deco Proteste distinguished the Banco CTT Account as the Right Choice, due to having the best quality to price relationship, among the demand accounts analysed.

April 2018
Banco CTT was elected the Number 1 Bank for customer satisfaction in Portugal, according to the 2018 results of the National Index of Customer Satisfaction (ECSI Portugal).

May 2018
Opening of the Banco CTT Registered Office Branch in Porto, the 212th branch open to the public.

Launch of the new Mortgage Lending campaign. Following the same motto of "Mortgage Lending with no Ouches or Uh-Ohs", the concept reflects competitive and uncomplicated loans: a low spread, transparent in conditions of access, an agile process in the pre-approval decision and cost-free for those transferring the credit to Banco CTT.

June 2018
Banco CTT surpasses 350 thousand customers.

July 2018
Banco CTT agreed to purchase 321 Crédito, a specialised consumer credit institution (motor vehicles used by retail), which has extended Banco CTT's presence among the Portuguese and made the product offer more complete.

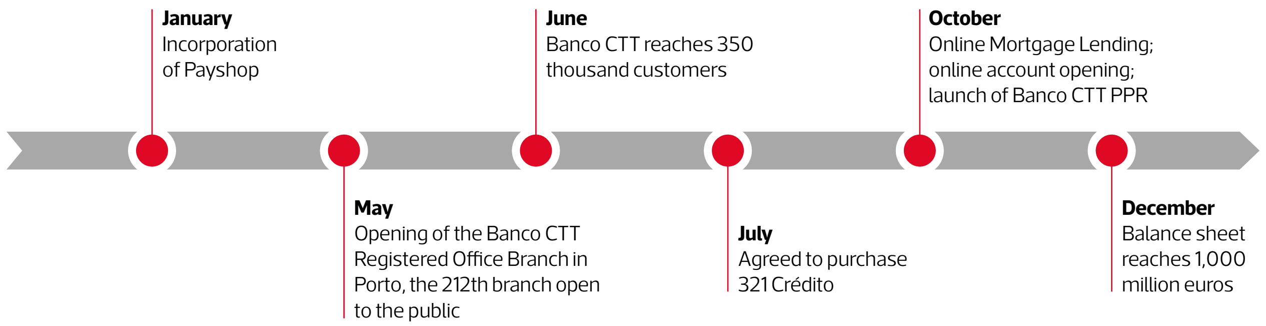
October 2018
Launch of the Online Mortgage Loan application, a unique digital solution that allows customers to submit the necessary information and documentation for the Bank to analyse the mortgage loan application without having to go to a branch.

Launch of online account opening for new customers (start of the process of opening a Banco CTT Account).

Launch of the Banco CTT PPR product (Retirement Savings Plan), which has widened the offer of savings products of Banco CTT.

The Board of Directors of the Competition Authority communicated the decision of non-objection to the operation to purchase 321 Crédito.

December 2018
The consolidated balance sheet of the Banco CTT Group reaches 1,000 million euros.



VISION, MISSION AND VALUES OF THE BANK

Vision

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

Its operating strategy is driven by the principles of solidity, transparency, trust, proximity and simplicity.

Mission

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

Values to uphold

- Customer satisfaction
- Excellence of service
- Innovation in solutions
- Trust and accountability in relation to partners
- Employee dedication and effort

KEY FIGURES

Results

For the first time, the results of 2018 incorporate Payshop (Portugal), S.A., which is now included in consolidation perimeter of Banco CTT following a share capital increase in kind occurred in January 2018. Therefore, the negative consolidated net income of 17,487 thousand euros (2017: -21,302 thousand euros) includes the contribution of 3,733 thousand euros relative to Payshop.

Net interest income stood at 7,872 thousand euros (2017: 3,390 thousand euros), representing an increase of 4,482 thousand euros in relation to 2017 (growth of 132%), of which 2,837 thousand euros are interest from investment in securities and 1,389 thousand euros are interest from mortgage loans. Despite the growth of the portfolio of deposits (Δ 17/18: +264,720 thousand euros), the interest from customer funds fell slightly in comparison to 2017, positively influencing net interest income.

Net commissions reached 11,082 thousand euros (2017: 3,047 thousand euros) representing an increase of 8,036 thousand euros, which is essentially explained by the commissions received by the payment acceptance operations in the sphere of Payshop.

Operating income reached 18,542 thousand euros (2017: 6,440 thousand euros), representing an increase of 12,102 thousand euros which is due to i) the increase of banking activity (+3,914 thousand euros), and ii) the incorporation of Payshop in the consolidation perimeter (+8,188 thousand euros).

Operating costs reached 40,279 thousand euros (2017: 33,320 thousand euros) representing an increase of 6,959 thousand euros. This increase was basically the result of:

- the inclusion of inclusion of Payshop in the consolidation perimeter: (Δ 17/18: +3,209 thousand euros);
- increase of general administrative expenses (Δ 17/18: +2,562 thousand euros) through the increased variable costs due to the larger banking operation;

- increased amortisation and depreciation (Δ 17/18: +685 thousand euros);
- increased staff costs (Δ 17/18: +1,869 thousand euros) which reflects the strengthening of team capacity-building.

Special note should be made of the Group's increased efficiency levels, with the cost-to-income ratio having improved from 517% in 2017 to 217% in 2018.

Net impairments amounted to 362 thousand euros in 2018 (2017: 117 thousand euros). The increase of 245 thousand euros essentially derives from the increase of the loan and securities portfolios and, in the opposite direction, the reduction of impairments derived from the improved rating of the Portuguese Republic in 2018.

Balance Sheet

As at 31 December 2018, the Bank's assets amounted to 1,001,774 thousand euros (2017: 720,792 thousand euros), with 89,504 thousand euros funded by equity (2017: 76,389 thousand euros) and 912,270 thousand euros by borrowed capital (2017: 644,403 thousand euros).

During 2018 there were 2 share capital increases of the aggregate amount of 31.4 million euros fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A. One of these share capital increases was carried out in kind through the transfer of 100% of Payshop (Portugal), S.A., which consequently presents its financial statements on a consolidated basis as at 31 December 2018.

Deposits from customers reached 883,950 thousand euros as at 31 December 2018 (2017: 619,230 thousand euros) representing an increase of 264,720 thousand euros (Δ: +43%) year-on-year, reflecting the ability and dynamism of attracting funds of the Banco CTT Retail Network. It should be noted in particular that the increased funds attracted are fundamentally non-remunerated demand deposits, demonstrating the confidence entrusted in the Bank by its customers, and that it is increasingly the customers' first bank.

Loans and advances to customers (gross) stood at 248,508 thousand euros as at 31 December 2018 (2017: 79,465 thousand euros), representing an increase of 169,043 thousand euros, essentially explained by the increase of the gross mortgage lending portfolio, which reached 238,667 thousand euros as at 31 December 2018 (2017: 66,145 thousand euros).

The portfolio of investment in securities had a net value of 454,102 thousand euros as at 31 December 2018 (2017: 267,301 thousand euros), of which around 90% are sovereign debt securities of the Eurozone.

The loan-to-deposit ratio stood at 28% in 2018 (2017: 13%) which reflects the continuous increase of the capacity to create loans, despite the competitive environment observed in 2018 in the mortgage loan market.

Indicators

(amounts in thousand euros)

		2018	2017	Δ Abs.	Δ %
Results	Net Interest Income	7,872	3,390	4,482	132%
	Operating Income	18,542	6,440	12,102	188%
	Operating Expenses	(40,279)	(33,320)	(6,959)	21%
	Impairment and Provisions	(342)	(194)	(148)	43%
	Taxes	4,592	5,772	(1,180)	-20%
	Net Income	(17,487)	(21,302)	3,815	-18%
Balance Sheet	Total Assets	1,001,774	720,792	280,982	39%
	Deposits and Investments at Credit Institutions	228,478	278,887	(50,409)	-18%
	Investment in Securities	454,102	267,301	186,801	70%
	Loans and advances to customers	248,049	79,347	168,702	213%
	Intangible Assets	24,981	21,000	3,981	19%
	Total Liabilities	912,270	644,403	267,867	42%
	Deposits from customers	883,950	619,230	264,720	43%
	Total Equity	89,504	76,389	13,115	17%
Business of Retail for Individuals	No. of Branches opened	212	208	4	2%
	No. of Accounts	347,941	226,001	121,940	54%
	Mortgage Loan Production	178,788	66,245	112,543	170%
	Mortgage Loan Stock (gross)	238,667	66,145	172,522	261%
	Personal Credit Production	41,640	36,220	5,420	15%
Business of Payments	No. of Payshop agents	4,600	-	4,600	...
	No. of payments processed - thousand	29,572	-	29,572	...
Profitability and Efficiency	Transformation Ratio	28%	13%	15%	119%
	Cost-to-Income	217%	517%	-300%	-58%
	Return on Assets (ROA)	-2%	-3%	1%	-41%
	Return on Equity (ROE)	-20%	-28%	8%	-30%
Funding and Liquidity	Own Funds	64,116	55,384	8,732	16%
	Risk-Weighted Assets (RWA)	274,706	208,988	65,718	31%
	Common Equity Tier 1 (fully implemented)	23.34%	26.50%	-3.16%	-12%
	Liquidity Coverage Ratio (LCR)	3,102%	2,925%	177%	6%

ECONOMIC FRAMEWORK

International Economy

For 2018 the International Monetary Fund (IMF) estimates a stabilisation of global growth, maintaining the 3.7%[1] presented in 2017. This stabilisation is justified by the slowdown of activity in the second half of 2018 in some of the advanced economies (2.4%), as well as lower forecast for some of the economies of emerging markets and developing economies (4.7%). Fear of an economic slowdown emerged towards the end of 2018, which harmed economic confidence, with less favourable economic conditions, geopolitical tensions and high costs of oil imports having explained this stabilisation. A variation that was lower than expected in the first semester of 2018 contributed to a deceleration of growth for the Eurozone and United Kingdom, to 2.0%[2] and 1.4% respectively.

At the end of 2018, gross domestic product (GDP) in the Euro area was affected by unexpected events in automobile production. Real growth came to 1.9%[3], compared to its initial forecast of 2.3%[4]. As a result, real GDP growth is expected to remain at these values, 1.7%[1] for 2019, in contrast to the robust growth at the start of 2018.

The USA continues to show robust growth due to the fiscal expansion plan for the private sector. In emerging Asia growth continued to be solid due to India's domestic demand, even though China recorded a more moderate level, partly justified by the stronger real estate regulation.

According to the macroeconomic forecasts of December 2018, prepared by Eurosystem specialists, the general government deficit for the Euro area should fall from 1.0% of GDP in 2017 to 0.6% of GDP in 2021, with a temporary increase in 2019. The overall improvement in budgetary prospects is mainly driven by lower interest rate payments and favourable cyclical developments. This is partially compensated by a primary balance adjusted for the lower cycle as of 2019.

The year of 2018 could be characterised as the turning point year, swinging away from expansionary monetary policy and towards contraction, from Quantitative Easing to Quantitative Tightening, with the United States, United Kingdom, Canada, Norway and Sweden increasing their reference rates. Even so, the advanced economies continue to benefit from relatively accommodative monetary policies and favourable financial conditions. A considerable pro-cyclical fiscal stimulus in the United States, including tax relief and increased expenditure, including tax relief and increased expenditure, will also boost world economic growth, in a context of a more widespread shift towards more expansionary fiscal policies in advanced economies.

The Council of the European Central Bank (ECB) decided to terminate the programme of purchasing liquid assets launched in recent years. Although the available information is less favourable than expected, reflecting a weaker external demand, in addition to factors specific to each country and sector, the underlying strength of domestic demand continues to sustain the expansion of the Eurozone and inflationary pressures at gradual growth. This factor supports the confidence expressed by the ECB's Council that the sustained convergence of inflation towards its target will continue and be maintained even after the end of the liquid asset acquisitions. At the same time, the geopolitical uncertainties, the threat of protectionism, the vulnerabilities in the emerging markets and the volatilities in the financial markets maintain their prominence. Consequently, a significant stimulus is also necessary in terms of monetary policy to support the intensification of domestic pressures on prices and the evolution of global inflation in the medium term. The indications of the ECB's Council on the future orientation of ECB reference rates, strengthened by the reinvestment of the considerable stock of acquired assets, continue to provide for the accommodative monetary policy required for the sustained convergence of inflation towards its target.

Short term interest rates in the Eurozone have stabilised at historically low levels, with the Euribor at 3 months standing, on average, at -0.32%[5] in 2018 (-0.33% in 2017).

After growth above 20% during 2017, the continued and very significant growth of production in the USA, the highest level of stocks and the downward revision of prospects of world economic growth have been reflected in the decline in the price of oil by more than 20% during October, to a level close to that observed at the beginning of the year (around 67 USD/barrel).

According to the European Central Bank, the economic indicators point to growth of moderate growth in the next few years, maintaining the expectations of 2017. World trade showed a deceleration at the end of 2018, with the contribution of trade-related tensions between the USA and China and political tensions in the USA. Although the financial market appears favourable in general, the slowdown of growth has led to a greater volatility of the stock market. At the same time, the financial conditions continue accommodative in the advanced economies, but remain restrictive in some emerging markets. Looking ahead, economic activity is expected to slow down in 2019, and remain stable subsequently. It is also expected that global inflationary pressures should rise gradually as the available productive capacity diminishes.

[1] IMF – World Economic Outlook 2018
[2] IMF – World Economic Outlook 2018
[3] Macroeconomic forecasts for the Euro area prepared by Eurosystem specialists – December 2018.
[4] Macroeconomic forecasts for the Euro area prepared by Eurosystem specialists – December 2018.
[5] ECB Economic Bulletin, Issue 8/2018

National Economy

The Portuguese economy should remain on its trend of economic growth, albeit with some slowing down, thus entering into a stage of maturation of the economic cycle. GDP increased by 2.1%[1] in 2018, compared to 2.8% in 2017, in line with the projections for the Eurozone. Banco de Portugal considers that the external circumstances of the Portuguese economy continue to be favourable, although there is a slowdown in exports to 3.6%. On a broader horizon, the external context is at the origin of the main risk factors and uncertainty surrounding the future outlook, contributing to risks exerting downward pressure on activity.

Private consumption grew by 2.3%[2], with a deceleration being projected along the timeline down to 1.6% in 2021. After the very sharp increase of gross fixed capital formation (GFCF) of 9.2% in 2017, there should be a slowdown of this component in 2018 to show an annual net change of 3.9%.

The restrictions to investment caused by the financial conditions have gradually fallen, although they still remain higher in Portugal than on average in Europe, continuing to favour investment in housing, but expected to be progressively more mitigated over the coming years.

The joint balance of the current and capital accounts should stand on average at 1.3% of GDP in 2018, stabilising relatively when compared to the level of 2017. However, a change of composition is expected, as the reduction of the balance of gods and services will be offset by the evolution of the balances of primary income and capital.

After very dynamic growth in 2017, employment should return on average over the next few years to a more contained evolution. Following figures of 2.2% for 2018, projections point to annual average growth of 0.8% in the period 2019-21. Growth of employment essentially reflects the evolution in the private sector, with a gradual slowdown of the growth of public sector employment being forecast.

Inflation, measured by the Harmonised Index of Consumer Prices (HICP), should remain at relatively contained levels below those projected for the Eurozone, on average standing around 1.5%. Inflation excluding energy products will show a slightly upward trend, in a context of growing pressure exerted by wage costs.

The Portuguese economy will still continue to face specific constraints to growth in h medium and long-term. Despite the progress achieved over the last few years and in terms of market functioning and debt reduction of the different sectors of the economy, these factors should continue to condition the evolution of investment and productivity.

In 2018 the rating of Portuguese Public Debt reached investment grade in all risk rating agencies, with an upgrade to Baa3 and stable outlook given by the agency Moody's in October.

Portugal is currently subject to the preventive aspect of the Stability and Growth Agreement and to the transitional rule concerning debt. In its Stability Programme 2018, Portugal projects reaching a nominal deficit of 0.7%[3] of GDP in 2018 and 0.2% of GDP in 2019, with progressive improvements culminating in a surplus of 1.4% of GDP by 2021. These projections do not incorporate the impact of measure to support the banking system, which could lead to an increase of the deficit from 2019 onwards.

Financial Markets

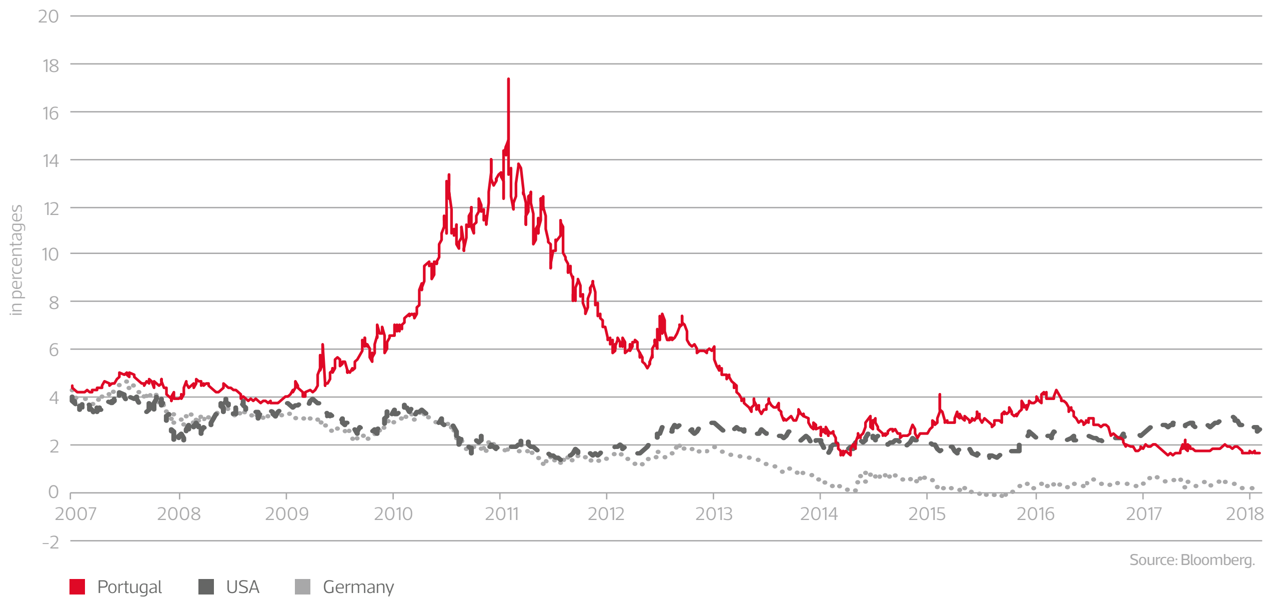
Financial markets experienced an intense 2018, with stock market corrections, a gradual increase in companies' debt risk premiums, ups and downs in sovereign risk premiums in the periphery of the Eurozone, as well as strong volatility in the price of oil. All of this took place within the context of increasing geopolitical and commercial tensions and the withdrawal of monetary policy incentives.

Financial conditions are expected to be a little less favourable, along with a slowdown in employment growth and a weakening of business investment, due to a context of slower global growth, financing restrictions and the termination of tax incentives in the United States.

The European Central Bank (ECB) estimates that short-term interest rates, based on the 3-month EURIBOR, are expected to remain at around -0.3% in 2018 and 2019, 0.0% in 2020 and 0.3% in 2021. Market expectations regarding nominal yields on 10-year public debt bonds of the Eurozone as a whole point to an average level of 1.1% in 2018, 1.4% in 2019, 1.7% in 2020 and 1.9% in 2021.

[1] Banco de Portugal – Economic Bulletin, December 2018
[2] Banco de Portugal – Economic Bulletin, December 2018
[3] European Commission – Recommendation of the Council, relative to the National Reform Programme 2018 of Portugal

TB yield evolution (10 years)



The prospects of normalisation of monetary policy by the ECB, with the end of the amount of net asset purchases as of the end of 2018 and the possibility of higher reference interest rates as of mid-2019 point to a very gradual increase in market interest rates.

Interest rates remained unchanged in 2018, with the interest rate in the deposit facility at -0.40%, the rate for the main refinancing operations at 0% and the marginal lending rate at 0.25%.

With regards to raw materials, the price of the barrel of Brent crude oil is expected to fall from USD 71.8[1] in 2018 to USD 67.5 in 2019 and to USD 65.9 in 2021. The average foreign exchange rate is expected to reach USD 1.18 per euro in 2018 and USD 1.14 per euro between 2019 and 2021.

Underlying inflation remains weak in general, but domestic pressures on costs continue to intensify and expand in a context of high capacity utilisation levels and growing restrictions in labour markets, which is driving wage growth.

	December			
	2018	2019	2020	2021
3-month EURIBOR (as a percentage per year)	(0.3)	(0.3)	-	0.3
Yields for ten-year public debt bonds (as a percentage per year)	1.1	1.4	1.7	1.9
Oil Price (USD/barrel)	71.8	67.5	66.8	65.9
Prices of non-energy raw materials, in United States dollars (annual change, as a percentage)	3.0	(1.4)	4.4	4.3
USD/EUR Exchange rate	1.18	1.14	1.14	1.14
Actual nominal exchange rate for the Euro (TCE 38) (annual change, as a percentage)	5.2	-	-	-

Source: ECB, Macroeconomic forecasts for the Euro area prepared by Eurosystem specialists – December 2018.

[1] Macroeconomic forecasts for the Euro area prepared by Eurosystem specialists – December 2018.

Looking ahead, global economic activity is expected to slow in 2019 and to remain stable in the following two years, as policy support measures gradually phase out and China enters a trajectory of slower growth. Global inflationary pressures are expected to increase gradually as available productive capacity diminishes. The risks to global economic activity are skewed to the downside.

The strong economic growth seen in the USA, the appreciation of the dollar and the increase in interest rates by the FED have also contributed to the deterioration of financing conditions in some emerging market economies, in particularly those with greater macroeconomic imbalances and high levels of external funding in dollars (e.g. Turkey, Argentina and South Africa).

In the Euro area, particularly in Italy, with the launch of an excessive deficit procedure by the European Commission, there may be an additional re-evaluation of the risk premium, leading to the reappearance of risks of re-denomination and of financial and economic fragmentation in the Euro area. The Brexit theme is still on the table, the possibility of The United Kingdom leaving the European Union without a deal (Hard Brexit) constitutes another factor which may trigger turbulence in the international financial markets and a reassessment of the global risk premium.

Portuguese Banking System

The year of 2018 began with a recovery of the profitability of the banking system, reflecting the circumstances of lower credit impairment losses and increased operational efficiency. Non-performing loans (NPLs) continued to decrease and, in contrast, impairment coverage ratios continued to rise. It is important to point out that liquidity remains at comfortable levels. Regarding the total own funds ratio, a reinforcement justified by the issuance of debt instruments eligible for own funds was noted.

Although there is a favourable macroeconomic and financial environment, alongside rising real estate asset values, the Portuguese banking system continues, in the short to medium term, to be affected by the low interest rates in the Euro area, the high stock of non-performing loans, the digitalisation challenges in financial services, the growing competition from Fintech, the need to restructure its operating costs and to comply with minimum requirement for own funds and eligible liabilities (MREL).

Under a scenario of improved profitability, the Portuguese banking system faces challenges that require prudent policies on the appropriation of net income, namely regarding distribution of dividends. Although efforts to reduce operating costs continue to be crucial, they are unlikely to undermine the control of risks inherent to banking activity.

IFRS 9 was implemented on 1 January 2018, which led to the adoption of an expected loss model, replacing the incurred losses model. This transition had an impact on recognised impairments and on banks' own funds, resulting in the faster recognition of impairment losses, in line with the credit risk of financial assets.

In April, the European Central Bank implemented an addendum on the provisioning of new NPLs, an important incentive for the timely recognition of impairment losses in credit contracts that enter into default. As a result, the main institutions of the Portuguese banking system are going through a restructuring phase, focusing on the reduction of their non-performing assets, with the objective of increasing their future profitability and their resilience to adversities, but also of improving the conditions to perform their financial intermediation function.

The recovery of economic activity in Portugal, due to the decline in credit default by borrowers and the appreciation of the associated collateral, has fuelled a substantial increase of the return on assets (ROA), in the first half of 2018, to 0.7% (0.3% year-on-year). Return on equity (ROE) also registered a significant increase to 7.7% in the first half of 2018 (3.9% in the same period of 2017). However, although there is a positive relationship between economic growth and banks' profitability due to the procyclicality of the recording of impairments, an economic slowdown could lead to stagnation or an inversion of this context. Given that the stock of non-performing loans is still very high, the recognition of impairment losses is expected to continue over the next few years, in line with the plans reported to the supervisory authorities. This positive environment in banking systems has an influence on the health of the financial system, since retained earnings permits the strengthening of institutions' solvency.

The plans to improve the quality of assets in the Portuguese banking system have contributed to an improvement of the level of average quality of the credit portfolio, whether through asset sales or write-offs or by a change of status to performing. However, the level of non-performing loans in Portugal continues to be significantly below the European context, with financial institutions being forced to promote the retention of earnings in order to increase capital levels and permit the recognition of losses in assets with lower probability of recovery, in line with non-productive asset reduction plans. The impact of this recognition policy has already been felt in 2018, with the reduction of 4.6 billion euros in the stock of non-performing loans which currently stands at 32.5 billion euros (of which 63% are overdue assets). The non-performing loan ratio came to 11.7% in June, when at the end of 2017 it stood at 13.3%.

With regards to loans to individuals, the non-performing loan ratios stand at 12.6% for consumer credit and 4.9% for mortgage loans. The stock of household non-performing loans in June 2018 stood at 1.1 billion euros less than in December 2017, mainly due to the improvement of the quality of the credit granted.

The customer loan portfolio fell and the increase in customer deposits contributed to the continued decrease of the transformation ratio. Liabilities of the banking system thus increased 1.5% relative to December 2017, reflecting an increase in customer deposits and deposits of other credit institutions, as well as a decrease in financing from central banks and liabilities represented by securities.

Solvency levels showed sustained growth with the own funds ratio, Common Equity Tier 1 (CET 1), of the Portuguese banking sector standing at 13.4%[1]. This growth was mainly due to the reduction of CET1, since risk-weighted assets fell marginally. Developments in own funds were influenced by the application of IFRS 9, which led to the reclassification between categories of financial assets and the increase in impairments on these assets, as a result of the increase in expected loss.

The own funds ratio stood at 15.2% in June 2018, an increase of 0.1 pp relative to 2017. This evolution is partly explained by the increased total own funds. However, the Portuguese banking system has one of the lowest values among Euro area countries.

Regulatory Framework

The rate and scope of the regulatory changes continued at a fast pace, with ongoing work underway of adaptation and implementation of regulatory initiatives that emerged in response to the financial crisis, despite the fact that ten years have elapsed since its onset. At the same time, there are still some uncertainties about the future regulatory context, especially in areas such as cyber security, Brexit and Open Banking.

The year of 2018 was marked by the implementation of the General Data Protection Regulation (GDPR) of the European Union (EU), representing one of the most important legislative amendments on data protection of the last 20 years. With this Regulation, the authorities responsible for supervision now have reinforced powers to apply sanctions, which can reach 4% of annual revenue or 20 million euros. The implementation of this Regulation implies significant changes in the way that organisations manage data and ensure the privacy and access of the data subjects to these data.

Ten years on from the financial crisis, banks are now better capitalised and have a higher level of liquidity. However, their agenda is going to be increasingly full with the implementation of organisational reforms, focusing on the challenges of new technologies, emerging markets and operational risks.

The year of 2019 will be when many of the regulatory implementations of 2018 take effect and in which the regulatory entities will want to check that everything was implemented as planned. The Markets in Financial Instruments Directive (MIFID II PSD), Payment Services Directive 2 (PSD2) and the fight against money laundering and terrorist financing are some of the most striking examples.

MiFID II addresses many of the aspects of the original directive in a more in-depth fashion, aimed at increasing market transparency, regulating new trading platforms, improving the quality of the execution of transactions (best execution) and making investment and trading costs more transparent. The purpose of the review of this directive was to correct and improve many of the aspects of the original directive, making the European capital market more efficient, resilient and harmonised. The directive was accompanied by a regulation, the Markets in Financial Instruments Regulation (MiFIR), specifically dedicated to requirements on reporting of operations which now includes, in addition to shares, other types of assets such as, for example, structured products. MiFID II and MiFIR constitute an enormous challenge not only for banks, but also for insurers and asset management entities, and also regulate new forms of trading like high-frequency trading.

The revised directive on payment services (PSD2) updates and supplements the rules established by PSD1, seeking to make the European payments market more integrated and efficient, making payments more secure, increasing the competition between payment service providers and promoting the adoption of innovative payment services. This directive was transposed to the Portuguese legal system by Decree-Law 91/2018, of 12 November, which approved the Legal System for Payment Services and Electronic Currency currently in force. In this context, two new services are now regulated: the service of initiation of payments and the service of information about accounts. The first has enabled consumers to initiate payment operations online (for example, when making a purchase on the website of a trader), without requiring direct interaction with the bank where the consumer has an open, domiciled account. The second enables consumers to gather together in a single application, or website, information about their accounts held in one or more banks, provided that they have online access to these accounts. In order to make these new services feasible, pursuant to the Regulatory Technical Standards (RTS), by 14 March 2019 all financial institutions should have Application Programming Interfaces (APIs) available for Third Party Providers (TPPs) to initiate tests, and by 14 September 2019 the systems should be operational. The new requirements of strong authentication of the customer also enter into force on that date, requiring, for most payment operations (whether by card or online, for example), the use of two or more elements of authentication that are independent of one another and respect the criteria of knowledge (something only the customer knows, like a password); possession (something only the customer has, like a mobile phone); and inherence (something inherent to the customer and which identifies her/him, generally biometric data like a finger print).

With respect to the fight against money laundering and terrorist financing, the transposition of the fourth directive (Anti-Money Laundering Directive IV or AMLD IV) took place on 18 August 2017 with the publication of Law 83/2017, with most provisions taking effect throughout 2018. The financial sector held its breath while awaiting the sector regulation, which was only published on 26 September 2018 (Banco de Portugal Notice 2 /2018), implying that many of the impacts derived from adapting to the new regulations will continue to be experienced during 2019. This regulatory package should have a considerable impact on the policies, procedures and controls of the entities bound to it, as it recommends a holistic approach to the risk of money laundering and terrorist financing. In the meantime, on 14 May 2018, the fifth directive was approved on anti-money laundering and terrorist financing, which was part of an action plan launched following a wave of attempted terrorism in Europe in 2016. AMLD V has enlarged the access to information about effective beneficiaries, increasing transparency with respect to the effective ownership of companies and trust funds, regulates the risks associated to prepaid cards and virtual currencies, and has increased the control over transactions that involve high risk third countries.

Further developments are expected from the Capital Requirements Directive V (CRD V) in 2019, involving the clarification of the implementation of prudential initiatives. However, this is not expected to be proposed before 2020. The new ECB guidelines relative to internal capital and liquidity adequacy assessment processes (ICAAPs and ILAAPs) will underline the need to incorporate and integrate the two processes in the wider context of bank's risk management, encouraging reviews of the governance structure of financial entities.

In spite of the progress made by the European Commission in 2018 regarding the introduction, in the legislative process, of measures on minimum provisioning and requirements for new non-performing loans (NPLs), these are only expected to be published following the 2019 elections for the European Parliament. However, banks will have to adjust to the ECB's new NPL provisioning model, defined in terms of Pillar 2, keeping European banks focused on programmes to reduce non-performing loans.

Note should also be made of the entry into force of Decree-Law 74-A/2017, of 23 June, on 1 January 2018, which partially transposes into the Portuguese legal system the content of Directive 2014/17/EU, of the European Parliament and Council, of 4 February 2014, relative to mortgage loans for real estate properties intended for residential purposes. This directive seeks to ensure a coherent framework in the area of loans, and contains provisions of mandatory harmonisation namely with respect to the provision of pre-contractual information through the standard format of the European Standardised Information Sheet and the calculation of the annual percentage rate of charge, which should boost the development of a more transparent, efficient and competitive credit market.

During 2019, some national regulatory entities in the Euro area are expected to take their first steps towards protection against the threat of cyber attacks through the use of a new structure of the European Central Bank (Threat Intelligence-based Ethical Red Teaming - TIBER-EU). However, since it is optional for national authorities, the scope is still unclear and financial institutions should remain attentive to new developments.

[1] Financial Stability Report – December 2018.

BUSINESS MODEL

RETAIL BANKING FOR INDIVIDUALS

Offer

Banco CTT is a natural evolution of the business of financial services provided by CTT, supported by the trust in the brand and its history and experience covering more than 500 years of serving the population. The day of 18 March 2016 marked the beginning of Banco CTT's presence and expansion with the simultaneous opening of 52 branches spread over the entire country and covering all the district capitals and islands.

Providing a simple and competitive offer emphasising the zero euros of the account maintenance fee, zero euros of the annuity of a debit card and credit card, and zero euros in national transfers in digital channels, Banco CTT has consistently increased its customer base. While the value proposition of Banco CTT has proved equally appealing to all age cohorts, this is particularly true of the population that is younger and of active age, who together represent 86% of its customer base.

Responding to customer needs, Banco CTT has provided, since the 3rd quarter of 2016 and in partnership with Cetelem, a Personal Credit offer based on flexible, transparent and trustworthy solutions.

Banco CTT launched Mortgage Loans in early 2017, with a competitive proposal based on simplicity and transparency, reflected in a low spread without subscription of extra products or hidden costs for those seeking a loan to buy a house or move from one house to another. "Casa BCTT" was developed in this context, the first app entirely dedicated to the Mortgage Lending process in Portugal, which enables customers to follow all the stages of their mortgage loan process without needing to leave home or visit the branch regularly.

Supplementing its Mortgage Lending, Banco CTT registered as an insurance mediator and started, in partnership with Mapfre, the distribution of Housing Multi-risk Insurance and Housing Life Insurance. Seeking to provide products that meet the customers' needs, Banco CTT also distributes Multicare health insurance, in partnership with the insurance company Fidelidade, allowing its customers to access one of the largest networks of healthcare providers of the country.

The need to save on a daily basis in order to pay expenses, have some savings for a rainy day or for the future is a concern shown by most Portuguese families. Always attentive to the needs of its customers, at the end of 2018 Banco CTT launched, in partnership with Zurich, the Banco CTT Saving PPR, providing a solution for saving with profitability, flexibility and safety which favours the medium and long-term.

The relations of trust and proximity with customers has led to the Institution's growth and to focus on diversification of the offer, so as to progressively improve the service provided to the Portuguese.

Presential Channel – the Retail Network

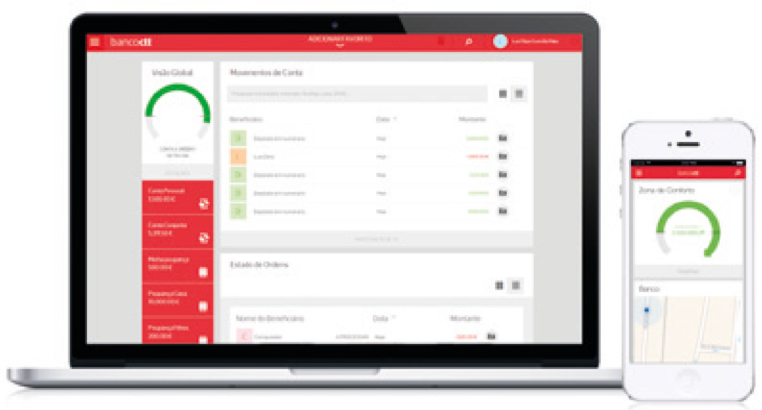
Banco CTT's network operates from 9:00 am to 6:00 pm and shares the same physical space as the postal customer operations.

In 2018 the Bank strengthened its physical presence, opening 3 new locations at Post Office branches shared with CTT (Santa Marta and Restelo in Lisboa, São João in Porto) and 1 branch of its own in Porto, operating with a total of 212 branches at the end of the year.

Digital Channels – Homebanking and the Mobile Application

Digital Channels are one of the fundamental axes of Banco CTT.

The customer can interact with the Bank at any time through the Homebanking channel (which has been optimised for PCs/ Tablets) or the mobile applications for iOS and Android. The acceptance and use of the Digital Channels has remained quite above the average for national retail banking. In December 2018, around 40% of Customers were active users of Digital Channel. Our Mobile channel has grown considerably and already represents 76% of total Digital Channel accesses of Banco CTT in 2018. Close to 45% of Banco CTT's transfers, payments and term deposits are carried out through Digital Channels and, in the particular case of term deposits, this figure reaches 70%.



BancoCTT Net and BancoCTT App. Simple, flexible and costumisable.

PAYMENTS

The Group's payment business is conducted by its subsidiary Payshop (Portugal), S.A., which was incorporated into the consolidation perimeter of the Banco CTT Group in January 2018, through a capital increase in kind paid-in by CTT-Correios de Portugal, S.A..

This integration reflects and embodies the strategic thinking of the CTT Group of concentrating its financial business under the sphere of Banco CTT, thus generating greater transparency for all the stakeholders (shareholders, regulators) on the performance and responsibilities of each business area, being in line with the principles conveyed during the Capital Markets Day 2015.

As an intermediary of payment operations, Payshop operates through the CTT Network and the Network of Payshop Agents. The latter is essentially composed of local shopping establishments, such as newsagents, tobacconists, kiosks, supermarkets and others, chosen according to strict security and service quality criteria.

Payshop is the largest national network of payments in person, with around 4,600 agents distributed over the entire country, being an essential service for the huge amount of the population that prefers to use the presential channel rather than digital means of payment.

The Payshop agent network ensures payments of recurring nature, such as the payment of utility bills, prepaid mobile phone loading or public transport tickets, as well as occasional payments such as tolls.

OUTLOOK FOR 2019

The year of 2018 confirmed the attractiveness of the Bank's value proposition, which was reflected in a high rate of accounts captured, in the acceleration of the loan production and in the expansion of the offer of saving solutions.

The year of 2019 will bring in a variety of new challenges to Banco CTT, in particular:

- Consolidating the bank retail business, intensifying the commercial activity in mortgage lending, promoting the attraction and diversification of customer savings, and ensuring the profitability of the customer base via stronger penetration of personal loans, credit cards and insurance;
- Repositioning the Payshop payment business, strengthening the services provided in the presential acceptance network, and entering into B2C with solutions for consolidation and payment of recurring bills;
- With the acquisition of 321 Crédito (still subject to a decision of non-objection by Banco de Portugal / European Central Bank), integrating and accelerating the business of specialised credit at point of sale, capturing funding synergies.

AWARDS AND RECOGNITIONS

European Customer Satisfaction Index (ECSI Portugal 2018)

In 2018, Banco CTT was considered the Number **1 Bank, leader in the Customer Satisfaction Index**, with a score of 8.16 (on a scale of 1 to 10). The Bank had the highest scores in the 8 dimensions assessed: image, expectations, perceived quality, perceived value, satisfaction, complaints, trust and loyalty. This result was even more surprising for a recent bank with only 2 years of activity.

ECSI Portugal is an independent study, developed annually by the Portuguese Association for Quality, by the Portuguesa Quality Institute and by NOVA IMS of Universidade Nova de Lisboa. This study is based on an international methodology that evaluates the quality of the offer of goods and services offered. It is conducted through 250 telephone interviews to customers of each bank under review, based on a randomly selected sample.

Banco CTT Account, Right Choice Given by DECO PROTESTE

DECO PROTESTE attributed the Banco CTT Account the distinction of Right Choice, due to having the best quality to price relationship, among the demand accounts analysed.

The attribution of this stamp of approval was based on comparative tests on products and services, aimed at informing and defending the interests of the consumer so that they are able to make informed choices when taking decisions, thus facilitating daily life.

Banco CTT wins "Prémio Cinco Estrelas" in 2019

The Mortgage Lending of Banco CTT was considered to be a Five Star product by the Portuguese. Among the five banks assessed in the same category, Banco CTT was awarded firs place in the criteria of satisfaction, price-quality, recommendation and innovation. The "Prémio Cinco Estrelas" is a system of assessment of brands, products and services that measures the degree of satisfaction of the consumers, carried out by an independent entity, which uses a complete and rigorous method based on tests and market studies, which are conducted during the second semester of 2018. This distinction arises a little less than two years after the launch of the offer, and enables the Mortgage Lending of Banco CTT to display its status as a Five Star product throughout 2019.

PEOPLE

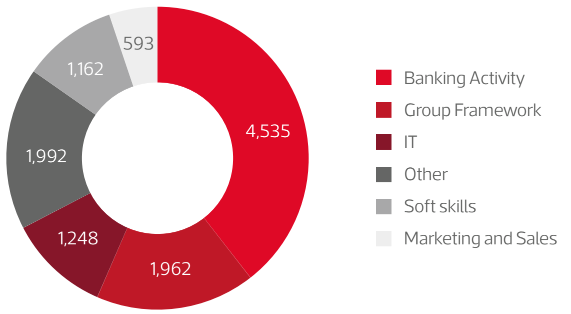
The focus of the Banco CTT Group for 2018 essentially fell on Talent Management, with the implementation of an ambitious continuous Training Plan that (i) develops the professional skills of its Employees, so that they can contribute more effectively to achieving the defined goals; (ii) develops their behaviours and attitudes enabling them to attain more efficiency, efficacy, teamwork capacity and professional satisfaction in their duties; and (iii) enables the trainees to evolve as People.

Accordingly, we highlight the development programme for all Facilitators of Banco CTT Branches that was designed according to the detected needs. Like any training of commercial area teams, this programme, named BIT, is a constant challenge as a positive attitude to the business and consequent focus on action for example, are key conditions for efficient work. Three key areas were identified in this programme: "Business(B), Myself(I), and Teams(T)".

Regarding the banking activity, one of the focal points was the training on regulations, in particular covering the Regulation on the Protection of Personal Data and in the Marketing of Mortgage Loans. Concerning the training of the CTT Retail Network, the Banco CTT team maintained intense collaboration both in designing and in ministering various training actions focused on banking topics.

A total of 11,492 hours of training were given to the Employees of the Banco CTT Group, 65% more than in the previous year.

Training hours in 2018



Under the Corporate Voluntary project Banco CTT established an agreement with Crevide – Creche Popular de Moscavide, a non-profit making association, defining an activity plan for 2018 with the participation and involvement of all the Employees, thus encouraging in-house mobilisation directed outwards in favour of community service. The initiatives covered various aspects, namely decorative painting of a refectory, the design and performance of a musical with the participation of the children of this institution, the creation of an educational vegetable garden, training of the children at the after-school facility (ATL) in financial literacy, as well as the offer of Christmas hampers to the families supported by Crevide.

Regarding the promotion of an organisational culture, the project started in 2017 was continued, with the definition of new initiatives such as, for example, the Kids Day. This was a day when the Employees' children came to see the workplace and atmosphere of their parents. There were also various in-house events with all the Employees.

Also regarding Banco CTT culture, and because the culture is intended to be experienced at the Bank is not that of a traditional and hierarchical institution, but rather that of a horizontal organisation and with great closeness between teams, Banco CTT moved its premises, no longer being on 7 floors but now only on 2. The floors are spacious and modern, with areas that facilitate teamwork, more collaboration and efficiency, and which best reflect the Bank's culture.

The constitution of the Banco CTT Group's team continues to be a concern within the remit of Human Resources. Accordingly, 60 new Employees were hired for different areas, maintaining high standards of qualification, different levels of seniority and expertise, and observing criteria on diversity, especially related to gender. As at 31 December 2018, the Banco CTT Group has 245 Employees, characterised as follows:

Characterisation of the Banco CTT Group Personnel as at 31 December 2018 and 2017

Level of Qualification	2018	2017
Elementary Education	1%	0%
Secondary Education	26%	22%
Bachelors	1%	0%
Licentiate Degree	55%	60%
Postgraduation/Masters	17%	18%

Gender	2018	2017
Female	49%	46%
Male	51%	54%

Age group	2018	2017
<30 years old	11%	15%
30 – 34 years old	28%	30%
35 – 44 years old	44%	42%
≥ 45 years old	17%	13%

Liquidity and capital management

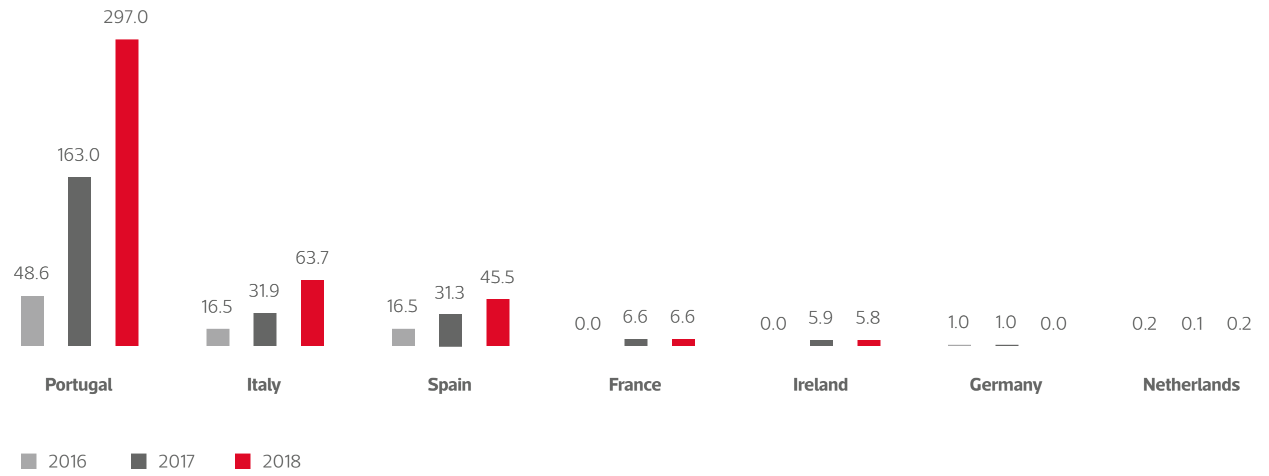
The difference is in energy

It makes all the difference to be born with ambition, vision of the future and spirit of wanting to do better to guarantee a service of excellence.

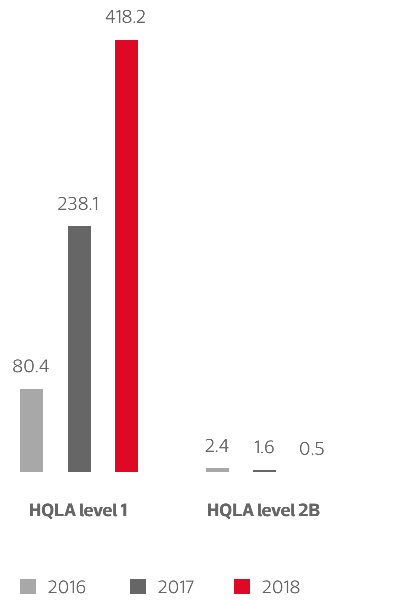
LIQUIDITY AND FUNDING

One of the main components of liquidity management is its investment and financing policy, which prioritises diversification by country and sector. Thus, the investment policy in 2018 enabled the creation of a portfolio of eligible assets for the Eurosystem amounting to close to 418.8 million euros as at 31 December 2018 (2017: 239.8 million euros).

Eurosystem eligible securities (by country)
(Million euros)



Eurosystem eligible securities (by HQLA level)
(Million euros)



The liquidity indicator, Liquidity Coverage Ratio (LCR) reached a comfortable figure of 3,102% (2,925% at the end of 2017), significantly higher than the minimum requirements and in line with the Bank's investment policy during 2018.

Given its high liquidity, during 2018, the Bank did not need to use market funding or the financing facility set-up by the ECB in order to finance its operations. Rather, the Bank financed its assets through Customer deposits, which amounted to around 884 million euros as at 31 December 2018 (2017: 619 million euros). Despite not having experienced this need, the Banco occasionally tests its access to these liquidity sources.

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

Liquidity risk management is conducted considering:

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

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

As regards structural liquidity, Banco CTT draws up a monthly liquidity report that takes into account not only the effective maturity date of the different products, but also their behavioural maturity, through which structural mismatches are determined for each time bucket. Based on this report and in light of the stipulated budgetary targets, an annual plan for financing the activity is prepared, which is periodically reviewed. The Bank conducts liquidity stress tests aimed at identifying the main liquidity risk factors affecting its balance sheet and testing the Bank's resilience to liquidity crises.

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

Furthermore, the Bank conducts Internal Liquidity Adequacy Assessment Process – ILAAP, applying European Banking Authority (EBA) guidelines (EBL/GL/2016/10).

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

CAPITAL MANAGEMENT

The definition of the strategy to be adopted in terms of capital management is the responsibility of the Board of Directors.

ICAAP

ICAAP (Internal Capital Adequacy Assessment Process) is an important process for managing the Bank's risk by identifying 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 the adequate capital levels given the business model. This process is regulated by Banco de Portugal Instruction 15/2007 and by the EBA guidelines, and complies with the Pillar II goals of the Basel II Accord, to ensure the risks that institutions are exposed to are correctly assessed and that the internal capital available to them is adequate given their respective risk profile.

ICAAP is a tool that enables the Board of Directors to test the Bank's capital adequacy, given the risks of its activity, the sustainability of the strategic plan of its budget in the medium-term and the respective framework of the risk limits defined in its Risk Appetite Statement. ICAAP guides Banco CTT in the assessment and quantification of the main risks to which it may be exposed, thus also being an important management instrument for decision-making relative to risk levels to be assumed and the activities to be undertaken.

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

Concerning risk analysis, the Bank has opted for simpler models, often based on regulatory models and considers that the estimated economic capital for Operational Risk encompasses risks related to Information System, Compliance and Reputation.

The following approaches were used to quantify the economic capital for each risk:

Types of Risk	Measurements
Strategic Risk	Internal Model
Operational Risk	
Information System Risk*	Basic Indicator Approach
Compliance Risk*	
Reputation Risk*	
Credit Risk	Internal Models
Market Risk	VaR Model
Interest Rate Risk	Instruction 19/2005
Exchange Rate Risk	n/a

* These risks are treated together with Operational Risk.

Regulatory Capital

Banco CTT strives for high financial solidity by maintaining a ratio of total own funds (ratio between own funds and risk-weighted assets), comfortably above 9.875% (including the capital conservation buffer), corresponding to the minimum legal amount established in Directive (EU) 2013/36/EU and Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 ("CRR", Capital Requirements Regulation).

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

The prudential solvency indicators are based on the applicable regulatory standards, the CRR, and Banco de Portugal Notice 6/2013 and 10/2017 that regulates the transitory regime provided for in the Regulation on own funds.

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

The Bank's tier 1 own funds (common equity tier 1 - CET1) includes: a) paid-up capital, reserves and retained earnings; b) regulatory deductions related to intangible assets and losses relative to the year in progress; and c) prudential filters. The does not have any additional tier 1 own funds or tier 2 own funds.

As at 31 December 2018 and 31 December 2017, own funds and consolidated capital ratios are as follows:

(amounts in thousand euros)

	2018		2017	
	CRR Phasing in	CRR Fully Implemented	CRR Phasing in	CRR Fully Implemented
OWN FUNDS				
Share Capital	156,400	156,400	125,000	125,000
Retained earnings	(48,661)	(48,661)	(27,359)	(27,359)
Other Reserves	(53)	(53)	-	-
Prudential Filters	(1)	(1)	35	44
Fair value reserves [1]	-	-	40	50
Additional Valuation Adjustment [2]	(1)	(1)	(5)	(6)
Deduction to the main Tier 1 elements	(42,909)	(43,569)	(42,302)	(42,302)
Losses for the period	(17,487)	(17,487)	(21,302)	(21,302)
Intangible assets	(25,387)	(25,387)	(21,000)	(21,000)
IFRS 9 adoption	(35)	(695)	-	-
Common Equity Tier 1	64,776	64,116	55,375	55,384
Tier 1 Capital	64,776	64,116	55,375	55,384
Total Own Funds	64,776	64,116	55,375	55,384
RWA				
Credit Risk	258,673	258,673	198,330	198,330
Operational Risk	16,513	16,513	10,658	10,658
IFRS 9 adjustments	-	(480)	-	-
	275,186	274,706	208,988	208,988
CAPITAL RATIOS				
Common Equity Tier 1	23.54%	23.34%	26.50%	26.50%
Tier 1 Ratio	23.54%	23.34%	26.50%	26.50%
Total Capital ratio	23.54%	23.34%	26.50%	26.50%
REGULATORY MINIMUM RATIOS				
Common Equity Tier 1	6.375%	7.000%	5.750%	7.000%
Tier 1 Ratio	7.875%	8.500%	7.250%	8.500%
Total Capital ratio	9.875%	10.500%	9.250%	10.500%

[1] Fair value reserve relative to gains or losses of financial assets stated at fair value.
[2] Additional value adjustments required to adjust the assets and liabilities stated at fair value.

Regarding common equity tier 1, special note should be made of the positive contribution, in 2018, of the share capital increase carried out, despite the negative impact of the net income recorded and the increased intangible assets. Concerning capital requirements, we highlight the significant increase of the value of the risk-weighted assets of exposures with credit risk.

As at 31 December 2018, the risk-weighted assets amounted to 274,393 thousand euros (31 December 2017: 208,988 thousand euros) of which 257,829 thousand euros (31 December 2017: 198,330 thousand euros) refer to credit risk.

The following table shows the geographic distribution of the relevant exposures for calculating the countercyclical buffer. It is also important to note that as at 31 December 2018, Banco CTT has no exposure to geographic regions whose countercyclical buffer is different from zero:

(amounts in thousand euros)

Exposures	2018	2017
Germany	-	1,542
Spain	807	513
France	-	528
Luxembourg	262	813
Netherlands	-	113
Portugal	133,089	58,873
United Kingdom	-	200

The risk-weighted assets, with respect to credit risk, are detailed as follows:

(amounts in thousand euros)

Risk headings	2018			
	Original risk position	Risk-weighted assets (1)	Risk weight (2)	Capital Requirement (2)
Central Authorities or Central Banks	424,294	-	0%	-
Credit Institutions	236,084	123,233	52%	9,859
Companies	44,950	32,535	72%	2,603
Retail customers	4,354	437	10%	35
Mortgage loans	247,199	86,953	35%	6,956
Defaulted loans	128	128	100%	10
Other items	40,850	15,388	38%	1,231
Total	**997,858**	**258,673**	**26%**	**20,694**

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

(amounts in thousand euros)

Risk headings	2017			
	Original risk position	Risk-weighted assets	Risk weight (1)	Capital Requirement (2)
Central Authorities or Central Banks	270,864	-	0%	-
Credit Institutions	289,931	126,940	44%	10,155
Companies	41,425	28,916	70%	2,313
Retail customers	1,916	227	12%	18
Mortgage loans	73,351	25,715	35%	2,057
Defaulted loans	11	11	100%	1
Other items	41,829	16,521	39%	1,322
Total	**719,328**	**198,330**	**28%**	**15,866**

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

Use of External Ratings

Banco CTT uses the ratings of External Credit Assessment Institutions (ECAI) for exposures to credit institutions with a residual maturity greater than 3 months and for exposure to companies. Thus, the Bank uses the standard relationship published by the EBA between ECAIs and credit quality levels.

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

(amounts in thousand euros)

Degree of Credit Quality	2018		2017	
	Institutions, residual maturity >3m	Companies	Institutions, residual maturity >3m	Companies
1	-	-	-	-
2	203	25,300	713	25,018
3	28,922	109	-	1,608
4	38,862	262	48,667	1,849
5	-	-	-	-
6	-	506	-	-
No rating	56,368	9,906	36,528	-

Leverage Ratio

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

The Leverage Ratio was introduced by the CRR in order to monitor the institution's leverage level.

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

As at 31 December 2018, the leverage ratio stood at 6.5% (31 December 2017: 8%), considering the Bank's stage of activity, which is slightly above the regulatory threshold of 3%. The ratio is calculated using tier 1 capital.

The exposures used to calculate the leverage ratio, as at 31 December 2018 and 31 December 2017, are presented in the table below:

(amounts in thousand euros)

Leverage Ratio	2018	2017
Exposure		
Total exposure to the leverage ratio - fully implemented	997,378	668,751
Total exposure to the leverage ratio – transitional	997,859	668,733
Capital and regulatory adjustments		
Tier 1 capital - fully phased-in definition	64,116	55,384
Tier 1 capital - transitional definition	64,776	55,375
Leverage ratio - fully implemented tier 1 capital	**6.4%**	**8.3%**
Leverage ratio - transitional tier 1 capital	**6.5%**	**8.3%**

In 2018 the transitional leverage ratio decreased by 1.5 percentage points, explained by the increased exposure, in practically all asset categories.

Internal control system

The difference is in transparency
It makes all the difference to offer competitive and transparent solutions, with no hidden fees or costs.

INTERNAL CONTROL SYSTEM

Banco CTT's internal control system includes a number of strategies, systems, processes, policies and procedures defined and approved by the Board of Directors, after appraisal by the Audit Committee. In turn, the Audit Committee supervises the independence, adequacy and efficacy of the internal control system as a whole.

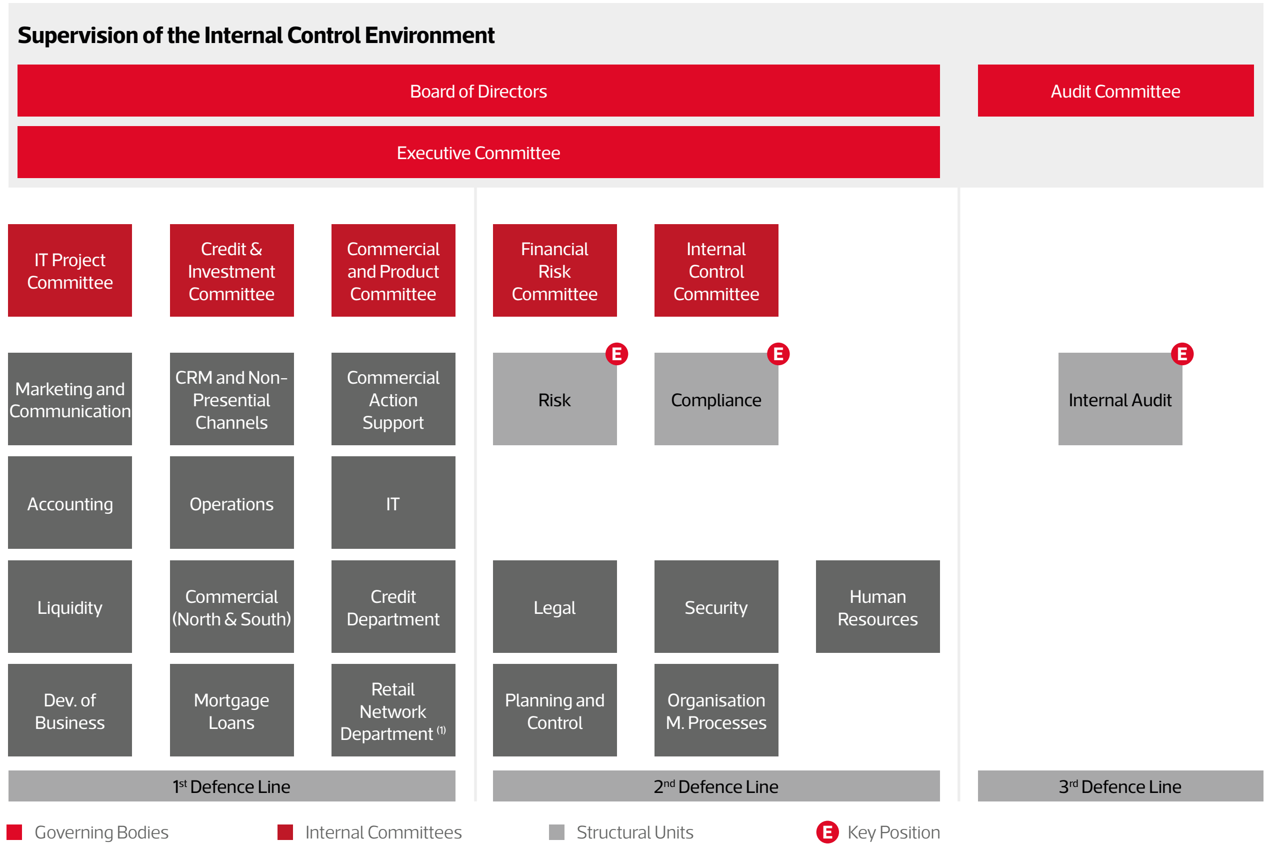
As a basic principle, all of the Bank's policies, processes or procedures are controlled in a number of ways, aimed at ensuring that the following goals for the internal control system are accomplished:

- Prudent management of the risks that the Bank is exposed to in order to ensure the sustainability of the business in the medium and long-term (performance goals);
- The existence of timely, complete and trustworthy financial and management information and independent reporting mechanisms of this information to the management and supervisory bodies and to the internal control functions (information goals); and
- Compliance with the legal and regulatory provisions, whether of prudential or behavioural nature, naturally including those relative to the prevention of money laundering and terrorist financing (compliance goals).

Goals of the Internal Control System

The governance model of the Bank's internal control system is based on an approach of three lines of defence, as indicated below:

Lines of defence of the governance model of the internal control system



(1) The Retail Network Director corresponds to the top of the Retail Network structure with a multi-employer scheme with CTT, hierarchical relations with CEO and functional relations with all the other EC areas and control positions.

- A first line of defence, entrusted with risk and control management, composed of the Retail Network Department — with front office duties responsible for carrying out level one controls — and the operational area (with back office duties responsible for a second check (4-eyes check) of most processes that are essentially initiated by CTT's Retail Network.
- A second line of defence, entrusted with monitoring risk, advising and supporting the first line of defence in identifying risks and controls. Compliance and Risk, responsible for monitoring the process and conducting regular tests on the effectiveness of the first line controls, and Planning and Control, Security, Legal, as well as the Human Resources and the Resource and Process Organisation areas are all part of the second line of defence.
- The third line of defence is 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.

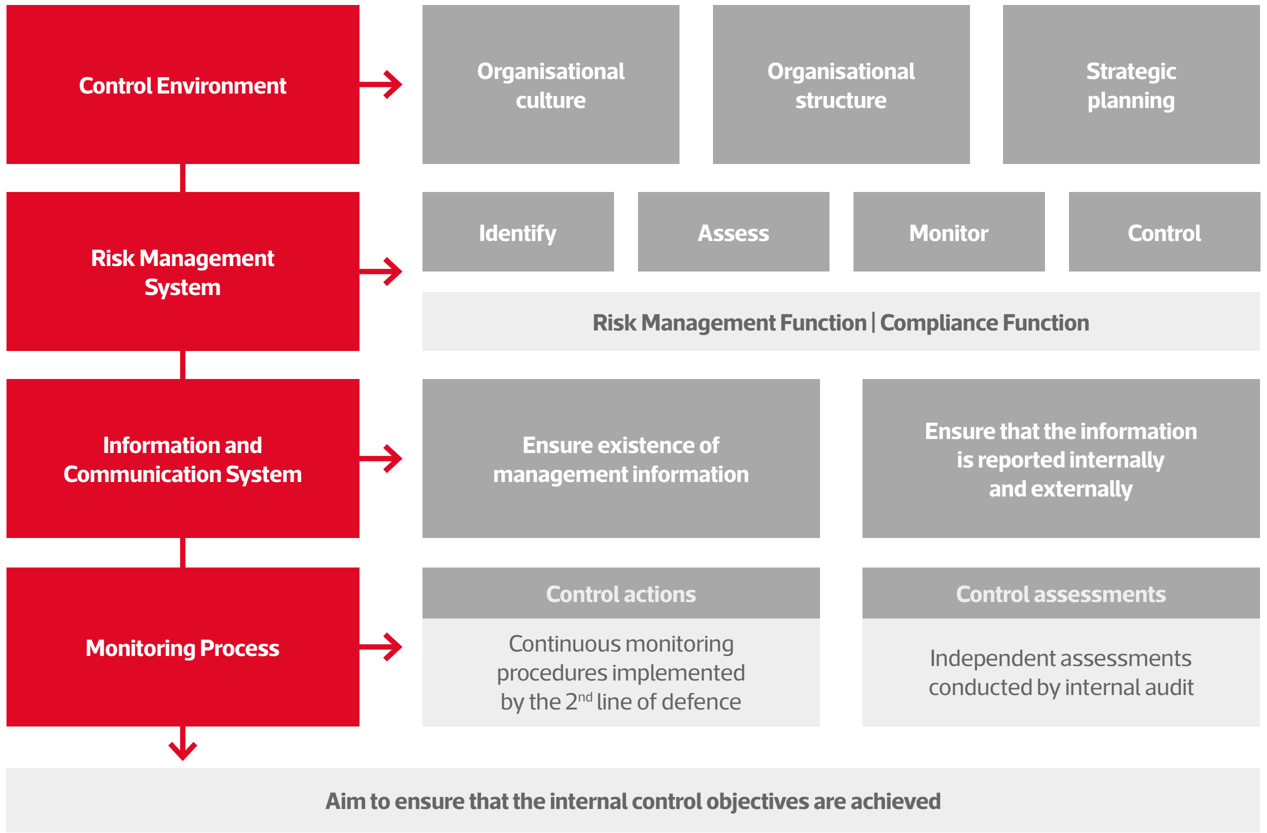
The Board of Directors is ultimately responsible for the internal control system, being responsible for defining, implementing, supervising and periodically reviewing the implemented governance model and ensuring its optimisation and efficacy. The Board of Directors is also entrusted with monitoring the management information regarding Internal Control shortcomings, analysing the internal control system's assessment report and issuing an overall opinion on the adequacy and effectiveness of the internal control system and, in this regard, issuing a statement on compliance with the Bank's remuneration policy.

The Internal Control Committee is the Bank's body responsible for defining the criteria and implementation of the non-financial risk management instruments (operational, compliance and reputational risk) and for the monitoring and continuous assessment of the efficacy of the internal control system, namely by following-up on the detected flaws. This body seeks to support the Board of Directors and Executive Committee on the issues referred to above, being composed by all the members of the Executive Committee, with the managers responsible for Risk, Compliance, Internal Audit, Organisations, Means and Processes and Security participating in it on a permanent basis. In 2018 the Committee held monthly meetings.

The governance model of the internal control of Banco CTT is duly documented and is in line with the requirements of Banco de Portugal Notice 5/2008, with a process having started in 2018 of convergence with the Guidelines of the European Banking Authority on the internal governance of institutions which entered into force on 21 March 2018 (EBA/GL/2017/11). Furthermore, it is also supported by guidelines and methodologies recognised and accepted at an international level, particularly those defined in "Enterprise Risk Management – Integrated Framework" (COSO II) and the recommendations issued by the Basel Committee on Banking Supervision, through the "Framework for Internal Control Systems in Banking Organizations".

In line with the regulatory requirements and best practices, the internal control system of Banco CTT is based on four components:

Components of the Internal Control System



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

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

- **Information and Communication System** – this component is pivotal for controls to be understood and carried out by the organisation. On the other hand, the existence of timely and trustworthy management information is essential for taking business decisions and for compliance with the strategy and goals established by the management body.

- **Monitoring Process – this is subdivided into control procedures carried out by the second line of defence and the independent assessment carried out by internal audit**. Therefore, the main goal of this component is to test the effectiveness of the implemented procedures and controls, given the defined risk tolerance, in order to ensure that the residual risk arising from the application of these controls falls below this value for the risk category in question. It mainly includes the efficacy measures and tests that are continually or occasionally developed by the risk and compliance functions. The goal is to identify shortcomings in the processes or controls that enable corrective measures to be adopted in a timely fashion. The autonomous and independent assessments performed by internal audit are particularly relevant in ascertaining the efficacy of the internal control system as a whole.

Since its creation in 2016, the Bank's internal control system has been continuously strengthened. After the revision and improvements made in 2017 to the procedures inherent to risk management and respective mitigation actions, the year of 2018 was one of consolidation, with some solutions having been assessed with a view to improving the efficiency of the procedures underlying the continuous monitoring of the system.

Following the methods adopted in previous years, a self-assessment exercise was also conducted in the first quarter of 2018 of the Bank's compliance with the requirements of Banco de Portugal Notice 5/2008 and with the Guidelines of the European Banking Authority (EBA) on the internal governance of institutions that were in force at the time (GL 44). The final results of this exercise were analysed by the Internal Control Committee and reported to the Bank's management and supervisory bodies. It should be noted that around 280 requirements were assessed, with Banco CTT proving to be highly compliant with most of the internal governance requirements of the national (Banco de Portugal or BdP) and European (EBA) regulators. The implementation of the flagged opportunities for improvement and correction of certain detected shortcomings further strengthened the Bank's internal control system.

Additionally, the General Policy on Internal Control and Risk Management was also reviewed, and now defines, at a group level, the ways in which the internal control system of Banco CTT and its branches should be managed. This Policy's adoption of Payshop constitutes a first step towards implementing an internal control system that is harmonised with the requirements defined at the group level, without prejudice to this system being appropriate to the dimension, nature and complexity of its activity. The work of convergence between the Bank's framework and that of Payshop will continue during 2019, aimed at ensuring a coherent and effective internal control system of the Group.

04 Risk management

The difference is in simplicity
It makes all the difference betting on products simple and easy to understand, without surprises for the customer.

RISK MANAGEMENT

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

The Bank's risk management system is based on a number of concepts, principles and rules, and on an applicable organisational model adjusted to Banco CTT, while respecting its regulatory framework. The risk management model covers five essential stages, namely: identification, assessment, response, monitoring and reporting of risks.

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

The Bank reviews its risk strategy annually, defining its qualitative principles and the quantitative rules and limits for the management of the various risks arising from the Bank's activity. These are presented in its Risk Appetite Statement, guiding Banco CTT's business growth in the next 3 years of activity.

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

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

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

The monitoring and management of risk in each area is based on the risk profile defined 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 methods that enable it to identify, assess, monitor and report risk both from an individual standpoint and in an integrated perspective. This ensures a comprehensive vision of the risks to which the Bank is exposed, and an early understanding and appraisal of the potential impact these risks may have on the institution's solvency and liquidity.

Risk Management Governance

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

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

In order to make the control of the Board of Directors' strategic decisions more efficient, as well as the preparation of those decisions, a Financial Risk Committee and an Internal Control Committee were created which have, in line with the Board of Directors' decisions, an important role in the management and control of financial and non-financial risks, respectively. The Financial Risk Committee and an Internal Control Committee hold monthly meetings and are composed of all the members of the Executive Committee, in addition to the heads of other relevant departments.

The Financial Risk Committee is responsible for defining and implementing 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.

The Internal Control Committee is responsible for defining the criteria and implementation of the non-financial risk management instruments (operational, compliance and reputational risk) and for the monitoring and continuous assessment of the efficacy of the internal control system, namely by following-up on the detected flaws, with a view to supporting the Bank's Board of Directors and Executive Committee on these issues.

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 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 set limitations. In addition, the Risk Department identifies and assesses risks, develops methods and metrics for risk measurement and monitors and controls the evolution of risk, while defining effective and adequate controls for the mitigation of risk. It is also responsible for reporting 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 the management of compliance and reputational risk.

This department independently promotes 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 part of the process of monitoring the internal control system, carrying out autonomous supplementary assessments of the controls made and identifying possible shortcomings and recommendations. All of this is documented and reported to the management body, thereby protecting the institution's value, its reputation and solvency.

Credit Risk

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

As the Bank's main activity is commercial banking, with special emphasis on the retail segment, at this initial stage, the Bank offers simple credit products – mortgage loans and overdraft facilities associated with current bank accounts with salary / pension domiciliation.

At the present date, the Bank's credit portfolio also includes exposures to the State through a credit assignment agreement for Central Authorities.

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

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

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

The following table shows information on exposures to the Bank's credit risk (net of impairment and including off-balance sheet exposures) as at 31 December 2018 and 31 December 2017:

(amounts in thousand euros)

	2018	2017
Central Authorities or Central Banks	424,294	270,864
Credit Institutions	235,525	289,931
Companies	44,840	41,425
Retail customers	4,341	1,916
Mortgage loans	247,042	73,351
Defaulted loans	128	11
Other items	40,850	41,829
Risk line item	**998,921**	**719,328**

Banco CTT has been diversifying its credit risk exposures geographically and, on the reporting date, had the following exposures by country:

(amounts in thousand euros)

	2018							
	Central Authorities or Central Banks	Credit Institutions	Companies	Retail customers	Mortgage loans	Defaulted loans	Other items	Total
Portugal	303,127	143,452	44,090	4,341	247,042	128	40,850	783,030
Spain	45,039	85,402	489	–	–	–	–	130,929
France	6,550	–	–	–	–	–	–	6,550
Italy	63,703	–	–	–	–	–	–	63,703
Austria	–	8,469	–	–	–	–	–	8,469
Luxembourg	–	–	261	–	–	–	–	261
Ireland	5,776	–	–	–	–	–	–	5,776
Netherlands	–	203	–	–	–	–	–	203
Total	**424,194**	**237,525**	**44,840**	**4,341**	**247,042**	**128**	**40,850**	**998,921**

(amounts in thousand euros)

	2017							
	Central Authorities or Central Banks	Credit Institutions	Companies	Retail customers	Mortgage loans	Defaulted loans	Other items	Total
Portugal	195,754	206,389	37,213	1,916	73,351	11	41,829	556,464
Spain	31,369	44,505	513	–	–	–	–	76,387
France	6,608	30,330	528	–	–	–	–	37,466
Italy	31,252	–	–	–	–	–	–	31,252
Austria	–	8,501	–	–	–	–	–	8,501
Ireland	5,882	–	–	–	–	–	–	5,882
Other	–	206	3,171	–	–	–	–	3,377
Total	**270,864**	**289,931**	**41,425**	**1,916**	**73,351**	**11**	**41,829**	**719,328**

The Bank's exposures have the following maturity profiles:

(amounts in thousand euros)

	2018								
Residual Maturity	Central Authorities or Central Banks	Credit Institutions	Companies	Retail customers	Mortgage loans	Securitisa-tion	Defaulted loans	Other items	Total
Up to 1 year	15,511	120,138	10,757	569	–	–	–	–	146,975
1 to 5 years	149,847	69,580	34,083	–	–	–	–	–	253,510
More than 5 years	258,837	40,682	–	–	237,058	–	–	–	536,577
Undetermined *	–	7,125	–	3,772	9,984	–	128	40,850	61,858
Total	**424,194**	**237,525**	**44,840**	**4,341**	**247,042**	**–**	**128**	**40,850**	**998,921**

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

(amounts in thousand euros)

	2017								
Residual Maturity	Central Authorities or Central Banks	Credit Institutions	Companies	Retail customers	Mortgage loans	Securitisa-tion	Defaulted loans	Other items	Total
Up to 1 year	44,961	267,030	16,503	302		–	–	–	330,609
1 to 5 years	70,179	12,528	24,921	–		–	–	–	107,629
More than 5 years	155,724	–	–	–	65,757	–	–	–	221,481
Undetermined *	–	10,372	–	1,614	7,595	–	11	41,829	61,420
Total	**270,864**	**289,931**	**41,424**	**1,916**	**73,351**	**–**	**11**	**41,829**	**719,328**

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

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Impairment Model

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

The recognition of impairment should be based on historical information. However, due to the absence of a historical record, the Bank supports its calculations on benchmarks of the parameters of 'Probability of Default' (PD) and 'Loss Given Default' (LGD) of other national banks or rating agencies.

The use of benchmarks has some pertinent implications:

- The data are obtained at the portfolio level, and in order to convert them into parameters by stage of impairment, Banco CTT assumes distributions considered to be its expected mature portfolio;
- Potential particularities of Banco CTT, negative or positive, are not captured by these benchmarks;
- As the data available up to date refer to 2017, at which time IFRS 9 had not been adopted, they do not include prospective information, namely on the expected macroeconomic context. Throughout 2019, and as the data of different banks will become available, the updating of the benchmarks will have the implicit incorporation of the expectations of the different banks;
- Banco CTT transforms the annual PD and LGD into Lifetime Expected Losses using a survival rate method to calculate the PD of each period of the life of the instrument which is multiplied by the Loss Given Default (LGD), which in turn will depend on the expected exposure in each period and of the existing collateral in the operation. Finally, the Bank updates the expected value of all the periods considered.

The Bank considers the following segments in the calculation of impairment:

Financial Assets	Retail Offer	Mortgage Loans	Consists of the Bank's mortgage lending offer which has a residential real estate property as collateral, regardless of the degree of completion of its construction.
		Overdrafts	Includes the Bank's overdraft offer and credit overrunning.
	Sovereign debt		Eurozone public debt securities and exposures obtained through the credit assignment contract.
	Corporate		Deposits and investments in other credit institutions, other financing granted to other credit institutions and corporate debt securities.

The benchmark parameters considered to calculate impairment in the different stages, on the reporting date, are:

Stage	Substage	Mortgage Loans		Overdrafts	
		PD	LGD	PD	LGD
1	*Performing*	0.5%	18%	1.1%	35%
	With indications	4.0%	18%	5.0%	35%
2	31-60 days	30.0%	18%	55.0%	35%
	61-90 days	65.0%	18%	75.0%	35%
Non-default average PD		1.1%		2.6%	
3	*Default*	100.0%	23%	100.0%	50%

Rating	Expected Loss	
	Corporate	*Sovereign debt*
AAA	0.019%	0.005%
AA+	0.025%	0.006%
AA	0.031%	0.008%
AA-	0.035%	0.009%
A+	0.039%	0.010%
A	0.043%	0.011%
A-	0.074%	0.019%
BBB+	0.105%	0.027%
BBB	0.136%	0.035%
BBB-	0.256%	0.118%
BB+	0.376%	0.202%
BB	0.496%	0.285%
BB-	0.986%	0.403%
B+	1.476%	0.522%
B	1.965%	0.640%
B-	7.778%	2.795%
CCC/C	13.590%	4.950%
W/o *Rating*	0.986%	0.403%

The Bank considers that the most sensitive parameters assumed are the benchmark PDs. In this context, the table below presents a sensitivity analysis on what would be impairment of the total portfolio is these parameters were 10% higher.

(amounts in thousand euros)

	Impairment				Impairment with shock				
	Stage 1	*Stage 2*	*Stage 3*	Total	*Stage 1*	*Stage 2*	*Stage 3*	Total	Impact
Sovereign debt	148	-	-	148	163	-	-	163	15
Securities	148	-	-	148	163	-	-	163	15
Credit assignment	-	-	-	-	-	-	-	-	-
Financial institutions	415	-	-	415	457	-	-	457	42
Corporate	37	127	-	163	40	127	-	167	04
Retail	184	67	206	457	202	73	206	481	24
Overdrafts	2	17	206	225	2	19	206	227	2
Mortgage Loans	182	50		232	201	54		254	22
Total	**784**	**194**	**206**	**1,184**	**863**	**199**	**206**	**1,268**	**84**

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 organisation.

The Bank's operational risk management model is based on a series of concepts, principles and rules, and on an applicable organisational model adjusted to the Bank, respecting its regulatory framework, reflected in control mechanisms that can be continuously improved. The goal of controlling and managing operational risk is geared towards detecting, assessing, reporting and monitoring this 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 detect, 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 organisation's structure is deemed the most appropriate 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.

The 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 involve the identification and recording of operational risk events, the process of self-assessment of risks and controls (RSA) processes and the identification and quantification of Key Risk Indicators (KRIs) (also under development). These procedures detect, assess, monitor and mitigate operational risk, thereby ensuring minimum losses associated to this risk and promoting the effective management of operational risk.

Collection of operational risk management events

The Bank records operational risk loss events, which includes information on events that have taken place, contributing to detecting and monitoring operational risk.

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

The Risk Department is responsible for providing support in the recording and description of operational risk events in the database, and validating and monitoring them. Furthermore, the department monitors and identifies shortcomings in the processes and respective mitigation actions.

Fraud Risk

Under operational risk, the Bank includes events or risks related to fraud, for which a fraud risk management policy has also been approved. It formalizes the way in which fraud is addressed by the Bank, particularly concerning its prevention, detection and investigation. Fraud can affect the Bank through various channels, by its products and services or through the different entities with which it interacts. In that sense, the main types of fraud are considered to be: credit fraud, digital channel fraud, card fraud, fraud on the part of suppliers or service providers and of partners.

The fraud management model defined by the Bank 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 mainly focus on prevention and detection, in terms of defining processes, procedures and controls, as well as the implementation of tools. These phases contribute to the effectiveness of the fraud management process, namely in the prevention stage, thereby minimising the impact of any losses associated with fraud risk events.

Compliance Risk

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

The Bank's Compliance Policy 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.

Supervisors 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 crucial that it have an efficient and comprehensive compliance risk management cycle that reduces any possible penalties arising from breaches of legal and regulatory requirements. In this way, and in line with its General Risk Management and Internal Control Policy, the Bank 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 is responsible for the systematic organisation all these requirements and disclosing them to the respective areas.

ii. Assessment: Once the requirements have been disclosed to the different areas, the latter (together with the Compliance Department) should assess their level of compliance, as well as the impact of their breach.

iii. Response: The Compliance Department should list the requirements that have not been met as required by law, by level of impact on the Bank. From there, an action plan regarding the shortcoming will be established with the areas in order to comply with the identified requirement.

iv. Monitoring: Compliance with requirements is monitored on an on-going basis by the Compliance Department, by ensuring that any detected 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.

With respect to financial crime in particular, in 2018 there was a review of the national regulatory environment on matters of the prevention of money laundering and terrorist financing (AMLTF) which culminated with the publication of Banco de Portugal Notice 2/2018, with steps having been taken to ensure compliance with this notice. As Banco CTT is a new bank undergoing rapid growth, information technology solutions were assessed for prevention of money laundering that could efficiently support the Bank's evolution, with the continuous expansion of the customer base and product. An application was selected with its implementation project currently being underway.

A method was also developed and formalised to monitor the compliance and tests of first line controls, where we highlight the monitoring of the time limits of transfers, movements in own account and the conduct of controls to the treatment of complaints.

The definition and implementation of a model for assessment of compliance risk is also being finalised, which shall enable a more in-depth approach to this process and shall also formalise the procedures for management of the Bank's exposure to events associated to this type of risk. The details of this process cover all the activities required for risk assessment, with calculation of the residual risk and consequent definition of action plans to mitigate flaws or address opportunities for improvement, as well as the preparation of the report on risk assessment and its disclosure. Notwithstanding the formalisation in progress, the Bank's internal control system already incorporates this type of risk in the classification made of the incidences occurred, ensuring their timely assessment and response.

Market Risks

Market Risk broadly means 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 almost all of its investment portfolio is recorded as investments held to maturity and residually as assets available for sale. Credit risk, and not market risk, is the main risk arising from its investments.

To limit any negative impacts from turmoil in the market, sector or issuer, the Bank defined a number of limitations to manage its own portfolio in order to ensure that the level of risk incurred in the Bank's portfolio complies with the predefined level of risk tolerance. These limits are stipulated at least annually and are regularly monitored by the Financial Risk Committee and by the Board of Directors.

Interest Rate Risk

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

One of the main instruments 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 variation-sensitive assets and liabilities into fixed time frames (maturity dates or date of first review of interest rates, when floating), from which the potential impact on the Bank's financial margin and economic value are calculated, due to changes in interest rate and for which the Bank stipulated specific tolerance limits.

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

Up to date, the Bank has been managing interest rate risk in its balance sheet structurally by using natural hedges in the composition of the investment portfolio, without resorting to derivative instruments.

Liquidity Risk

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

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 clearly identified 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 Board of Directors, which delegates it to the Executive Committee, and is carried out by the Treasury Department. It is based on constant vigilance of exposure indicators and is closely monitored by the Financial Risk Committee.

The Financial Risk Committee is responsible for controlling liquidity risk exposure, by analysing liquidity positions and assessing their conformity with the applicable regulatory rules and limitations, as well as 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), for implementing the medium and long-term funding plans through cash management and interbank relationships and ensuring compliance with the established liquidity risk limits, minimum cash reserves, position limits and other regulatory ratios or limits defined by the Executive Committee or Board of Directors.

The Risk Department is responsible for identifying, 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 the definition of liquidity limits, while continuously monitoring compliance therewith.

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

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

In this context, in addition to the internal analyses for monitoring this risk (i.e., on-going 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 Bank also monitors additional liquidity monitoring metrics (ALMM) which enables checking for liquidity mismatches as well as the Bank' capacity to offset negative mismatches (outflows greater than inflows).

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 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.

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

Analysis of Liquidity Risk

As at 31 December 2018, the ALMM shows a negative liquidity mismatch (difference between contracted outflows and inflows) of 378,456 thousand euros, to which customer deposits greatly contribute.

However, this negative liquidity mismatch is offset by the financial assets and reserves at the Central Bank of close to 475,986 thousand euros.

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

The Liquidity Coverage Ratio (LCR) reached a comfortable figure of 3,102% (2,925% at the end of 2017), significantly higher than the minimum requirements and in line with the Bank's investment policy during 2018.

Board of Director's Statement
Article 435, number 1, e) of the CRR

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

Lisbon, 14 March 2019

The Board of Directors

Francisco José Queiroz de Barros de Lacerda

Rui Afonso Galvão Mexia de Almeida Fernandes

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

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Pedro Rui Fontela Coimbra

Guy Patrick Guimarães de Goyri Pacheco

José Manuel Gonçalves de Morais Cabral

Board of Director's Statement
Article 435, number 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 implements its strategy with solid capital ratios, keeping a conservative balance sheet structure, with low deposit-to-loan ratios of and focus on low-risk mortgage loans. This strategy enables the construction of a significant portfolio of liquid and diversified assets from various geographic zones, providing high resilience in times of adversity in the liquidity and credit markets.

Lisbon, 14 March 2019

The Board of Directors

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Supplementary information

The difference is in the proximity
It makes all the difference to be available and present in the customer's daily life, through a network of stores, points of contact and digital channels, providing the best solution and customer satisfaction.

Consolidated Financial Statements

Consolidated Income Statements for the years ended 31 December 2018 and 2017.

(amounts in thousand euros)

	2018	2017
Interest income calculated using the effective interest method	8,565	4,200
Interest and similar expense	(693)	(810)
Net Interest Income	**7,872**	**3,390**
Fee and commission income / (expense)	11,082	3,046
Net gains / (losses) arising from other financial assets at fair value through other comprehensive income	2	-
Other operating income and expenses	(414)	4
Operating Income	**18,542**	**6,440**
Staff costs	14,064	12,195
General and administrative expenses	22,574	18,423
Depreciation and amortisation	3,641	2,702
Operating Expenses	**40,279**	**33,320**
Profit / (loss) before provisions and impairment	**(21,737)**	**(26,880)**
Loans impairment	343	117
Other financial assets impairment	(149)	-
Other assets impairment	168	-
Other provisions	(20)	77
Operational profit / (loss)	**(22,079)**	**(27,074)**
Profit / (loss) before income tax	**(22,079)**	**(27,074)**
Income tax		
Current	(4,454)	(5,604)
Deferred	(138)	(168)
Net income / (loss) for the year	**(17,487)**	**(21,302)**
Earnings per share (in Euros)		
Basic	(0.12)	(0.19)
Diluted	(0.12)	(0.19)

Consolidated Balance Sheet as at 31 December 2018 and 2017.

(amounts in thousand euros)

	2018	2017
Assets		
Cash and deposits at central banks	31,679	58,064
Deposits with banks	108,667	176,975
Investment in securities	454,102	-
Available for sale financial assets	-	5,751
Financial assets held to maturity	-	261,550
Investments at credit institutions	119,811	101,912
Loans and advances to customers	248,049	79,347
Other tangible assets	651	193
Goodwill and intangible assets	25,387	21,000
Deferred tax assets	530	209
Other assets	12,898	15,791
Total Assets	**1,001,774**	**720,792**
Liabilities		
Deposits from customers	883,950	619,230
Provisions	51	86
Other liabilities	28,269	25,087
Total Liabilities	**912,270**	**644,403**
Equity		
Share Capital	156,400	125,000
Fair value reserve	-	50
Retained earnings	(49,409)	(27,359)
Net income / (loss) for the year	(17,487)	(21,302)
Total Equity	**89,504**	**76,389**

Proposed Application of Results

Whereas:
For the financial year of 2018, Banco CTT S.A. recorded a consolidated loss of 17,486,694 euros,

we propose:
pursuant to number 5 (f) of article 66 and for the purposes of number 1 (b) of article 376 both of the Companies Code, that the negative net income should be transferred to Retained Earnings.

Lisbon, 14 March 2019

The Board of Directors

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Financial statements and notes to the financial statements of 2018

The difference is in innovation
It makes all the difference to continually explore new ideas, processes and solutions that anticipate the needs and demands of the world we live in.

Notes to the Consolidated Financial Statements of 2018

Consolidated Income Statements for the years ended 31 December 2018 and 2017

(amounts in thousand euros)

	Notes	2018	2017
Interest income calculated using the effective interest method		8,565	4,200
Interest and similar expense		(693)	(810)
Net Interest Income	4	**7,872**	**3,390**
Fee and commission income / (expense)	5	11,082	3,046
Net gains / (losses) arising from other financial assets at fair value through other comprehensive income	6	2	-
Other operating income and expenses	7	(414)	4
Operating Income		**18,542**	**6,440**
Staff costs	8	14,064	12,195
General and administrative expenses	9	22,574	18,423
Depreciation and amortisation	16 and 17	3,641	2,702
Operating Expenses		**40,279**	**33,320**
Profit / (loss) before provisions and impairment		**(21,737)**	**(26,880)**
Loans impairment	15	343	117
Other financial assets impairment	11 to 14	(149)	-
Other assets impairment	19	168	-
Other provisions	21	(20)	77
Operational profit / (loss)		**(22,079)**	**(27,074)**
Profit / (loss) before income tax		**(22,079)**	**(27,074)**
Income tax			
Current	18	(4,454)	(5,604)
Deferred	18	(138)	(168)
Net income / (loss) for the year		**(17,487)**	**(21,302)**
Earnings per share (in Euros)			
Basic	10	(0.12)	(0.19)
Diluted	10	(0.12)	(0.19)

BY THE CHARTERED ACCOUNTANT
Nuno Filipe dos Santos Fernandes

BY THE BOARD OF DIRECTORS
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Consolidated Statements of Comprehensive Income for the years ended 31 December 2018 and 2017

(amounts in thousand euros)

	Notes	2018	2017
Items that may be reclassified to the income statement			
Fair value reserve	24	(50)	37
Other Comprehensive Income / (Loss) for the year		**(50)**	**37**
Net income / (loss) for the year		(17,487)	(21,302)
Total Comprehensive Income / (Loss) for the year		**(17,537)**	**(21,265)**

BY THE CHARTERED ACCOUNTANT
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Consolidated Balance Sheet as at 31 December 2018 and 2017

(amounts in thousand euros)

	Notes	2018	2017
Assets			
Cash and deposits at central banks	11	31,679	58,064
Deposits with banks	12	108,667	176,975
Investment in securities	13	454,102	-
Available for sale financial assets	13	-	5,751
Financial assets held to maturity	13	-	261,550
Investments at credit institutions	14	119,811	101,912
Loans and advances to customers	15	248,049	79,347
Other tangible assets	16	651	193
Goodwill and intangible assets	17	25,387	21,000
Deferred tax assets	18	530	209
Other assets	19	12,898	15,791
Total Assets		**1,001,774**	**720,792**
Liabilities			
Deposits from customers	20	883,950	619,230
Provisions	21	51	86
Other liabilities	22	28,269	25,087
Total Liabilities		**912,270**	**644,403**
Equity			
Share Capital	23	156,400	125,000
Fair value reserve	24	-	50
Retained earnings	24	(49,409)	(27,359)
Net income / (loss) for the year		(17,487)	(21,302)
Total Equity		**89,504**	**76,389**

BY THE CHARTERED ACCOUNTANT
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Statement of Changes in Equity for the years ended at 31 December 2018 and 2017

(amounts in thousand euros)

	Share Capital	Fair Value Reserves	Other Reserves	Retained Earnings	Net income / (loss) for the year	Total Equity
Balance on 31 December 2016	**85,000**	**13**	**-**	**(5,921)**	**(21,439)**	**57,654**
Share Capital increase	40,000	-	-	-	-	40,000
Fair Value Reserves	-	37	-	-	-	37
Retained Earnings	-	-	-	(21,439)	21,439	-
Net income / (loss) for the year	-	-	-	-	(21,302)	(21,302)
Balance on 31 December 2017	**125,000**	**50**	**-**	**(27,359)**	**(21,302)**	**76,389**
IFRS 9 adoption	-	10	(695)	-	-	(685)
Balance on 1 January 2018	**125,000**	**60**	**(695)**	**(27,359)**	**(21,302)**	**75,704**
Share Capital increase	31,400	-	-	-	-	31,400
Fair Value Reserves	-	(60)	-	-	-	(60)
Other	-	-	(53)	-	-	(53)
Retained Earnings	-	-	-	(21,302)	21,302	-
Net income / (loss) for the year	-	-	-	-	(17,487)	(17,487)
Balance on 31 December 2018	**156,400**	**-**	**(748)**	**(48,661)**	**(17,487)**	**89,504**

BY THE CHARTERED ACCOUNTANT
Nuno Filipe dos Santos Fernandes

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
José Manuel Gonçalves de Morais Cabral
Rui Afonso Galvão Mexia de Almeida Fernandes
Clementina Maria Dâmaso de Jesus Silva Barroso
António Pedro Ferreira Vaz da Silva
António Emídio Pessoa Corrêa d'Oliveira
Guy Patrick Guimarães de Goyri Pacheco

Consolidated Statement of Cash Flows for the years ended 31 December 2018 and 2017

(amounts in thousand euros)

	Notes	2018	2017
Cash flows arising from operating activities		**102,011**	**281,350**
Interest and commissions received		15,746	9,015
Interest and commissions paid		(3,127)	(2,002)
Payments to employees		(13,741)	(11,443)
Other payments and receipts		(2,775)	(18,578)
		(3,897)	**(23,008)**
Decrease / Increase in operating assets / liabilities		***105,908***	***304,358***
Other operating assets / liabilities		*9,013*	*10,966*
Loans and advances to customers		*(167,900)*	*(71,996)*
Deposits from customers		*264,795*	*365,388*
Cash flows arising from investment activities		**(195,447)**	**(240,007)**
Deposits with Bank of Portugal		26,539	(28,964)
Investment in securities		(197,492)	(162,493)
Investments in credit institutions		(18,305)	(43,170)
Acquisition of tangible and intangible assets		(6,189)	(5,380)
Cash flows arising from financing activities		**25,000**	**40,000**
Share capital increase		25,000	40,000
Cash and cash equivalents at the beginning of the year		**200,892**	**119,549**
Net changes in cash and cash equivalents		**(68,436)**	**81,343**
Cash and cash equivalents at the end of the year		**132,456**	**200,892**
Cash and cash equivalents comprise:		**132,456**	**200,892**
Cash	11	25,462	25,308
Deposits with banks	12	106,994	175,584

BY THE CHARTERED ACCOUNTANT
Nuno Filipe dos Santos Fernandes

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

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

The IFRS include accounting standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC) and their predecessor bodies.

The Bank's financial statements, presented herein, reflect the results of the operations of the Bank and its subsidiaries (together "Group"), referring to the year ended on 31 December 2018, having been prepared in accordance with current IFRS as endorsed in the European Union by 31 December 2018.

The Group has adopted IFRS and interpretations that are of mandatory application for periods beginning on or after 1 January 2018. The accounting policies were applied consistently, and are consistent with those used to prepare the financial statements of the previous period with respect to the changes arising from the adoption of the following standards as at 1 January 2018: IFRS 9 - Financial instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 has replaced IAS 39 Financial Instruments - Recognition and Measurement and establishes new rules for the accounting of financial instruments, showing significant changes, above all in terms of the classification and measurement of financial assets and the quantification of their impairment.

The requirements presented by IFRS 9 are, in general, applied retrospectively through adjustment of the opening balance sheet on the initial application date (1 January 2018). The impacts derived from the implementation of IFRS 9 as at 1 January 2018 are detailed in Note 31. No significant impacts to the financial statements were estimated due to the adoption of IFRS 15.

The reconciliation between the balance sheet values as at 31 December 2017 and the balance sheet values as at 1 January 2018, pursuant to IFRS 9, are detailed in Note 31. The balances included in the financial statements relative to 31 December 2017 are presented exclusively for comparative purposes (Note 31).

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 financial assets avaliable for sale.

The preparation of financial statements in conformity with IFRS requires the Bank to make judgment and use estimates that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes to these assumptions or if they are different from reality could imply that the actual results in the future may differ from those reported. The areas involving a higher degree of 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 14 March 2019.

Note 2 – Main Accounting Policies

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

2.1 Basis of consolidation

The Group applies IFRS 3 for the accounting recognition of business combinations, except in situations of business combinations between companies under common control (Transactions under common control), pursuant to article 2 c) and paragraph B1 of the appendix to Annex B of this standard.

The consolidated financial statements presented herein reflect the assets, liabilities, income and costs of the Bank and its subsidiary (Group).

2.1.1 Financial stakes in subsidiaries

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

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

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

2.1.2 Investments in associates

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

The existence of significant influence by the Group is usually demonstrated by one or more of the following ways:

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

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

As at 31 December 2018 the Bank does not have any associates.

2.1.3 Acquisition and dilution of non-controlling interests

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

2.1.4 Loss of control

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

2.1.5 Transactions eliminated on consolidation

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

2.1.6 Goodwill

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

Positive goodwill arising from acquisitions is recognised as an asset and recorded at acquisition cost, not being subject to amortisation. Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the acquisition cost and the total fair value or corresponding share of the fair value of the assets and liabilities and contingent liabilities of the acquired entity, depending on the option taken. If the estimated goodwill is negative, it is recognised directly through profit or loss for the period when the business combination occurs.

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

The recoverable value of the goodwill recorded in the Group's assets is analysed on an annual basis in the preparation of the accounts as at the end of the year or whenever there are indications of any loss of value. Impairment losses are recognised in the income statement. The recoverable amount is determined based on the highest figure between the value of the assets in use and the market value minus selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

In the case of a transaction of a jointly controlled entity, the Group has decided to apply the option of recording the acquired company at the book value that this entity was stated at in the balance sheet of the entity that divested it. Therefore, renewed goodwill is not calculated, with the goodwill that existed, if any, on the selling entity's accounts being recorded by the Bank.

2.2 Foreign Currency Transactions

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

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

Up to date, the Bank has not carried out any transactions in foreign currency.

2.3 Financial Instruments – IFRS 9

As described in Note 1. Basis of Presentation, the Group adopted IFRS 9 – Financial Instruments: on 1 January 2018 in replacement of IAS 39 – Financial Instruments: Recognition and Measurement, which had been enforced up to 31 December 2017. The Group did not decide on the early adoption of any of the requirements of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group decided not to restate the comparative balances of the previous period. All the adjustments to the book values of the financial assets on the transition date were recognised in equity as at 1 January 2018. Consequently, the changes in terms of information disclosed in the notes to the financial statements derived from the amendments to IFRS 7, following the adoption of IFRS 9, were applied only for the current reporting period. The information included in the notes to the financial statements relative to the comparative period correspond to that disclosed in the previous period.

2.3.1 Financial assets

Classification, initial recognition and subsequent measurement

At the time of their initial recognition, the financial assets are classified into one of the following categories:

i. Financial assets at amortised cost;
ii. Financial assets at fair value through other comprehensive income; or
iii. Financial assets at fair value through profit or loss.

The classification takes into account the following aspects:

i. the Group's business model for the management of the financial asset; and
ii. the features of the financial asset's contractual cash flows.

Assessment of the Business Model

The Group carried out an assessment, as at 1 January 2018, of the business model in which the financial asset is held, at the portfolio level, as this approach best reflects how the assets are managed and how the information is provided to the management bodies. The information considered in this assessment included:

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

Assessment as to whether the contractual cash flows correspond only to the receipt of principal and interest (SPPI - Solely Payments of Principal and Interest).

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

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

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

Moreover, an early payment is consistent as a SPPI criterion, if:

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

2.3.1.1 Financial assets at amortised cost

Classification

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

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

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

Initial recognition and subsequent measurement

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

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

Interest of financial assets at amortised cost are recognised under the heading "Interest and similar income calculated through the effective rate", based on the effective interest rate and pursuant to the criteria described in Note 2.12.

Gains or losses generated at the time of their derecognition are recorded in the heading "Earnings with the derecognition of financial assets at amortised cost".

2.3.1.2 Financial assets at fair value through other comprehensive income

Classification

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

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

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

Initial recognition and subsequent measurement

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

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

The interest, premiums or discounts of financial assets at fair value through other comprehensive income are recognised under the heading "Interest and similar income calculated through the effective rate", based on the effective interest rate and pursuant to the criteria described in Note 2.12.

Equity instruments at fair value through other comprehensive income are initially recognised at their fair value, plus transaction costs, and are subsequently measured at fair value. Fair value variations of these financial assets are recorded against other comprehensive income. Dividends are recognised through profit or loss when the right to receive them has been attributed. Impairment is not recognised for equity instruments at fair value through other comprehensive income, with the corresponding accumulated gains or losses recorded under fair value variations being transferred to Retained earnings upon their derecognition.

Derecognition of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

Impairment losses

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

- *Stage 1:* operations in which there has not been a significant increase in credit risk since their initial recognition are classified as being at this stage. The impairment losses associated to operations classified at this stage correspond to the expected impairment losses derived from a default event which could occur in a period of 12 months after the reporting date (expected loan losses at 12 months).
- *Stage 2:* operations in which there has been a significant increase in credit risk since their initial recognition, but that are not yet in situations of impairment, are classified as being at this stage. The impairment losses associated to operations classified at this stage correspond to the expected impairment losses derived from a default event which could occur throughout the expected residual period of life of the operations (lifetime expected loan losses).
- *Stage 3:* operations in a situation of impairment are classified as being at this stage. The impairment losses associated to operations classified at this stage correspond to expected lifetime loan losses.

Significant increase of credit risk (SICR)

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

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

Customers are considered to be in default when one or more of the following criteria are met:

- Existence of instalments of principal or interest overdue for more than 90 days;
- Debtors in a situation of bankruptcy, insolvency or liquidation;
- Loans in litigation;
- Loans in cross-default;
- Existence of a low probability that the customer will fully pay the credit obligations;
- Restructured loans due to financial difficulties;
- Loans in default quarantine;
- Loans over involving suspected fraud or confirmed fraud.

Estimated expected loan losses – Individual analysis

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

- Individual customers with exposures above 500,000 euros,
- Exposures to credit institutions, sovereign entities, central banks or companies through debt securities in stage 2 or 3.

Estimated expected loan losses – Individual analysis

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

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

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

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

- probability of default – PD;
- loss given default – LGD; and
- exposure at default – EAD.

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

The PD are calculated based on benchmarks. If the degree of risk of the counterpart or exposure changes, the associated estimated PD will also vary. The PDs are calculated considering the contractual maturities of the exposures.

The Group gathers performance and default indicators on its credit risk exposures with analyses by type of customer and product.

LGD is the magnitude of the expected loss in the event that the exposure enters into default. The Group estimates the parameters of LGD based on benchmarks. In the case of contracts secured by real estate properties, the ratios of LTV (loan-to-value) are an extremely important parameter in the determination of LGD.

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

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

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

i. a probability of default derived from the external rating of the issuer or counterparty, respectively; and
ii. a loss given default (LGD) defined by the Group, based on data from the rating agency Moody's, and according to whether the entity involved is Corporate or Sovereign.

Reclassifications between financial instruments categories

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

2.3.2 Financial liabilities

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

Non-derivatives financial liabilities essentially include customer funds.

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

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

2.4 Offsetting financial instruments

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

2.5 Equity Instruments

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

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

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

2.6 Tangible Assets

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

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

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

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

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

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

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

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

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

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

2.7 Intangible Assets

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

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

Intangible assets are amortised through the straight line method, as of the month when they are available for use, during their expected useful life, which is situated in a period varying between 3 and 5 years. In the specific case of the base operational system, after analysis of the expected period of its use, it was decided that its amortisation should take place over a period of 15 years.

The Bank performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount, with the difference, when existing, being recognised through profit or loss. The recoverable amount is the higher of net selling price and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

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

2.8 Leasings

The classification of leases is done according to the substance of the transaction and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer to the lessee of all the risks and rewards associated to the ownership of the asset. All other leases are classified as operating leases. Tangible assets acquired through financial leasing contracts, as well as the corresponding liabilities payable to the lessor, are recorded in the balance sheet at the beginning of the lease at the lowest value between the fair value of the assets and the present value of the minimum lease payments. The discount rate used is the rate implicit in the lease. If this rate is not known, then the Group's funding rate for this type of investment is used. The policy for depreciation of these assets follows the rules applicable to tangible fixed assets owned by the Group. The interest included in the rents and in the amortisation of tangible assets is recognised in the income statement of the period to which they refer to.

For operating leases, the instalments payable are recognised as a cost in the income statement over the lease period (Note 9).

2.9 Employee benefits

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

2.10 Income Tax

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

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

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

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

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

CTT is covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all companies in which CTT holds, directly or indirectly, at least 90% of the share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, Banco CTT and its subsidiaries receive from CTT the value relative to the tax loss which they contribute to the consolidated corporate income tax of the CTT Group and, likewise, pay to CTT the value relative to their positive contribution to the consolidated corporate income tax of the CTT Group.

2.11 Provisions

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

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

2.12 Interest income and expenses

The earnings of financial instruments measured at amortised cost are recognised in the headings of "Interest and similar income" or "Interest and similar expenses" using the effective interest method.

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

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

2.13 Recognition of Income of Services, Fees and Commissions

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

- Fees and commissions that are earned in the execution of a significant act, are recognised as income when the significant act has been completed;

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

2.14 Earnings per share

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

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

2.15 Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

2.16 Provision of insurance mediation services

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

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

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

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

The IFRS establish a series of accounting treatments and require the Board of Directors to make the necessary judgments and estimates in deciding which treatment is most appropriate. The main accounting estimates and judgements used in the application of the accounting principles are discussed in this note in order to improve the understanding on how their application affects the results reported by the Group and their disclosure.

A broad description of the main accounting principles used by the Group is presented in Note 2 financial statements.

Considering that in some cases there are several alternatives to the accounting treatment chosen by Board of Directors, the results reported by the Group could differ if a different treatment were chosen.

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

3.1 Financial Instruments – IFRS 9

3.1.1 Classification and measurement

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

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

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

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

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

Significant increase of credit risk

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

Definition of group of assets with common credit risk features

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

Probability of default

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

Loss given default

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

3.2 Deferred taxes

The recognition of deferred tax assets assumes the existence of future net profit and taxable income. The deferred tax assets and liabilities were determined based on the tax legislation currently in force for the Group, or on legislation that has already been published for future application. Amendments to tax legislation may influence the value of the deferred taxes.

3.3 Provisions

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

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

Note 4 – Net Interest Income

This balance includes:

(amounts in thousand euros)

	2018	2017
Interest income calculated using the effective interest method	**8,565**	**4,200**
Interest on investment in securities	6,250	3,413
Interest on loans and advances	1,856	589
Interest on deposits and investments at credit institutions	459	198
Interest expense and similar charges	**693**	**810**
Interest on deposits from customers	693	749
Others	-	61
Net interest income	**7,872**	**3,390**

Interest and similar income for the year ended December 31, 2018 shows a total of 16 thousand euros related to impaired financial assets - Stage 3 Credit.

The caption Interest on investments in securities includes the amount of 6,226 thousand euros (2017: 3,384 thousand euros) related to interest on financial assets at amortized cost.

The caption Interest on loans and advances to customers includes the amount of 163 thousand euros (2017: 361 thousand euros) related to commissions and other costs and income accounted for using the effective interest rate method, as mentioned in the accounting policy described in note 2.12.

Note 5 – Net fees and commissions income

This balance includes:

(amounts in thousand euros)

	2018	2017
Fees and commissions received	**15,650**	**4,139**
From payments services	10,662	-
From banking services	4,750	3,128
From insurance mediation services	185	1,011
Other fees and commissions	53	-
Fees and commissions paid	**4,568**	**1,093**
From banking services	2,271	1,054
From payments services	2,210	-
From securities operations	72	33
Other fees and commissions	15	6
Net fees and commissions income	**11,082**	**3,046**

The caption Fees and commissions received from payments services refers to commissions related to the activity of payments acceptance through the network of Payshop agents.

The caption Fees and commissions received from banking services includes 1,031 thousand euros (2017: 1,073 thousand euros) related to commissions from intermediation of credit products.

The caption Fees and commissions paid on payments services refers to commissions paid on the activity of payments acceptance through the network of Payshop agents.

Note 6 – Net gains / (losses) arising from financial assets at fair value through other comprehensive income

This balance includes:

(amounts in thousand euros)

	2018	2017
Gains arising from financial assets at fair value through other comprehensive income	**2**	**-**
Fixed Income	2	-
Net gains / (losses) arising from financial assets at fair value through other comprehensive income	**2**	**-**

Note 7 – Other operating income/ (expenses)

This balance includes:

(amounts in thousand euros)

	2018	2017
Operating income	**33**	**87**
Other operating income	33	87
Operating expenses	**447**	**83**
Royalties	299	-
Donations and contributions	43	50
Contribution over the banking sector	37	15
Contribution for the single resolution fund	16	1
Contribution for the resolution fund	12	3
Annual supervisory fee (SSM)	7	3
Indirect taxes	5	2
Annual supervisory fee (ASF)	2	-
Contribution for the deposit guarantee fund	1	-
Other operating expenses	25	9
Other operating income / (expenses)	**(414)**	**4**

The item Royalties records the amounts due to CTT Contact, S.A. for the use of the Payshop brand.

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 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.

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 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 2018, 7 thousand euros of supervisory fee (2017: 3 thousand euros).

Note 8 – Staff Costs

This balance includes:

(amounts in thousand euros)

	2018	2017
Salaries	8,940	7,245
Mandatory social security charges	2,196	1,835
Employees with a plurality of employers' regime	1,612	1,968
Incentives and performance premiums	1,122	927
Insurance for accidents at work and occupational diseases	114	99
Other costs	80	121
Staff costs	**14,064**	**12,195**

The total amount of fixed remuneration of the Management and Supervisory Board, in 2018 recorded in the caption remunerations amounted to 1,177 thousand euros (2017: 1,150 thousand euros). During 2018, regarding the Management and Supervisory Boards, were also incurred costs with contributions to Social Security in the amount of 278 thousand euros (2017: 272 thousand euros). Within the caption Incentives and performance premiums, as at 31 December 2018, there are 299 thousand euros attributable to the Management (2017: 320 thousand euros). The caption Other costs included 35 thousand euros of retirement savings plan granted to the Management (2017: 35 thousand 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 2018, the cost with these shared employees with CTT was 1,612 thousand euros (2017: 1,968 thousand euros).

In 2018, the Bank paid to the Board of Directors 180 thousand euros of variable remunerations (2017: 144 thousand euros).

As at the end of 2018 and 2017, effective workers in the service of the Bank, excluding employees with a plurality of employers' regime, distributed by professional category, were as follows:

	2018	2017
Board of directors (*)	11	11
Intermediary management	25	24
Technical functions	210	154
Administrative	2	2
	248	**191**

(*) 2017: Includes 4 non-executive directors and 3 members of the Audit Committee.
2018: Includes 4 non-executive directors and 3 members of the Audit Committee.

Note 9 – General and administrative expenses

This balance includes:

(amounts in thousand euros)

	2018	2017
Water, electricity and fuel	135	107
Consumables	132	96
Hygiene and cleaning supplies	3	-
Rents	1,151	911
Communications	1,322	954
Travel, hotel and representation costs	136	108
Advertising	3,839	3,358
Maintenance and related services	102	68
Training costs	92	94
Insurance	129	92
Information technology services	7,162	6,818
Consulting and advisory services	2,052	2,018
Other specialized services	2,329	1,665
Other supplies and services	3,990	2,134
General and administrative expenses	**22,574**	**18,423**

The caption Information technology services refers to costs incurred with the implementation and maintenance of the Group's IT infrastructure and systems.

The caption Advertising refers to costs incurred with advertising and communication of the brand and products of Banco CTT.

The caption Other specialized services records the costs incurred with banking and transactional operations.

The caption Other supplies and services records, among other things, the costs of outsourcing some support functions.

The Group has entered into operating leases contracts whose outstanding due rents as at 31 December 2018 amounts to 2,005 thousand euros (2017: 951 thousand 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 thousand euros)

	2018			2017		
	Property	Vehicles	Total	Property	Vehicles	Total
Up to 1 year	767	302	1,069	568	205	773
1 to 5 years	560	376	936	–	178	178
	1,327	**678**	**2,005**	**568**	**383**	**951**

Costs incurred with statutory audit and related services rendered by the Statutory Auditor of the Group are presented as follows:

(amounts in thousand euros)

	2018	2017
Legal certification services	222	193
Other assurance services	97	71
Other services	–	11
	319	**275**

Note 10 – Earnings per Share

Earnings per share is calculated as follows:

	2018	2017
Net income (thousands of euros)	(17,487)	(21,302)
Average number of shares	151,895,342	112,287,671
Basic earnings per share (euros)	(0.12)	(0.19)
Diluted earnings per share (euros)	(0.12)	(0.19)

The Bank's share capital is €156,400,000 and is fully subscribed and paid-up. It is represented by 156,400,000 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 2018 and 2017, 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 thousand euros)

	2018	2017
Cash	25,462	25,308
Demand deposits at Bank of Portugal	6,217	32,756
Cash and deposits at central banks	**31,679**	**58,064**

The caption Cash is represented by banknotes and coins denominated in euros.

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.

Demand deposits at Bank of Portugal are remunerated at a negative rate of 0.4% for the amount that exceeds the minimum reserve requirement.

Note 12 – Deposits with banks

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Credit institutions in Portugal	106,994	175,584
Amounts due for collection	1,675	1,391
Impairment for deposits with banks	(2)	–
Deposits with banks	**108,667**	**176,975**

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

The movement of the impairment for deposits with banks is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	–	–
Adjustments due to IFRS 9 adoption	1	–
Changes on consolidation perimeter	2	
Charge for the year	–	–
Write-back for the year	(1)	–
Amounts charged-off	–	–
Impairment for deposits with banks	**2**	**–**

Note 13 – Investment in Securities

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Other financial assets at fair value through other comprehensive income	**1,489**	**–**
Government bonds		
Domestic	560	–
Other issuers		
Domestic	–	–
Foreign	929	–
Other financial assets at amortised cost	**452,613**	**–**
Government bonds		
Domestic	296,486	–
Foreign	121,103	–
Other issuers		
Domestic	35,207	–
Impairment	(183)	–
Available for sale financial assets	**–**	**5,751**
Government bonds		
Domestic	–	576
Other issuers		
Domestic	–	250
Foreign	–	4,925
Financial assets held to maturity	**–**	**261,550**
Other issuers		
Domestic	–	162,426
Foreign	–	75,110
Other issuers		
Domestic	–	24,014
Investment in securities	**454,102**	**267,301**

The analysis of Investment in securities by remaining maturity, as at 31 December 2018 and 2017, is as follows:

(amounts in thousand euros)

	2018				
	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Total
Other financial assets at fair value through other comprehensive income	**24**	**608**	**857**	**–**	**1,489**
Government bonds					
Domestic	14	–	546	–	560
Other issuers					
Domestic	–	–	–	–	–
Foreign	10	608	311	–	929
Other financial assets at amortised cost	**10,460**	**13,990**	**78,393**	**349,953**	**452,796**
Government bonds					
Domestic	4,704	6,551	18,071	267,160	296,486
Foreign	498	2,539	42,443	75,623	121,103
Other issuers					
Domestic	5,258	4,900	17,879	7,170	35,207
Investment in securities	**10,484**	**14,598**	**79,250**	**349,953**	**454,285**

(amounts in thousand euros)

	2017				
	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Total
Available for sale financial assets	**504**	**2,072**	**2,501**	**675**	**5,751**
Government bonds					
Domestic	14	–	–	562	576
Other issuers					
Domestic	250	–	–	–	250
Foreign	240	2,072	2,501	113	4,925
Financial assets held to maturity	**5,329**	**10,393**	**47,282**	**198,546**	**261,550**
Other issuers					
Domestic	3,371	5,084	11,790	142,182	162,426
Foreign	275	–	20,888	53,946	75,110
Other issuers					
Domestic	1,683	5,309	14,604	2,418	24,014
Investment in securities	**5,833**	**12,465**	**49,773**	**199,221**	**267,301**

The movement of the impairment for investment in securities is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	-	-
Adjustments due to IFRS 9 adoption	247	-
Charge for the year	126	-
Write-back for the year	(190)	-
Amounts charged-off	-	-
Impairment for investment in securities	**183**	**-**

According to the accounting policy described in Note 2.3, the Group regularly assesses whether there is objective evidence of impairment in its financial asset portfolios at fair value through other comprehensive income and other financial assets at amortized cost, following the criteria described in Note 3.1.

Note 14 – Investments at credit institutions

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Placements at Credit Institutions in Portugal	74,817	73,721
Loans to Credit Institutions in Portugal	36,915	19,690
Placements at Credit Institutions abroad	8,501	8,501
Impairment for investments at credit institutions	(422)	-
Investments at credit institutions	**119,811**	**101,912**

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

(amounts in thousand euros)

	2018	2017
Up to 3 months	26,974	16,717
From 3 to 6 months	58,532	16,078
From 6 months to 12 months	11,817	57,286
From 1 to 3 years	14,251	7,474
More than 3 years	8,659	4,357
Investments at credit institutions	**120,233**	**101,912**

Investments at credit institutions presented during the period an average interest rate of 0.394% (2017: 0.267%).

The movement of the impairment for investments at credit institutions is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	-	-
Adjustments due to IFRS 9 adoption	624	-
Changes on consolidation perimeter	7	
Charge for the year	564	-
Write-back for the year	(773)	-
Amounts charged-off	-	-
Impairment for investments at credit institutions	**422**	**-**

Note 15 – Loans and advances to customers

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Mortgage loans	238,667	66,145
Other loans	8,918	12,949
Overdrafts	529	299
Performing loans	**248,114**	**79,393**
Overdue loans – less than 90 days	61	12
Overdue loans – over 90 days	332	60
Overdue loans	**393**	**72**
Impairment for credit risk	**(458)**	**(118)**
Loans and advances to customers	**248,049**	**79,347**

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

(amounts in thousand euros)

	2018						
	At sight	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Undetermined	Total
Mortgage loans	-	1,723	4,921	13,333	218,690	-	238,667
Other loans	-	8,918	-	-	-	-	8,918
Overdrafts	529	-	-	-	-	393	922
Loans and advances to customers	**529**	**10,641**	**4,921**	**13,333**	**218,690**	**393**	**248,507**

(amounts in thousand euros)

	2017						
	At sight	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Undetermined	Total
Mortgage loans	-	466	1,357	3,681	60,642	-	66,145
Other loans	-	12,949	-	-	-	-	12,949
Overdrafts	299	-	-	-	-	72	371
Loans and advances to customers	**299**	**13,415**	**1,357**	**3,681**	**60,642**	**72**	**79,465**

The analysis of loans and advances to customers, by type of interest rate, is presented as follows:

(amounts in thousand euros)

	2018	2017
Fixed rate	922	371
Floating rate	247,585	79,094
Loans and advances to customers	**248,507**	**79,465**

The movement of the impairment for credit risk is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**118**	**-**
Adjustments due to IFRS 9 adoption	(3)	-
Charge for the year	400	134
Write-back for the year	(57)	(16)
Amounts charged-off	-	-
Impairment for credit risk	**458**	**118**

Loans and advances to customers detailed by stage as defined in IFRS 9 is presented as follows:

(amounts in thousand euros)

	2018	1 january 2018
Stage 1	**246,487**	**79,051**
Gross amount	246,671	79,106
Impairment	(184)	(55)
Stage 2	**1,435**	**286**
Gross amount	1,502	295
Impairment	(67)	(9)
Stage 2	**127**	**13**
Gross amount	334	64
Impairment	(207)	(51)
	248,049	**79,350**

Note 16 – Other tangible assets

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Acquisition cost		
Buildings		
Improvements in leasehold property	98	206
Equipment		
Furniture	355	250
Machinery	2,576	32
Computer equipment	235	159
Interior installations	1	7
Security equipment	66	43
Other equipment	74	6
	3,405	**703**
Accumulated depreciation		
Accumulated charge for the previous years	2,232	129
Charge for the year	522	381
	2,754	**510**
Other tangible assets	**651**	**193**

The item Machinery includes on 31 December, 2018 the amount of 2,488 thousand euros related to the entry of Payshop in the consolidation perimeter.

The movements in tangible assets, during 2018, are analysed as follows:

(amounts in thousand euros)

	2018					
	Balance on 1 january	Aquisitions / Charge	Transfers	Disposals / Charged-off	Other movements	Balance on 31 december
Acquisition cost						
Buildings						
Improvements in leasehold property	206	98	–	(206)	–	98
Equipment						
Furniture	250	105	–	–	–	355
Machinery	32	56	–	–	2,488	2,576
Computer equipment	159	76	–	–	–	235
Interior installations	7	1	–	(7)	–	1
Security equipment	43	23	–	–	–	66
Other equipment	6	–	–	–	68	74
	703	**359**	**–**	**(213)**	**2,556**	**3,405**
Accumulated depreciation						
Buildings						
Improvements in leasehold property	85	138	–	(206)	–	17
Equipment						
Furniture	244	57	–	–	–	301
Machinery	1	249	–	(7)	1,867	2,110
Computer equipment	156	63	–	–	–	219
Interior installations	5	3	–	–	–	8
Security equipment	13	12	–	–	–	25
Other equipment	6	–	–	–	68	74
	510	**522**	**–**	**(213)**	**1,935**	**2,754**
Other tangible assets	**193**	**(163)**	**–**	**–**	**621**	**651**

The amounts reported on other movements relate to the entry of Payshop into the Group's consolidation perimeter.

The movements in tangible assets, during 2017, are analysed as follows:

(amounts in thousand euros)

	2017				
	Balance on 1 january	Aquisitions / Charge	Transfers	Disposals / Charged-off	Balance on 31 december
Acquisition cost					
Buildings					
Improvements in leasehold property	40	166	–	–	206
Equipment					
Furniture	3	247	–	–	250
Machinery	–	32	–	–	32
Computer equipment	107	51	–	–	159
Interior installations	1	6	–	–	7
Security equipment	32	11	–	–	43
Other equipment	6	–	–	–	6
	189	**514**	**–**	**–**	**703**
Accumulated depreciation					
Buildings					
Improvements in leasehold property	6	79	–	–	85
Equipment					
Furniture	3	241	–	–	244
Machinery	–	1	–	–	1
Computer equipment	107	49	–	–	156
Interior installations	1	4	–	–	5
Security equipment	7	6	–	–	13
Other equipment	6	–	–	–	6
	129	**381**	**–**	**–**	**510**
Other tangible assets	**60**	**133**	**–**	**–**	**193**

Note 17 – Goodwill and intangible assets

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Goodwill		
Payshop (Portugal), S.A.	406	-
	406	**-**
Intangible assets		
Aquisition cost		
Software in use	28,599	22,719
Other intangible assets	424	16
Work in progress	3,691	2,135
	32,714	**24,870**
Accumulated depreciation		
Accumulated charge for the previous years	4,614	1,549
Charge for the year	3,119	2,321
	7,733	**3,870**
	24,981	**21,000**
Goodwill and intangible assets	**25,387**	**21,000**

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

The movements in Goodwill and intangible assets, during 2018, are analysed as follows:

(amounts in thousand euros)

	2018					
	Balance on 1 january	Aquisitions / Charge	Transfers	Disposals / Charged-off	Other movements	Balance on 31 december
Goodwill						
Consolidation and revaluation differences	-	406	-	-	-	406
Impairment	-	-	-	-	-	-
	-	**406**	**-**	**-**	**-**	**406**
Intangible assets						
Acquisition cost						
Software in use	22,719	2,015	3,516	-	349	28,599
Other intangible assets	16	-	-	-	408	424
Work in progress	2,135	4,873	(3,516)	-	199	3,691
	24,870	**6,888**	**-**	**-**	**956**	**32,714**
Accumulated amortisation						
Software in use	3,866	3,117	-	-	336	7,319
Other intangible assets	4	2	-	-	408	414
	3,870	**3,119**	**-**	**-**	**744**	**7,733**
	21,000	**3,769**	**-**	**-**	**212**	**24,981**
Goodwill and intangible assets	**21,000**	**4,175**	**-**	**-**	**212**	**25,387**

Other movements relate to the entry of Payshop into the Group's consolidation perimeter.

The movements in Goodwill and intangible assets, during 2017, are analysed as follows:

(amounts in thousand euros)

	2017				
	Balance on 1 january	Aquisitions / Charge	Transfers	Disposals / Charged-off	Balance on 31 december
Goodwill					
Consolidation and revaluation differences	-	-	-	-	-
Impairment	-	-	-	-	-
	-	-	-	-	-
Intangible assets					
Acquisition cost					
Software in use	18,699	2,474	1,546	-	22,719
Other intangible assets	16	-	-	-	16
Work in progress	1,290	2,391	(1,546)	-	2,135
	20,005	**4,865**	**-**	**-**	**24,870**
Accumulated amortisation					
Software in use	1,547	2,319	-	-	3,866
Other intangible assets	2	2	-	-	4
	1,549	**2,321**	**-**	**-**	**3,870**
	18,456	**2,544**	**-**	**-**	**21,000**
Goodwill and intangible assets	**18,456**	**2,544**	**-**	**-**	**21,000**

Goodwill's recoverable amount is assessed annually or whenever there is evidence of any loss in value. The recoverable amount is determined based on the value in use of the assets, being calculated using methodologies supported by discounted cash flow techniques, considering the market conditions, the time value and the business risks.

In order to determine the recoverable amount of the investments made, impairment tests were performed with effect on 31 December, 2018 based on the following assumptions:

Social denomination	Basis for determining the recoverable value	Explicit period for cash flows	Discount rate	Perpetuity growth rate
Payshop (Portugal), S.A.	Equity Value / DCF	5 years	10.1%	1.0%

Based on this analysis and prospects for future development, it was concluded that there are no indications of impairment relating to goodwill related to this participation.

Note 18 – Income tax

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

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 2018 and 2017 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 the tax rates anticipated to be in effect on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved at the balance sheet date.

As mentioned in Note 2.10, the Group 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 thousand euros)

	2018	2017
Profit / (loss) before income tax	(22,079)	(27,074)
Current tax rate	21%	21%
Expected tax	**(4,637)**	**(5,686)**
Surcharges	177	-
Total expected tax	**(4,460)**	**(5,686)**
Patrimonial changes	(185)	-
Accruals/(deductions) for the purpose of calculating the taxable income	296	115
Autonomous tax	26	14
Other adjustments	2	-
Current income tax for the period - booked	**(4,321)**	**(5,557)**
Deferred income tax for the period - booked	**(138)**	**(168)**
Total tax booked for the period	**(4,459)**	**(5,723)**
Effective tax rate	**20.2%**	**21.1%**
Prior years' corrections	**(133)**	**(48)**
Income Tax	**(4,592)**	**(5,772)**

In accordance with the accounting policy described in the note 2.10, the amount related to the corporate income tax is recorded as a receivable/payable balance from/to the shareholder CTT (refer to notes 19 and 22).

The movement of deferred taxes in the period is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**209**	**42**
Through income statement	136	168
Through other comprehensive income	185	-
Deferred taxes	**530**	**210**

Note 19 – Other Assets

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Corporate Income Tax (RETGS)	5,547	11,131
Debtors from payments operations	1,734	-
Operations pending settlement	1,514	1,331
Amounts given as pledge	371	282
Other debtors	3,561	2,331
Deferred costs	603	306
Public sector	58	61
Prepayments	1	342
Amounts receivable	51	7
Impairment for other assets	(542)	-
Other assets	**12,898**	**15,791**

Other assets includes the amount of Euros 5,547 thousand euros (2017: 11,131 thousand euros) referring to Corporate Income Tax as a result from the application of Special Taxation of Corporate Groups Regime (RETGS), in accordance with paragraph 2.12 of Note 2.

The item Debtors from payments transactions basically comprises the amounts receivable from Payshop agents.
The item Other debtors basically records the amounts receivable for credit intermediation and insurance mediation operations.

Impairment movements for other assets are analysed as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**-**	**-**
Charge for the year	193	-
Write-back for the year	(25)	-
Amounts charged-off	(1)	-
Other movements	375	
Impairment for other assets	**542**	**-**

The amount of 375 thousand euros recorded in other movements refers to the impairment for other assets in Payshop upon its entry into the Bank's consolidation perimeter.

Note 20 – Deposits from customers

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Demand deposits	671,673	408,640
Time deposits	100,832	129,945
Saving accounts	111,445	80,645
Deposits from customers	**883,950**	**619,230**

This balance is analysed, by remaining maturity, as follows:

(amounts in thousand euros)

	2018	2017
Demand deposits and saving accounts	783,118	489,285
Time deposits		
Up to 3 months	47,463	63,511
From 3 to 12 months	53,369	66,434
Deposits from customers	**883,950**	**619,230**

Note 21 – Provisions

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Provisions for other risks and charges	51	86
Provisions	**51**	**86**

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

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

The movement of this caption, during 2018 and 2017, is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**86**	**21**
Charge for the year	46	81
Write-back for the year	(66)	(4)
Use of provisions	(15)	(12)
Provisions for other risks and charges	**51**	**86**

Note 22 – Other liabilities

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Creditors		
Suppliers	3,829	3,432
Related parties	1,176	361
Other creditors	44	1
Due to employees	3,407	2,893
Operations pending settlement	14,954	13,744
Creditors from payments operations	3,390	-
Corporate Income Tax (RETGS)	458	-
Public sector	794	519
Amounts received as pledge	217	-
Securities pending settlement	-	4,137
Other liabilities	**28,269**	**25,087**

The caption Operations pending settlement records mainly banking transactions pending settlement.

The caption Creditors from payments operations records the amounts pending settlement with customers of the payments business of Payshop.

The caption Amounts received as pledge records the pledged amounts received from Payshop agents.

The caption Other Liabilities includes the amount of 458 thousand euros in IRC resulting from the application of the Special Regime of Taxation of Groups of Companies (RETGS), according to item 2.10 of Note 2.

Note 23 – Share Capital

Share capital is €156,400,000 and is fully subscribed and paid-up. It is represented by 156,400,000 shares, with no nominal value.

On 4 january 2018, the Company's share capital was increased from €125,000,000 (one hundred and twenty-five million euros) to €131,400,000 (one hundred and thirty-one million euros and four hundred thousand euros), via contribution in kind by the Sole Shareholder (CTT – Correios de Portugal, S.A.), in the amount of €6,400,000 (six million and four hundred thousand euros), through the incorporation of Payshop (Portugal), S.A., which then became 100% owned by Banco CTT. This led to the issue of 6,400,000 new ordinary, registered shares with no nominal value at the issue price of €1 (one euro).

On 7 march 2017, the Company's share capital was increased from €131,400,000 (one hundred and thirty-one million euros and four hundred thousand euros) to €156,400,000 (one hundred and fifty six million euros and four hundred thousand 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 2018, the Bank's share capital is fully held by CTT – Correios de Portugal, S.A. (a public company).

Note 24 – Reserves and retained earnings

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Fair value reserves		
Financial assets at fair value through other comprehensive income	-	50
Other reserves	(748)	-
Retained earnings	(48,661)	(27,359)
Reserves and retained earnings	**(49,409)**	**(27,309)**

Note 25 – Contingent liabilities and commitments

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Guarantees given	9,077	4,120
Guarantees received	439,242	122,573
Commitments to thrid parties		
Revocable Commitments		
Credit facilities	10,897	11,944
Irrevocable Commitments		
Credit facilities	9,984	7,594
Commitments from thrid parties		
Revocable Commitments		
Credit facilities	6,862	3,000
Other off balance sheet accounts		
Assets under custody	219	208

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

The amounts recorded as Guarantees received includes mainly mortgages over residential real estate to secure mortgage loans operations.

Revocable and irrevocable commitments enter into contractual arrangements for the granting of credit to the Group's customers (for example, unused lines of credit), which are generally contracted under fixed terms or with other expiration requirements. Substantially all existing credit granting commitments require clients to maintain certain requirements when contracting them.

Notwithstanding the nature of these commitments, the appreciation of these operations is based on the same basic principles of any other commercial operation, namely the solvency of the customer, and the Group requires that these operations be properly collateralized when necessary. Since part of them is expected to expire without having been used, the amounts indicated do not necessarily represent future cash requirements.

Note 26 – Related parties

All business and operations conducted by the Group 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 Group.

As at 31 December 2018, the list of related parties was as follows:

Shareholder / Qualified holdings
CTT - Correios de Portugal, S.A. (Public company)
Gestmin, SGPS, S.A.(1)

(1) Qualified participation in the sole shareholder, CTT - Correios de Portugal, S.A. (Public Company). This shareholding is attributable to Manuel Carlos de Mello Champalimaud, consisting of a component of 0.19% held directly and a component of 12.31% held indirectly through Gestmin, SGPS, SA, a company controlled by Manuel Carlos de Mello Champalimaud , and also shares held by members of the Board of Directors of Gestmin.

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)	-
João Maria de Magalhães Barros de Mello Franco	Member	Member (CCO)	-
Pedro Rui Fontela Coimbra	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
António Pedro Ferreira Vaz da Silva	Member	-	-
António Emídio Pessoa Corrêa d'Oliveira	Member	-	-
Guy Patrick Guimarães de Goyri Pacheco	Member	-	-

[1] Listed above are the Board Members in office as at 31 December 2018.
[1] André Pereira Pereira Gorjão de Andrade Costa, exercised his duties during 2017, having resigned as Non-Executive Member of the Board of Directors of Banco CTT on 19 December 2017 with effect from 31 January 2018.

Other related parties
CTT Expresso – Serviços Postais e Logística, S.A.
CTT Contacto, S.A.
Tourline Express Mensajería, SLU.
Correio Expresso de Moçambique, S.A.
Escrita Inteligente, S.A.
Transporta – Transporte Porta a Porta, S.A.

As at 31 December 2018, the Group's transactions amounts with related parties, as well as the respective expenses and income recognized in the period are analysed as follows:

(amounts in thousand euros)

	2018			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Expenses	Income
CTT - Correios de Portugal, S.A.	5,944	1,189	3,074	3,856
CTT Expresso – Serviços Postais e Logística, S.A.	1	56	275	4
CTT Contacto, S.A.	-	31	299	-
	5,945	**1,276**	**3,648**	**3,860**

As at 31 December 2017, the Group's transactions amounts with related parties, as well as the respective expenses and income recognized in the period are analysed as follows:

(amounts in thousand euros)

	2017			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Expenses	Income
CTT - Correios de Portugal, S.A.	11,140	310	1,013	-
Mailtec Comunicação, S.A.	-	4	64	-
CTT Expresso – Serviços Postais e Logística, S.A.	-	47	241	-
CTT Contacto, S.A.	-	-	-	-
	11,140	**361**	**1,318**	**-**

As at 31 December 2018 the amount of Board Members deposits with the Group is 135 thousand euros (2017: 170 thousand euros).

Note 27 – Fair value

The fair value of financial assets and liabilities, as at 31 December 2018, is analysed as follows:

(amounts in thousand euros)

	2018				
	Fair value through P&L	Fair value through OCI	Amortised cost	Book value	Fair value
Cash and deposits at central banks	–	–	31,679	31,679	31,679
Deposits with banks	–	–	108,667	108,667	108,667
Investment in securities	–	1,489	452,613	454,102	469,839
Other Financial assets at fair value through other comprehensive income	–	1,489	–	1,489	1,489
Bonds – public issuers	–	*560*	–	*560*	*560*
Bonds – other issuers	–	*929*	–	*929*	*929*
Other Financial assets at amortised cost	–	–	452,613	452,613	468,350
Bonds – public issuers	–	–	*417,441*	*417,441*	*433,215*
Bonds – other issuers	–	–	*35,172*	*35,172*	*35,135*
Investments at credit institutions	–	–	119,811	119,811	119,811
Loans and advances to customers	–	–	248,049	248,049	248,049
Financial Assets	**–**	**1,489**	**960,819**	**962,308**	**978,045**
Deposits from customers	–	–	883,950	883,950	883,950
Financial Liabilities	**–**	**–**	**883,950**	**883,950**	**883,950**

The fair value of financial assets and liabilities, as at 31 December 2017, is analysed as follows:

(amounts in thousand euros)

	2017				
	Fair value through P&L	Fair value through OCI	Amortised cost	Book value	Fair value
Cash and deposits at central banks	–	–	58,064	58,064	58,064
Deposits with banks	–	–	176,975	176,975	176,975
Investment in securities	–	5,751	261,549	267,300	281,189
Available for sale financial assets	–	5,751	–	5,751	5,751
Bonds – public issuers	–	*576*	–	*576*	*576*
Bonds – other issuers	–	*5,175*	–	*5,175*	*5,175*
Financial assets held to maturity	–	–	261,549	261,549	275,438
Bonds – public issuers	–	–	*237,536*	*237,536*	*251,244*
Bonds – other issuers	–	–	*24,014*	*24,014*	*24,194*
Investments at credit institutions	–	–	101,912	101,912	101,912
Loans and advances to customers	–	–	79,347	79,347	79,347
Financial Assets	**–**	**5,751**	**677,847**	**683,598**	**697,487**
Deposits from customers	–	–	619,230	619,230	619,230
Financial Liabilities	**–**	**–**	**619,230**	**619,230**	**619,230**

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 Group 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 valuation, 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 Group 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.

The following table summarizes, by valuation levels, the fair value of financial assets and liabilities of the Group, as at 31 December 2018:

(amounts in thousand euros)

	2018			
	Valuation techniques			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	31,679	-	-	31,679
Deposits with banks	108,667	-	-	108,667
Investment in securities	434,704	25,245	9,890	469,839
Other Financial assets at fair value through other comprehensive income	1,489	-	-	1,489
Bonds – public issuers	*560*	-	-	*560*
Bonds – other issuers	*929*	-	-	*929*
Other Financial assets at amortised cost	433,215	25,245	9,890	468,350
Bonds – public issuers	*433,215*	-	-	*433,215*
Bonds – other issuers	-	*25,245*	*9,890*	*35,135*
Investments at credit institutions	-	-	119,811	119,811
Loans and advances to customers	-	-	248,049	248,049
Cash and deposits at central banks	**575,050**	**25,245**	**377,750**	**978,045**
Deposits from customers	-	-	883,950	883,950
Financial Liabilities	**-**	**-**	**883,950**	**883,950**

The following table summarizes, by valuation levels, the fair value of financial assets and liabilities of the Group, as at 31 December 2017:

(amounts in thousand euros)

	2017			
	Valuation techniques			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	58,064	-	-	58,064
Deposits with banks	176,975	-	-	176,975
Investment in securities	256,995	24,194	-	281,189
Available for sale financial assets	5,751	-	-	5,751
Bonds – public issuers	*576*	-	-	*576*
Bonds – other issuers	*5,175*	-	-	*5,175*
Financial assets held to maturity	251,244	24,194	-	275,438
Bonds – public issuers	*251,244*	-	-	*251,244*
Bonds – other issuers	-	*24,194*	-	*24,194*
Investments at credit institutions	-	-	101,912	101,912
Loans and advances to customers	-	-	79,347	79,347
Cash and deposits at central banks	**492,034**	**24,194**	**181,259**	**697,487**
Deposits from customers	-	-	619,230	619,230
Financial Liabilities	**-**	**-**	**619,230**	**619,230**

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:

<u>Cash and deposits with Central Banks, Deposits with other credit institutions and Investments in Central Banks and other credit institutions</u>

These assets have very short maturities and therefore the book value is a reasonable estimate of their respective fair value.

<u>Other Financial assets at amortised cost</u>

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.

<u>Loans and advances to customers</u>

Mortgage Loans

The contracts included in the balance sheet of the Group were all granted during 2018 and 2017, at market rates, so the book balance is a reasonable estimate of their respective fair value.

Other

This type of credit has very short maturities overall and, therefore, the book value is a reasonable estimate of its respective fair value.

<u>Resources from Central Banks and Other Credit Institutions</u>

These assets have very short maturities and, therefore, the book value is a reasonable estimate of its respective fair value.

Deposits from customers

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 28 – Risk Management

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

The Group'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 Group'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 the Financial Risks Committee will regularly monitor credit risk, namely the evolution of credit exposures and monitoring losses.

In the first quarter of 2017, the Bank began granting mortgage loans. As at 31 December 2018, the exposure (net of impairment losses and including off balance sheet exposures) to this product was in the amount of 247,042 thousand euros.

The Group 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, Italy France and Ireland), debt instruments from other issuers (credit institutions and companies), securitisation transactions related to the electricity tariff deficit.

The following table shows information on exposures to the Bank's credit risk (net of impairment losses and including off balance sheet exposures), by risk classes, as at 31 December 2018 and 2017:

(amounts in thousand euros)

	2018	2017
Central authorities or central banks	424,194	270,865
Credit institutions	237,526	289,930
Companies	44,841	41,425
Retail customers	4,341	1,916
Mortgage loans	247,042	73,351
Defaulted loans	128	11
Other items	40,849	41,829
Risk line item	**998,921**	**719,327**

The details of the information relating to risk items (including off-balance sheet items) as of 31 December and 2018 and 2017 are presented as follows:

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Cash and deposits at central banks	6,217	-	6,217	32,753	-	32,753
Other Financial assets at fair value through other comprehensive income	536	-	536	-	-	-
Other financial assets at amortised cost	417,589	(148)	417,441	-	-	-
Available for sale financial assets	-	-	-	576	-	576
Financial assets held to maturity	-	-	-	237,536	-	237,536
Central authorities or central banks	**424,342**	**(148)**	**424,194**	**270,865**	**-**	**270,865**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Deposits with banks	104,309	-	104,309	175,583	-	175,583
Other Financial assets at fair value through other comprehensive income	203	-	203	-	-	-
Available for sale financial assets	-	-	-	713	-	713
Investments at credit institutions	122,355	(415)	121,940	101,912	-	101,912
Others	11,083	(9)	11,074	11,722	-	11,722
Credit institutions	**237,950**	**(424)**	**237,526**	**289,930**	**-**	**289,930**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Other Financial assets at fair value through other comprehensive income	878	(127)	751	-	-	-
Other financial assets at amortised cost	35,207	(35)	35,172	-	-	-
Available for sale financial assets	-	-	-	4,462	-	4,462
Financial assets held to maturity	-	-	-	24,014	-	24,014
Loans and advances to customers	8,918	-	8,918	12,949	-	12,949
Companies	**45,003**	**(162)**	**44,841**	**41,425**	**-**	**41,425**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Loans and advances to customers	4,360	(19)	4,341	1,922	(6)	1,916
Retail customers	**4,360**	**(19)**	**4,341**	**1,922**	**(6)**	**1,916**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Loans and advances to customers	247,274	(232)	247,042	73,411	(60)	73,351
Mortgage loans	**247,274**	**(232)**	**247,042**	**73,411**	**(60)**	**73,351**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Loans and advances to customers	334	(206)	128	62	(51)	11
Defaulted loans	**334**	**(206)**	**128**	**62**	**(51)**	**11**

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

(amounts in thousand euros)

	2018			2017		
	Other Financial assets at fair value through other comprehensive income	Other financial assets at amortised cost	Total	Available for sale financial assets	Financial assets held to maturity	Total
Portugal	536	296,486	297,022	576	162,426	163,002
Spain	–	45,048	45,048	–	31,369	31,369
Italy	–	63,727	63,727	–	31,252	31,252
France	–	6,551	6,551	–	6,608	6,608
Ireland	–	5,777	5,777	–	5,881	5,881
	536	**417,589**	**418,125**	**576**	**237,536**	**238,112**

The analysis of financial assets by stages is analysed as follows:

(amounts in thousand euros)

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Deposits at Central Banks and other credit institutions	114,887	–	–	114,887	209,731
Impairment	(2)	–	–	(2)	–
Net value	**114,885**	**–**	**–**	**114,885**	**209,731**
Investments at credit institutions	120,232	–	–	120,232	101,912
Impairment	(422)	–	–	(422)	–
Net value	**119,810**	**–**	**–**	**119,810**	**101,912**
Other Financial assets at fair value through other comprehensive income	1,141	476	–	1,617	5,751
Impairment	(1)	(127)	–	(128)	–
Net value	**1,140**	**349**	**–**	**1,489**	**5,751**
Other financial assets at amortised cost	452,796	–	–	452,796	261,549
Impairment	(183)	–	–	(183)	–
Net value	**452,613**	**–**	**–**	**452,613**	**261,549**
Loans and advances to customers	246,672	1,502	334	248,508	79,465
Impairment	(184)	(67)	(206)	(457)	(118)
Net value	**246,488**	**1,435**	**128**	**248,051**	**79,347**

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).

At the global level, the liquidity risk management strategy falls within the competence of the Board of Directors, which delegates to the Executive Board and is executed by the Treasury Department, based on constant monitoring of the exposure indicators, and closely monitored by the Financial Risks Committee.

The Financial Risks Committee is responsible for controlling the exposure to liquidity risk by analyzing the liquidity position and assessing its compliance with applicable regulatory rules and limits, as well as with the objectives and guidelines defined by the Group.

The Group's liquidity risk assessment is carried out using regulatory indicators defined by the supervisory authorities, as well as other internal metrics.

As at 31 December 2018, assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2018						
	At sight	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Undetermined	Total
Assets							
Cash and deposits at central banks	31,679	–	–	–	–	–	**31,679**
Deposits with banks	104,309	–	–	–	–	–	**104,309**
Other Financial assets at fair value through other comprehensive income	–	23	608	858	–	–	**1,489**
Other financial assets at amortised cost	–	10,460	13,990	78,392	349,953	–	**452,795**
Investments at credit institutions	–	24,472	72,851	14,251	8,659	–	**120,233**
Loans and advances to customers	529	10,641	4,921	13,333	218,690	393	**248,507**
Total Assets	**136,517**	**45,596**	**92,370**	**106,834**	**577,302**	**393**	**959,012**
Liabilities							
Deposits from customers	783,118	47,463	53,370	–	–	–	**883,951**
Total Liabilities	**783,118**	**47,463**	**53,370**	**–**	**–**	**–**	**883,951**
Gap (Assets-Liabilities)	(646,601)	(1,867)	39,000	106,834	577,302	393	75,061
Accumulated Gap	(646,601)	(648,468)	(609,468)	(502,634)	74,668	75,061	

As at 31 December 2017, assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2017						
	At sight	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Undetermined	Total
Assets							
Cash and deposits at central banks	58,064	–	–	–	–	–	**58,064**
Deposits with banks	176,975	–	–	–	–	–	**176,975**
Available for sale financial assets	–	504	2,072	2,501	675	–	**5,752**
Financial assets held to maturity	–	5,329	10,392	47,282	198,546	–	**261,549**
Investments at credit institutions	–	16,717	73,364	7,474	4,357	–	**101,912**
Loans and advances to customers	299	13,415	1,357	3,681	60,642	72	**79,466**
Total Assets	**235,338**	**35,965**	**87,185**	**60,938**	**264,220**	**72**	**683,718**
Liabilities							
Deposits from customers	489,284	63,511	66,434	–	–	–	**619,229**
Total Liabilities	**489,284**	**63,511**	**66,434**	**–**	**–**	**–**	**619,229**
Gap (Assets-Liabilities)	(253,946)	(27,546)	20,751	60,938	264,220	72	64,489
Accumulated Gap	(253,946)	(281,492)	(260,741)	(199,803)	64,417	64,489	

In addition, as part of the periodic monitoring of the liquidity situation, the Bank calculates the liquidity mismatch, Additional Liquidity Monitoring Metrics (ALMM), in accordance with the addenda introduced in 2018 to Commission Regulation (EU) 680/2014.

ALMM considers all outflows and inflows contracted and uses a maturity ladder that allows to confirm the existence or not of liquidity mismatch of the Bank and allows to know the capacity of the Bank to counterbalance a possible liquidity mismatch.

The liquidity mismatch is calculated for several intervals, from overnight to over five years, considering the asset, liability and off-balance sheet positions with estimated and estimated financial flows that are scaled according to the corresponding residual maturities or entry / exit period of the cash flow.

At 31 December 2018, the ALMM shows a negative liquidity mismatch (difference between outflows and contracted inflows) of 378,456 thousand euros, for which the customer deposits contribute a lot, this negative liquidity mismatch is more than covered by the capacity of the Group which is composed of financial assets and reserves at the Central Bank in the order of 475,986 thousand euros.

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 of 31 December 2018, one of the main instruments for monitoring the interest rate risk of the balance sheet is based on the recent Instruction of Banco de Portugal No. 34/2018, which repeals Instruction 19/2005. This model groups assets and liabilities sensitive to changes in 19 fixed time intervals (maturity dates or first interest rate revision when indexed), from which a potential impact on economic value is calculated. The economic value is calculated from the sum of the cash-flows discounted to the present value. This discount is based on an interest rate curve that is not subject to any type of shock, in which, for the purpose of discounting, the average maturity of the time bands is assumed. According to the table below, the two standard scenarios, which correspond to two positive and negative shocks of 200 basis points, are applied to the base scenario:

(amounts in thousand euros)

	2018					
Time tier	Assets	Liabilities	Off balance sheet	Exposure	Delta Economic Value (+200 bps)	Delta Economic Value (-200 bps)
At sight	157,752	151,124	(2,614)	4,014	-	-
At sight - 1 month	18,648	29,092	3,772	(6,672)	6	(2)
1 - 3 months	48,306	38,200	930	11,036	(36)	13
3 - 6 months	107,940	45,750	180	62,370	(463)	176
6 - 9 months	78,133	38,029	-	40,104	(495)	187
9 - 12 months	115,824	35,009	10,154	90,969	(1,569)	588
1 - 1.5 years	20,908	43,613	470	(22,235)	546	(208)
1.5 - 2 years	13,801	43,613	-	(29,812)	1,020	(391)
2 - 3 years	52,113	86,111	390	(33,608)	1,630	(649)
3 - 4 years	54,874	77,166	280	(22,012)	1,474	(648)
4 - 5 years	49,249	76,051	200	(26,602)	2,251	(1,110)
5 - 6 years	58,131	60,449	260	(2,058)	209	(115)
6 - 7 years	49,763	53,732	-	(3,969)	465	(282)
7 - 8 years	50,334	53,732	-	(3,398)	448	(297)
8 - 9 years	52,891	40,299	-	12,592	(1,835)	1,311
9 - 10 years	47,717	40,299	-	7,418	(1,175)	897
10 - 15 years	-	-	-	-	-	-
15 - 20 years	-	-	-	-	-	-
> 20 years	-	-	-	-	-	-
Total	976,384	912,269	14,022	78,137	2,476	(530)

At 31 December 2017, the Group assessed the losses arising from the impact of interest rate fluctuations in accordance with Bank of Portugal Instruction No. 19/2005, distributing the balance sheet positions and off-balance sheet items included in the banking and sensitive portfolio at the interest rate for the different time bands, from which a parallel shock of 200 basis points is calculated, as shown in the following table:

(amounts in thousand euros)

	2017			
Time tier	Assets	Liabilities	Off balance sheet	Exposure
At sight - 1 month	230,908	127,782	10,244	113,370
1 - 3 months	12,754	65,035	-	(52,281)
3 - 6 months	29,395	54,620	-	(25,225)
6 - 12 months	113,333	77,606	-	35,727
1 - 2 years	20,980	32,687	-	(11,707)
2 - 3 years	28,513	32,687	-	(4,174)
3 - 4 years	43,739	32,687	-	11,052
4 - 5 years	22,575	32,687	-	(10,112)
5 - 7 years	43,947	65,375	-	(21,428)
7 - 10 years	111,777	98,062	-	13,715
10 - 15 years	-	-	-	-
15 - 20 years	-	-	-	-
> 20 years	-	-	-	-
Total	657,921	619,228	10,244	48,937

Given the interest rate gaps observed, at 31 December 2018, the impact on the economic value of instantaneous and parallel interest rate variations of 200 basis points is around 530 thousand euros (2017: 717 thousand euros).

The main assumptions used as of 2017 in the Group's analyzes were:

- Non interest bearing demand deposits: 20% at sight, 80% distributed on a straight-line basis up to 10 years.
- Saving accounts: follow the same distribution as Time Deposits.

The main assumptions used in 2018 in the Group's analyzes are:

- Demand deposits: 15% at sight, 85% distributed non-linearly over 10 years giving it a maturity of 3.9 years;
- Saving accounts: 18% at sight, 82% distributed non-linearly over 5 years giving it a duration of 1.9 years.

Differences in models and assumptions between 2017 and 2018 should be taken into account in comparative analyzes.

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 Group does not have a trading portfolio and most of its investment portfolio is recorded as other financial assets at amortised cost and residually as other financial assets at fair value through other comprehensive income. 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 Group 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. The Group carries out the identification and evaluation of the risks and controls of the processes, ensuring their conformity with the requirements and principles of the Internal Control System.

Note 29 – Capital Management and Solvability Ratio

The main objective of capital management is to ensure compliance with the Group's strategic objectives for capital adequacy while respecting and enforcing the minimum capital requirements defined by the supervisory entities.

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

Own funds, calculated in accordance with Directive 2013/36 / (EU) and Regulation (EU) No575 / 2013 approved by the European Parliament and the Council, and Bank of Portugal Notice No 10/2017, include Tier 1 and Tier 2 capital. Tier 1 includes Common Equity Tier 1 (CET1) and additional Tier 1 capital.

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

The current legislation provides for a transition period between own funds requirements according to national legislation and those calculated in accordance with European legislation in order to phase out either phased-out or the inclusion / deduction of new elements (phased-in). At a prudential level, institutions should report Common Equity Tier 1, tier 1 ratios and totals not less than 7%, 8.5% and 10.5%, respectively, including a conservation buffer of 2.5% and a countercyclical buffer in the case of the Group, 0%, but benefiting from a transitional period until the end of 2019.

Bank of Portugal Notice No. 10/2017 regulated the transitional regime provided for in the CRR on own funds, in particular with regard to the deduction related to deferred taxes generated before 2014 and subordinated debt and non-eligible hybrid instruments, both of which are not applicable to Banco CTT.

With the introduction of IFRS 9, the Group chose to recognize in stages the respective impacts of the static component in accordance with article 473-A of the CRR.

At 31 December, 2018 and 31 December, 2017, the Group had the following capital ratios, calculated in accordance with the transitional provisions set forth in the CRR:

(amounts in thousand euros)

	2018		2017		
	CRR Phasing in	*CRR Fully Implemented*	*CRR Phasing in*	*CRR Fully Implemented*	Notes
OWN FUNDS					
Share Capital	**156,400**	**156,400**	**125,000**	**125,000**	24
Retained Earnings	**(48,661)**	**(48,661)**	**(27,359)**	**(27,359)**	26
Other Reserves	**(53)**	**(53)**	-	-	
Prudential Filters	**(1)**	**(1)**	**35**	**44**	26
Fair value reserve	-	-	40	50	
Additional Valuation Adjustment	(1)	(1)	(5)	(6)	
Deduction to the main Tier 1 elements	**(42,909)**	**(43,569)**	**(42,302)**	**(42,302)**	
Losses for the period	(17,487)	(17,487)	(21,302)	(21,302)	
Intangible assets	(25,387)	(25,387)	(21,000)	(21,000)	18
IFRS 9 adoption	(35)	(695)	-	-	
Common Equity Tier 1	**64,776**	**64,116**	**55,375**	**55,384**	
Tier 1 Capital	**64,776**	**64,116**	**55,375**	**55,384**	
Total Own Funds	**64,776**	**64,116**	**55,375**	**55,384**	
RWA					
Credit Risk	258,673	258,673	198,330	198,330	
Operational Risk	16,513	16,513	10,658	10,658	
IFRS 9 adjustments	-	(480)	-	-	
	275,186	**274,706**	**208,988**	**208,988**	
CAPITAL RATIOS					
Common Equity Tier 1	23.54%	23.34%	26.50%	26.50%	
Tier 1 Ratio	23.54%	23.34%	26.50%	26.50%	
Total Capital Ratio	23.54%	23.34%	26.50%	26.50%	

Note 30 – Business Combinations

Payshop (Portugal), SA (Payshop), a company previously owned 100% by CTT - Correios de Portugal, SA (CTT), now incorporates the consolidation perimeter of Banco CTT, through a capital increase via contribution in kind, in the amount of 6,400,000 euros, which occurred on 4 January 2018.

Following this capital increase, the Bank now holds all the shares representing Payshop's share capital and controls its operating and financial activities. As such, the interest in Payshop, qualifies as an investment in subsidiary and therefore the respective financial statements will be fully consolidated on 4 January 2018 onwards.

This transaction was not accounted for in accordance with IFRS 3 relating to business combinations under Article 2 (c) and paragraph B1 of the Appendix to Annex B of the same standard. Considering that CTT and Payshop were 100% owned by CTT, this is a transaction between companies under common control, whereby Payshop was recorded in the consolidated accounts of Banco CTT for the same amounts as recorded in the consolidated accounts of CTT (predecessor accounting), including goodwill amounting to €406,101.

The balance sheet of Payshop reported on 4 January 2018 and used for the purposes of the first consolidation in the consolidated financial statements of the Banco CTT Group was as follows:

(amounts in euros)

	Payshop 04.01.2018
Assets	
Cash and deposits at central banks	450
Deposits with banks	7,169,022
Investments at credit institutions	635,593
Other tangible assets	621,860
Intangible assets	211,896
Other assets	1,715,859
Total Assets	**10,354,680**
Liabilities	
Other liabilities	4,413,468
Total Liabilities	**4,413,468**
Equity	
Share Capital	1,500,000
Reserves and Retained Earnings	4,441,212
Total Equity	**5,941,212**

Note 31 – Adoption of IFRS 9 – Financial Instruments

Changes in accounting policies resulting from the adoption of IFRS 9 were generally applied retrospectively, except for the following:

- The Group applied the exception that allows non-restatement of comparative information from prior periods regarding changes in classification and measurement (including impairment). The differences in the balance sheet values of financial assets and liabilities resulting from the adoption of IFRS 9 were recognized in Reserves and Retained Earnings as of 1 January, 2018.
- The following assessment was made on the basis of the facts and circumstances that existed at the time of the initial application:

i. the determination of the business model in which the financial asset is held;
ii. the designation and revocation of prior designations of certain financial assets and liabilities designated as FVTPL; and
iii. the designation of certain equity instruments that are not held for trading as FVOCI.

The impact of the adoption of IFRS 9 in the Group's financial statements is detailed below:

Impact of the adoption of IFRS 9 on the Group's equity

The impacts on the Group's equity arising from the adoption of IFRS 9 with reference to 1 January, 2018 are as detailed below:

(amounts in thousand euros)

	Share capital	Fair value reserves	Other reserves and retained earnings	Total Equity
Equity as at 31 December, 2017 - Before IFRS 9	125,000	50	(48,661)	76,389
Impairment:				
Cash and deposits at central banks	-	-	-	-
Deposits with banks	-	-	(1)	(1)
Investments at credit institutions	-	-	(623)	(623)
Loans and advances to customers	-	-	3	3
Investment in securities	-	10	(258)	(248)
	-	10	(879)	(869)
Provisions	-	-	-	-
Change in the classification of securities	-	-	-	-
Own credit risk	-	-	-	-
Current and deferred taxes	-	-	184	184
Equity as at 1 January, 2018 - After IFRS 9	125,000	60	(49,356)	75,704

Reconciliation of balance sheet amounts between IAS 39 and IFRS 9

The impacts on the Group's balance sheet arising from the adoption of IFRS 9 with reference to 1 January, 2018 are detailed as follows:

(amounts in thousand euros)

	IAS 39 31.12.2017	Reclassifications	Remeasurements	IFRS 9 01.01.2018
Assets				
Cash and deposits at central banks	58,064	–	–	58,064
Deposits with banks	176,975	–	(1)	176,974
Financial assets at amortised cost	181,259	261,550	(868)	441,941
Investments at credit institutions	101,912	–	(623)	101,289
Loans and advances to customers	79,347	–	3	79,350
Investment in securities	–	261,550	(248)	261,302
Financial assets at fair value through other comprehensive income	–	5,751	–	5,751
Available for sale financial assets	5,751	(5,751)	–	–
Financial assets held to maturity	261,550	(261,550)	–	–
Other tangible assets	193	–	–	193
Goodwill and intangible assets	21,000	–	–	21,000
Deferred tax assets	209	–	184	393
Other assets	15,791	–	–	15,791
Total Assets	**720,792**	**–**	**(685)**	**720,107**
Liabilities				
Financial liabilities at amortised cost	619,230	–	–	619,230
Deposits from customers	619,230	–	–	619,230
Provisions	86	–	–	86
Other liabilities	25,087	–	–	25,087
Total Liabilities	**644,403**	**–**	**–**	**644,403**
Equity				
Share Capital	125,000	–	–	125,000
Other reserves and retained earnings	(27,359)	–	(695)	(28,054)
Fair value reserves	50	–	10	60
Net income / (loss) for the year	(21,302)	–	–	(21,302)
Total Equity	**76,389**	**–**	**(685)**	**75,704**

In the following paragraphs, the impacts of the adoption of IFRS 9 on the classification and measurement of financial instruments and the determination of impairment losses on financial assets are explained in more detail.

Classification and measurement of financial instruments

The table below shows the measurement category and the book value of financial assets, in accordance with IAS 39 and IFRS 9, as of 1 January, 2018:

(amounts in thousand euros)

IAS 39			IFRS 9		
Category	**Measurement**	**Book value**	**Category**	**Measurement**	**Book value**
Cash and deposits at central banks	Amortised cost	58,064	Cash and deposits at central banks	Amortised cost	58,064
Deposits with banks	Amortised cost	176,975	Deposits with banks	Amortised cost	176,974
Investments at credit institutions	Amortised cost	101,912	Investments at credit institutions	Amortised cost	101,288
Financial assets at amortised cost – loans and advances to customers	Amortised cost	79,347	Financial assets at amortised cost – loans and advances to customers	Amortised cost	79,350
			Financial assets not held for trading at fair value through profit or loss	FVTPL (mandatory)	–
Financial assets at amortised cost – Debt securities	Amortised cost	–	Financial assets at amortised cost – Debt securities	Amortised cost	261,303
Financial assets held to maturity	Amortised cost	261,550	Financial assets held to maturity	Amortised cost	–
Available for sale financial assets	FVOCI (available for sale)	5,751	Financial assets at fair value through other comprehensive income	FVOCI	5,751
			Financial assets not held for trading at fair value through profit or loss	FVTPL (mandatory)	–
			Financial assets at amortised cost – Debt securities	Amortised cost	–

Reconciliation of balance sheet amounts between IAS 39 and IFRS 9

The following table shows the reconciliation between the carrying amounts of financial assets according to the measurement categories of IAS 39 and IFRS 9, as of 1 January, 2018 (transition date):

(amounts in thousand euros)

	Financial assets at amortised cost (Amortised cost)				
		IAS 39			IFRS 9
	Notes	31-dez-17	Reclassifications	Remeasurements	01-jan-18
Cash and deposits at central banks					
Opening balance in IAS 39 and final balance in IFRS 9		58,064	-	-	58,064
Remeasurement: impairment losses		-	-	-	-
Final balance in IFRS 9		**58,064**	**-**	**-**	**58,064**
Deposits with banks					
Opening balance in IAS 39 and final balance in IFRS 9		176,975	-	-	176,975
Remeasurement: impairment losses		-	-	(1)	(1)
Final balance in IFRS 9		**176,975**	**-**	**(1)**	**176,974**
Investments at credit institutions					
Opening balance in IAS 39		101,912	-	-	101,912
Remeasurement: impairment losses		-	-	(623)	(623)
Final balance in IFRS 9		**101,912**	**-**	**(623)**	**101,289**
Loans and advances to customers					
Opening balance in IAS 39		79,347	-	-	79,347
Transfers:					
To fair value through profit and loss (IFRS 9) – Gross value		-	-	-	-
To fair value through profit and loss (IFRS 9) - Impairment		-	-	-	-
Remeasurement: impairment losses		-	-	3	3
Final balance in IFRS 9		**79,347**	**-**	**3**	**79,350**
Investment in securities					
Opening balance in IAS 39		-	-	-	-
Transfer: from available for sale financial assets (IAS 39)		-	-	-	-
Transfer: from financial assets held for trading (IAS 39)		-	261,550	-	261,550
Remeasurement: impairment losses		-	-	(248)	(248)
Remeasurement: from fair value to amortised cost		-	-	-	-
Final balance in IFRS 9		**-**	**261,550**	**(248)**	**261,302**
Financial assets held to maturity					
Opening balance in IAS 39		261,550	-	-	261,550
Transfer: to financial assets at amortised cost – debt securities (IFRS 9)		-	(261,550)	-	(261,550)
Final balance in IFRS 9		**261,550**	**(261,550)**	**-**	**-**
Total financial assets at amortised cost		**677,848**	**-**	**(868)**	**676,980**

(amounts in thousand euros)

	Financial assets at fair value through other comprehensive income (FVOCI)				
		IAS 39			IFRS 9
	Notes	31-dez-17	Reclassifications	Remeasurements	01-jan-18
Financial assets at fair value through other comprehensive income – debt instruments					
Opening balance in IAS 39		-	-	-	-
Transfer: from available for sale financial assets (IAS 39)		-	5,751	-	5,751
Transfer: from financial assets held for trading (IAS 39)		-	-	-	-
Final balance in IFRS 9		**-**	**5,751**	**-**	**5,751**
Available for sale financial assets					
Opening balance in IAS 39		5,751	-	-	5,751
Transfer: financial assets not held for trading at fair value thorough profit and loss (IFRS 9)		-	-	-	-
Transfer: financial assets at amortised cost (IFRS 9)		-	-	-	-
Transfer: financial assets at fair value through other comprehensive income – debt instruments (IFRS 9)		-	(5,751)	-	(5,751)
Transfer: financial assets at fair value through other comprehensive income – equity instruments (IFRS 9)		-	-	-	-
Final balance in IFRS 9		**5,751**	**(5,751)**	**-**	**-**
Total financial assets at fair value through other comprehensive income		**5,751**	**-**	**-**	**5,751**

The following table shows the reconciliation between the accounting values of impairment / provisions in accordance with the measurement categories of IAS 39 and IFRS 9 as of 1 January, 2018 (initial adoption date):

(amounts in thousand euros)

	Credit impairment IAS 39 / Provision IAS 37	Reclassifications	Revaluations	Impairment losses / provision in accordance with IFRS 9
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and deposits at central banks	-	-	-	-
Deposits with banks	-	-	1	1
Investments at credit institutions	-	-	623	623
Loans and advances to customers	118	-	(3)	115
Investment in securities	-	-	248	248
Total	**118**	**-**	**869**	**987**
Held to maturity (IAS 39)/ Financial assets at amortised cost (IFRS 9)				
Investment in securities	-	-	-	-
Total	**-**	**-**	**-**	**-**
Total	**118**	**-**	**869**	**987**

Note 32 – Recent Pronouncements

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

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

IFRS 9 was endorsed by EU Commission Regulation 2067/2016, 22 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 recognized in profit or loss (FVTPL).

The standard requires embedded derivatives 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 the existence of 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 adoption of IFRS 9 had a negative impact on the equity of the Group, after the tax effect of 685 thousand euros, due to the impairment of financial assets.

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 2016, with an effective date of application for periods beginning on or after 1 January 2018.

This standard revoked IAS 11 Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 - Acordos para a Construção de Imóveis, 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:

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

There were no significant effects on the Bank's financial statements as at 31 December 2018 resulting from the adoption of this standard.

IFRIC 22 – 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).

There were no significant effects on the Group's financial statements as at 31 December 2018 resulting from the adoption of this standard.

Other changes

It was also endorsed by UE Commission the amendments issued by IASB:

- On 20 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 - 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).

There were no significant effects on the Group's financial statements as at 31 December 2018 resulting from the adoption of this standard.

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

The Group decided to opt for not having an early application of the following standards endorsed by EU:

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. The standard was endorsed in European Union bi EU Regulation 1986/2017, of 31th October. This new standard replaces IAS 17 Leases.

In accordance with IFRS 16, the lessee applies a single model of lease accounting, and leases are no longer classified as operating or financial.

The lessee must recognize all leases on the balance sheet at the beginning of the contract, recognizing:

- A rights-of-use asset (RoU), which represents your right to use the underlying asset during the contract period; and,
- A lease liability corresponding to the payments to be made up to the end of the contract.

The adoption of IFRS 16 will also have impacts on the income statement, with the depreciation of ROU and interest associated with the lease liabilities being recognized separately, instead of the rents currently recognized as general and administrative expenses.

IFRS 16 allows the lessee to choose not to apply the accounting model to:

- Leases with a lease term of up to 12 months that do not contain a purchase option for the underlying asset; and
- Leases of low value underlying assets (indicative value of 5,000 Euros).

<u>Adoption of IFRS 16 by the Group</u>

The Group will adopt the new regulations with effect from 1 January, 2019. A survey was made of all lease contracts and estimated the impact of adopting the new standard in its consolidated and individual accounts. The Group will apply IFRS 16 in accordance with the full retrospective transition option.

<u>Types of Leases</u>

The Group conducted a survey of all lease and service contracts that may include rights of use over assets, identifying three major leasing groups:

i) Real Estate Leases

Lease contracts of real estate that constitute a right of use in the light of IFRS 16, having been considered as lease periods the initial rental periods of contracts and renewal periods that depend exclusively on the Group's decision and which the Group has reasonable certainty of coming to exercise.

As a practical expedient, fixed services related to each property (variable component) were included in the accounting for the right of use.

ii) Vehicle Leases

The initial periods of the contracts and the renewal periods that depend exclusively on the Group's decision and which the Group has reasonable certainty of exercising have been assumed.

In this type of contract, the amount related to rental income varies according to the number of kilometers that the vehicle carries out over the contract period. Thus, only the minimum rents for the valuation of liabilities and right of use were considered.

As a practical expedient, fixed services related to each vehicle (variable component) were included in the accounting for the right of use.

iii) Other leases

Rental contracts have been identified, such as printers used.

The initial periods of the contracts and the renewal periods that depend exclusively on the Group's decision and which the Group has reasonable certainty of exercising have been assumed.

As a practical expedient, fixed services related to each asset (variable component) were included in the accounting for the right of use.

<u>Incremental interest rate</u>

Considering that the lease contracts do not present an implicit rate, an incremental interest rate was considered for the discount of the rent.

The incremental interest rate varies according to the maturity / duration of the lease.

<u>Transition Model</u>

The Group will elect to adopt the full retrospective transition option with its restatement of comparative information as of 1 January, 2019. The estimated range of impacts of the Group are presented as follows:

	(thousands of euros)
Assets	[1,605; 1,775]
Liabilities	[1,614; 1,784]
Equity	[-9; -9]

IFRIC 23 – Uncertainty over Income Tax Treatment

On 7 June, 2017 was issued an interpretation on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to appeal a tax examination which resulted in a payment to a taxation authority.

The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favorable outcome in favor of the entity on the matter concerned.

In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method.

IFRIC 23 was endorsed by EU Commission Regulation 2018/1595, 23rd October and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

Regarding this interpretation, issued by the IASB, it is not estimated that significant impacts will arise from the future adoption of the accompanying financial statements.

Prepayment features with negative compensation (amendments to IFRS 9)

Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. The board clarified that IFRS 9 requires the prepares to recalculate the amortised cost of the modification financial liability by discounting the modified contractual cash flows using the original EIR and recognize any adjustment in profit or loss (align with financial assets). This amendment was endorsed by EU Commission Regulation 2018/498 and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

Note 34 – Recently Issued pronouncements that are not yet effective for the Group

The annual improvements cycle 2015-2017, issued by IASB on 12 December 2017, introduce amendments, with effective date for annual periods beginning on or after, 1 January 2019, to the standards IFRS 3 (remeasure its previously held interest in a joint operation when it obtains control of the business), IFRS 11 (not remeasure its previously held interest in a joint operation when it obtains joint control of the business), IAS 12 (accounts for all income tax consequences of dividend payments in the same way), IAS 23 (treat as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended se or sale);

Other Amendments issued by IASB that expected to be applied on or after 1 January 2019:

- Long-term interests in Associates and Joint Ventures (Amendment to IAS 28, issued on 12 October 2017), clarifying the interaction with impairment model defied by IFRS 9;
- Pan Amendment, Curtailment or Settlement (Amendments to IAS 19, issued on 7 February 2018), where on the amendment, curtailment or settlement of a defined benefit plan, a company now used updated actuarial assumptions to determine its current service and net interest and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI);
- Definition of Business (Amendments to IFRS 3 Business Combinations, issued on 22 October 2018);
- Definition of Material (Amendments to IAS 1 and IAS 8, issued on 31 October 2018).

With regard to these standards and interpretations issued by the IASB but not yet endorsed by the European Union, it is not estimated that significant impacts on the accompanying financial statements will arise from their future adoption.

Note 35 – Subsequent events

In July 2018, Banco CTT entered into an agreement with Firmus Investimentos SGPS to acquire 100% of the share capital of 321 Crédito, a credit financial institution.

The transaction is awaiting the non-opposition decision by the Bank of Portugal / European Central Bank for the acquisition of a qualifying holding.

Notes to the Individual Financial Statements of 2018

Individual Income Statements for the years ended 31 December 2018 and 2017

(amounts in thousand euros)

	Notes	2018	2017
Interest income calculated using the effective interest method		8,560	4,200
Interest and similar expense		(693)	(810)
Net Interest Income	**4**	**7,867**	**3,390**
Fee and commission income / (expense)	5	2,630	3,046
Net gains / (losses) arising from other financial assets at fair value through other comprehensive income	6	2	-
Other operating income and expenses	7	(145)	4
Operating Income		**10,354**	**6,440**
Staff costs	8	12,698	12,195
General and administrative expenses	9	20,985	18,423
Depreciation and amortisation	16 and 17	3,387	2,702
Operating Expenses		**37,070**	**33,320**
Profit / (loss) before provisions and impairment		**(26,716)**	**(26,880)**
Loans impairment	15	343	117
Other financial assets impairment	11 to 14	(156)	-
Other assets impairment	20	145	-
Other provisions	22	(20)	77
Operational profit / (loss)		**(27,028)**	**(27,074)**
Share of profit of associates under the equity method		3,733	-
Profit / (loss) before income tax		**(23,295)**	**(27,074)**
Income tax			
Current	19	(5,672)	(5,604)
Deferred	19	(136)	(168)
Net income / (loss) for the year		**(17,487)**	**(21,302)**
Earnings per share (in Euros)			
Basic	10	(0.12)	(0.19)
Diluted	10	(0.12)	(0.19)

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Individual Statements of Comprehensive Income for the years ended 31 December 2018 and 2017

(amounts in thousand euros)

	Notes	2018	2017
Items that may be reclassified to the income statement			
Fair value reserve	25	(50)	37
Other Comprehensive Income / (Loss) for the year		**(50)**	**37**
Net income / (loss) for the year		(17,487)	(21,302)
Total Comprehensive Income / (Loss) for the year		**(17,537)**	**(21,265)**

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Individual Balance Sheet as at 31 December 2018 and 2017

(amounts in thousand euros)

	Notes	2018	2017
Assets			
Cash and deposits at central banks	11	31,679	58,064
Deposits with banks	12	104,309	176,975
Investment in securities	13	454,102	-
Available for sale financial assets	13	-	5,751
Financial assets held to maturity	13	-	261,550
Investments at credit institutions	14	114,815	101,912
Loans and advances to customers	15	248,049	79,347
Other tangible assets	16	270	193
Intangible assets	17	24,305	21,000
Investments in subsidiaries and associated companies	18	6,986	-
Deferred tax assets	19	530	209
Other assets	20	11,491	15,791
Total Assets		**996,536**	**720,792**
Liabilities			
Deposits from customers	21	883,950	619,230
Provisions	22	51	86
Other liabilities	23	23,031	25,087
Total Liabilities		**907,032**	**644,403**
Equity			
Share Capital	24	156,400	125,000
Fair value reserve	25	-	50
Retained earnings	25	(49,409)	(27,359)
Net income / (loss) for the year		(17,487)	(21,302)
Total Equity		**89,504**	**76,389**

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Statement of Changes in Equity for the years ended at 31 December 2018 and 2017

(amounts in thousand euros)

	Share Capital	Fair Value Reserves	Other Reserves	Retained Earnings	Net income / (loss) for the year	Total Equity
Balance on 31 December 2016	**85,000**	**13**	**-**	**(5,921)**	**(21,439)**	**57,654**
Share Capital increase	40,000	-	-	-	-	40,000
Fair Value Reserves	-	37	-	-	-	37
Retained Earnings	-	-	-	(21,439)	21,439	-
Net income / (loss) for the year	-	-	-	-	(21,302)	(21,302)
Balance on 31 December 2017	**125,000**	**50**	**-**	**(27,359)**	**(21,302)**	**76,389**
IFRS 9 adoption	-	10	(695)	-	-	(685)
Balance on 1 January 2018	**125,000**	**60**	**(695)**	**(27,359)**	**(21,302)**	**75,704**
Share Capital increase	31,400	-	-	-	-	31,400
Fair Value Reserves	-	(60)	-	-	-	(60)
Other	-	-	(53)	-	-	(53)
Retained Earnings	-	-	-	(21,302)	21,302	-
Net income / (loss) for the year	-	-	-	-	(17,487)	(17,487)
Balance on 31 December 2018	**156,400**	**-**	**(748)**	**(48,661)**	**(17,487)**	**89,504**

BY THE CHARTERED ACCOUNTANT

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Consolidated Statement of Cash Flows for the years ended 31 December 2018 and 2017

(amounts in thousand euros)

	Notes	2018	2017
Cash flows arising from operating activities		**89,352**	**281,350**
Interest and commissions received		15,744	9,015
Interest and commissions paid		(3,127)	(2,002)
Payments to employees		(12,331)	(11,443)
Other payments and receipts		(9,040)	(18,578)
		(8,754)	**(23,008)**
Decrease / Increase in operating assets / liabilities		***98,106***	***304,358***
Other operating assets / liabilities		*1,211*	*10,966*
Loans and advances to customers		*(167,900)*	*(71,996)*
Deposits from customers		*264,795*	*365,388*
Cash flows arising from investment activities		**(187,148)**	**(240,007)**
Deposits with Bank of Portugal		26,539	(28,964)
Investment in securities		(197,492)	(162,493)
Investments in credit institutions		(13,305)	(43,170)
Acquisition of tangible and intangible assets		(5,984)	(5,380)
Dividends received		3,094	-
Cash flows arising from financing activities		**25,000**	**40,000**
Share capital increase		25,000	40,000
Cash and cash equivalents at the beginning of the year		**200,892**	**119,549**
Net changes in cash and cash equivalents		**(72,796)**	**81,343**
Cash and cash equivalents at the end of the year		**128,096**	**200,892**
Cash and cash equivalents comprise:		**128,096**	**200,892**
Cash	11	25,462	25,308
Deposits with banks	12	102,634	175,584

BY THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

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
José Manuel Gonçalves de Morais Cabral
Rui Afonso Galvão Mexia de Almeida Fernandes
Clementina Maria Dâmaso de Jesus Silva Barroso
António Pedro Ferreira Vaz da Silva
António Emídio Pessoa Corrêa d'Oliveira
Guy Patrick Guimarães de Goyri Pacheco

Notes to the Individual Financial Statements

Note 1 – Basis of Presentation

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

The IFRS include accounting standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC) and their predecessor bodies.

The Bank's financial statements, presented herein, refer to the year ended on 31 December 2018, and were prepared in accordance with the current IFRS as endorsed in the European Union by 31 December 2018.

The Bank has adopted IFRS and interpretations that are of mandatory application for periods beginning on or after 1 January 2018. The accounting policies were applied consistently, and are consistent with those used to prepare the financial statements of the previous period with respect to the changes arising from the adoption of the following standards as at 1 January 2018: IFRS 9 - Financial instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 has replaced IAS 39 Financial Instruments - Recognition and Measurement and establishes new rules for the accounting of financial instruments, showing significant changes, above all in terms of the classification and measurement of financial assets and the quantification of their impairment.

The requirements presented by IFRS 9 are, in general, applied retrospectively through adjustment of the opening balance sheet on the initial application date (1 January 2018). The impacts derived from the implementation of IFRS 9 as at 1 January 2018 are detailed in Note 32. No significant impacts to the financial statements were estimated due to the adoption of IFRS 15.

The reconciliation between the balance sheet values as at 31 December 2017 and the balance sheet values as at 1 January 2018, pursuant to IFRS 9, are detailed in Note 32. The balances included in the financial statements relative to 31 December 2017 are presented exclusively for comparative purposes (Note 32).

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 financial assets avaliable for sale.

The preparation of financial statements in conformity with IFRS requires the Bank to make judgment and use estimates that affect the application of the accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes to these assumptions or if they are different from reality could imply that the actual results in the future may differ from those reported. The areas involving a higher degree of 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 14 March 2018.

Note 2 – Main Accounting Policies

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

2.1 Foreign Currency Transactions

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

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

Up to date, the Bank has not carried out any transactions in foreign currency.

2.2 Financial Instruments

As described in Note 1. Basis of Presentation, the Bank adopted IFRS 9 – Financial Instruments: on 1 January 2018 in replacement of IAS 39 – Financial Instruments: Recognition and Measurement, which had been enforced up to 31 December 2017. The Bank did not decide on the early adoption of any of the requirements of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank decided not to restate the comparative balances of the previous period. All the adjustments to the book values of the financial assets on the transition date were recognised in equity as at 1 January 2018. Consequently, the changes in terms of information disclosed in the notes to the financial statements derived from the amendments to IFRS 7, following the adoption of IFRS 9, were applied only for the current reporting period. The information included in the notes to the financial statements relative to the comparative period correspond to that disclosed in the previous period.

2.2.1 Financial assets

<u>Classification, initial recognition and subsequent measurement</u>

At the time of their initial recognition, the financial assets are classified into one of the following categories:

i. Financial assets at amortised cost;
ii. Financial assets at fair value through other comprehensive income; or
iii. Financial assets at fair value through profit or loss.

The classification takes into account the following aspects:

i. the Bank's business model for the management of the financial asset; and
ii. the features of the financial asset's contractual cash flows.

<u>Assessment of the Business Model</u>

The Bank carried out an assessment, as at 1 January 2018, of the business model in which the financial asset is held, at the portfolio level, as this approach best reflects how the assets are managed and how the information is provided to the management bodies. The information considered in this assessment included:

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

Assessment as to whether the contractual cash flows correspond only to the receipt of principal and interest (SPPI - Solely Payments of Principal and Interest).

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

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

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

Moreover, an early payment is consistent as a SPPI criterion, if:

- the financial asset was acquired or originated with a premium or discount relative to the contractual nominal value;

- the early payment substantially represents the nominal amount of the contract plus the periodified contractual interest, but that has not been paid (it may include reasonable compensation for the early payment); and
- the fair value of the early payment is insignificant upon initial recognition.

2.2.1.1 Financial assets at amortised cost

Classification

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

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

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

Initial recognition and subsequent measurement

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

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

Interest of financial assets at amortised cost are recognised under the heading "Interest and similar income calculated through the effective rate", based on the effective interest rate and pursuant to the criteria described in Note 2.12.

Gains or losses generated at the time of their derecognition are recorded in the heading "Earnings with the derecognition of financial assets at amortised cost".

2.2.1.2 Financial assets at fair value through other comprehensive income

Classification

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

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

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

Initial recognition and subsequent measurement

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

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

The interest, premiums or discounts of financial assets at fair value through other comprehensive income are recognised under the heading "Interest and similar income calculated through the effective rate", based on the effective interest rate and pursuant to the criteria described in Note 2.12.

Equity instruments at fair value through other comprehensive income are initially recognised at their fair value, plus transaction costs, and are subsequently measured at fair value. Fair value variations of these financial assets are recorded against other comprehensive income. Dividends are recognised through profit or loss when the right to receive them has been attributed. Impairment is not recognised for equity instruments at fair value through other comprehensive income, with the corresponding accumulated gains or losses recorded under fair value variations being transferred to Retained earnings upon their derecognition.

Derecognition of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

Impairment losses

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

- *Stage 1:* operations in which there has not been a significant increase in credit risk since their initial recognition are classified as being at this stage. The impairment losses associated to operations classified at this stage correspond to the expected impairment losses derived from a default event which could occur in a period of 12 months after the reporting date (expected loan losses at 12 months).
- *Stage 2:* operations in which there has been a significant increase in credit risk since their initial recognition, but that are not yet in situations of impairment, are classified as being at this stage. The impairment losses associated to operations classified at this stage correspond to the expected impairment losses derived from a default event which could occur throughout the expected residual period of life of the operations (lifetime expected loan losses).
- *Stage 3:* operations in a situation of impairment are classified as being at this stage. The impairment losses associated to operations classified at this stage correspond to expected lifetime loan losses.

Significant increase of credit risk (SICR)

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

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

Customers are considered to be in default when one or more of the following criteria are met:

- Existence of instalments of principal or interest overdue for more than 90 days;
- Debtors in a situation of bankruptcy, insolvency or liquidation;
- Loans in litigation;
- Loans in cross-default;
- Existence of a low probability that the customer will fully pay the credit obligations;
- Restructured loans due to financial difficulties;
- Loans in default quarantine;
- Loans over involving suspected fraud or confirmed fraud.

Estimated expected loan losses – Individual analysis

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

- Individual customers with exposures above 500,000 euros,
- Exposures to credit institutions, sovereign entities, central banks or companies through debt securities in stage 2 or 3.

Estimated expected loan losses – Individual analysis

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

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

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

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

- probability of default – PD;
- loss given default – LGD; and
- exposure at default – EAD.

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

The PD are calculated based on benchmarks. If the degree of risk of the counterpart or exposure changes, the associated estimated PD will also vary. The PDs are calculated considering the contractual maturities of the exposures.

The Bank gathers performance and default indicators on its credit risk exposures with analyses by type of customer and product.

LGD is the magnitude of the expected loss in the event that the exposure enters into default. The Bank estimates the parameters of LGD based on benchmarks. In the case of contracts secured by real estate properties, the ratios of LTV (loan-to-value) are an extremely important parameter in the determination of LGD.

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

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

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

i. a probability of default derived from the external rating of the issuer or counterparty, respectively; and
ii. a loss given default (LGD) defined by the Bank, based on data from the rating agency Moody's, and according to whether the entity involved is Corporate or Sovereign.

Reclassifications between financial instruments categories

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

2.2.2 Financial liabilities

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

Non-derivatives financial liabilities essentially include customer funds.

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

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

2.3 Investments in associates

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

The existence of significant influence by the Bank is usually demonstrated by one or more of the following ways:

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

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

2.4 Offsetting financial instruments

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

2.5 Equity Instruments

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

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

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

2.6 Tangible Assets

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

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

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

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

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

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

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

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

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

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

2.7 Intangible Assets

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

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

Intangible assets are amortised through the straight line method, as of the month when they are available for use, during their expected useful life, which is situated in a period varying between 3 and 5 years. In the specific case of the base operational system, after analysis of the expected period of its use, it was decided that its amortisation should take place over a period of 15 years.

The Bank performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount, with the difference, when existing, being recognised through profit or loss. The recoverable amount is the higher of net selling price and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

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

2.8 Leasings

The classification of leases is done according to the substance of the transaction and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer to the lessee of all the risks and rewards associated to the ownership of the asset. All other leases are classified as operating leases. Tangible assets acquired through financial leasing contracts, as well as the corresponding liabilities payable to the lessor, are recorded in the balance sheet at the beginning of the lease at the lowest value between the fair value of the assets and the present value of the minimum lease payments. The discount rate used is the rate implicit in the lease. If this rate is not known, then the Bank's funding rate for this type of investment is used. The policy for depreciation of these assets follows the rules applicable to tangible fixed assets owned by the Bank. The interest included in the rents and in the amortisation of tangible assets is recognised in the income statement of the period to which they refer to.

For operating leases, the instalments payable are recognised as a cost in the income statement over the lease period (Note 9).

2.9 Employee benefits

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

2.10 Income Tax

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

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

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

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

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

The Bank is covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all companies in which CTT holds, directly or indirectly, at least 90% of the share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, Banco CTT receives from its shareholder the value relative to the tax loss which it contributes to the Group's consolidated corporate income tax and, likewise, pays to its shareholder the value relative to its positive contribution to the Group's consolidated corporate income tax.

2.11 Provisions

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

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

2.12 Interest income and expenses

The earnings of financial instruments measured at amortised cost are recognised in the headings of "Interest and similar income" or "Interest and similar expenses" using the effective interest method.

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

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

2.13 Recognition of Income of Services, Fees and Commissions

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

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

2.14 Earnings per share

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

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

2.15 Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

2.16 Provision of insurance mediation services

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

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

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

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

The IFRS establish a series of accounting treatments and require the Board of Directors to make the necessary judgments and estimates in deciding which treatment is most appropriate. The main accounting estimates and judgements used in the application of the accounting principles are discussed in this note in order to improve the understanding on how their application affects the results reported by the Bank and their disclosure.

A broad description of the main accounting principles used by the Bank is presented in Note 2 financial statements.

Considering that in some cases there are several alternatives to the accounting treatment chosen by Board of Directors, the results reported by the Bank could differ if a different treatment were chosen.

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

3.1 Financial Instruments – IFRS 9

3.1.1 Classification and measurement

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

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

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

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

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

Significant increase of credit risk

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

Definition of group of assets with common credit risk features

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

Probability of default

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

Loss given default

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

3.2 Deferred taxes

The recognition of deferred tax assets assumes the existence of future net profit and taxable income. The deferred tax assets and liabilities were determined based on the tax legislation currently in force for the Bank, or on legislation that has already been published for future application. Amendments to tax legislation may influence the value of the deferred taxes.

3.3 Provisions

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

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

Note 4 – Net Interest Income

This balance includes:

(amounts in thousand euros)

	2018	2017
Interest income calculated using the effective interest method	**8,560**	**4,200**
Interest on investment in securities	6,250	3,413
Interest on loans and advances	1,856	589
Interest on deposits and investments at credit institutions	454	198
Interest expense and similar charges	**693**	**810**
Interest on deposits from customers	693	749
Others	-	61
Net interest income	**7,867**	**3,390**

Interest and similar income for the year ended 31 December, 2018 shows a total of 16 thousand euros related to impaired financial assets - Stage 3 Credit.

The caption Interest on investments in securities includes the amount of 6,226 thousand euros (2017: 3,384 thousand euros) related to interest on financial assets at amortized cost.

The caption Interest on loans and advances to customers includes the amount of 163 thousand euros (2017: 361 thousand euros) related to commissions and other costs and income accounted for using the effective interest rate method, as mentioned in the accounting policy described in note 2.12.

Note 5 – Net fees and commissions income

This balance includes:

(amounts in thousand euros)

	2018	2017
Fees and commissions received	**4,988**	**4,139**
From banking services	4,750	3,128
From insurance mediation services	185	1,011
Other fees and commissions	53	-
Fees and commissions paid	**2,358**	**1,093**
From banking services	2,271	1,054
From securities operations	72	33
Other fees and commissions	15	6
Net fees and commissions income	**2,630**	**3,046**

The caption Fees and commissions received from banking services includes 1,031 thousand euros (2017: 1,073 thousand euros) related to commissions from intermediation of credit products.

Note 6 – Net gains / (losses) arising from other financial assets at fair value through other comprehensive income

This balance includes:

(amounts in thousand euros)

	2018	2017
Gains arising from financial assets at fair value through other comprehensive income	**2**	**-**
Fixed Income	2	-
Net gains / (losses) arising from financial assets at fair value through other comprehensive income	**2**	**-**

Note 7 – Other operating income/ (expenses)

This balance includes:

(amounts in thousand euros)

	2018	2017
Operating income	**2**	**87**
Other operating income	2	87
Operating expenses	**147**	**83**
Donations and contributions	43	50
Contribution over the banking sector	37	15
Contribution for the single resolution fund	16	1
Contribution for the resolution fund	12	3
Annual supervisory fee (SSM)	7	3
Indirect taxes	4	2
Annual supervisory fee (ASF)	2	-
Contribution for the deposit guarantee fund	1	-
Other operating expenses	25	9
Other operating income / (expenses)	**(145)**	**4**

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'.

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 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.

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.

Note 8 – Staff Costs

This balance includes:

(amounts in thousand euros)

	2018	2017
Salaries	7,930	7,245
Mandatory social security charges	1,948	1,835
Employees with a plurality of employers' regime	1,612	1,968
Incentives and performance premiums	1,051	927
Insurance for accidents at work and occupational diseases	100	99
Other costs	57	121
Staff costs	**12,698**	**12,195**

The total amount of fixed remuneration of the Management and Supervisory Board, in 2018 recorded in the caption remunerations amounted to 1,177 thousand euros (2017: 1,150 thousand euros). During 2018, regarding the Management and Supervisory Boards, were also incurred costs with contributions to Social Security in the amount of 278 thousand euros (2017: 272 thousand euros). Within the caption Incentives and performance premiums, as at 31 December 2018, there are 299 thousand euros attributable to the Management (2017: 320 thousand euros). The caption Other costs included 35 thousand euros of retirement savings plan granted to the Management (2017: 35 thousand 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 2018, the cost with these shared employees with CTT was 1,612 thousand euros (2017: 1,968 thousand euros).

In 2018, the Bank paid to the Board of Directors 180 thousand euros of variable remunerations (2017: 144 thousand euros).

As at the end of 2018 and 2017, effective workers in the service of the Bank, excluding employees with a plurality of employers' regime, distributed by professional category, were as follows:

	2018	2017
Board of directors (*)	11	11
Intermediary management	24	24
Technical functions	176	154
Administrative	2	2
	213	**191**

(*) 2017: Includes 4 non-executive directors and 3 members of the Audit Committee.
2018: Includes 4 non-executive directors and 3 members of the Audit Committee.

Note 9 – General and administrative expenses

This balance includes:

(amounts in thousand euros)

	2018	2017
Water, electricity and fuel	109	107
Consumables	73	96
Hygiene and cleaning supplies	3	-
Rents	1,000	911
Communications	1,053	954
Travel, hotel and representation costs	82	108
Advertising	3,752	3,358
Maintenance and related services	76	68
Training costs	90	94
Insurance	117	92
Information technology services	7,028	6,818
Consulting and advisory services	1,724	2,018
Other specialized services	1,962	1,665
Other supplies and services	3,916	2,134
General and administrative expenses	**20,985**	**18,423**

The caption Information technology services refers to costs incurred with the implementation and maintenance of the IT infrastructure and systems.

The caption Advertising refers to costs incurred with advertising and communication of the brand and products of Banco CTT.

The caption Other specialized services records the costs incurred with banking and transactional operations.

The caption Other supplies and services records, among other things, the costs of outsourcing some support functions.

The Bank has entered into operating leases contracts whose outstanding due rents as at 31 December 2018 amounts to 1,444 thousand euros (2017: 951 thousand 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 thousand euros)

	2018			2017		
	Property	Vehicles	Total	Property	Vehicles	Total
Up to 1 year	693	236	929	568	205	773
1 to 5 years	339	176	515	-	178	178
	1,032	**412**	**1,444**	**568**	**383**	**951**

Costs incurred with statutory audit and related services rendered by the Statutory Auditor of the Group are presented as follows:

(amounts in thousand euros)

	2018	2017
Legal certification services	209	193
Other assurance services	84	71
Other services	-	11
	293	**275**

Note 10 – Earnings per Share

Earnings per share is calculated as follows:

	2018	2017
Net income (thousands of euros)	(17,487)	(21,302)
Average number of shares	151,895,342	112,287,671
Basic earnings per share (euros)	(0.12)	(0.19)
Diluted earnings per share (euros)	(0.12)	(0.19)

The Bank's share capital is €156,400,000 and is fully subscribed and paid-up. It is represented by 156,400,000 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 2018 and 2017, 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 thousand euros)

	2018	2017
Cash	25,462	25,308
Demand deposits at Bank of Portugal	6,217	32,756
Cash and deposits at central banks	**31,679**	**58,064**

The caption Cash is represented by banknotes and coins denominated in euros.

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.

Demand deposits at Bank of Portugal are remunerated at a negative rate of 0.4% for the amount that exceeds the minimum reserve requirement.

Note 12 – Deposits with banks

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Credit institutions in Portugal	102,634	175,583
Amounts due for collection	1,675	1,392
Deposits with banks	**104,309**	**176,975**

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

The movement of the impairment for deposits at banks is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**-**	**-**
Adjustments due to IFRS 9 adoption	1	-
Charge for the year	-	
Write-back for the year	(1)	-
Amounts charged-off	-	-
Impairment for deposits at banks	**-**	**-**

Note 13 – Investment in Securities

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Other financial assets at fair value through other comprehensive income	**1,489**	**-**
Government bonds		
Domestic	560	-
Other issuers		
Domestic	-	-
Foreign	929	-
Other financial assets at amortised cost	**452,613**	**-**
Government bonds		
Domestic	296,486	-
Foreign	121,103	-
Other issuers		
Domestic	35,207	-
Impairment	(183)	-
Available for sale financial assets	**-**	**5,751**
Government bonds		
Domestic	-	576
Other issuers		
Domestic	-	250
Foreign	-	4,925
Financial assets held to maturity	**-**	**261,550**
Other issuers		
Domestic	-	162,426
Foreign	-	75,110
Other issuers		
Domestic	-	24,014
Investment in securities	**454,102**	**267,301**

The analysis of Investment in securities by remaining maturity, as at 31 December 2018 and 2017, is as follows:

(amounts in thousand euros)

	2018				
	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Total
Other financial assets at fair value through other comprehensive income	**24**	**608**	**857**	**-**	**1,489**
Government bonds					
Domestic	14	-	546	-	560
Other issuers					
Domestic	-	-	-	-	-
Foreign	10	608	311	-	929
Other financial assets at amortised cost	**10,460**	**13,990**	**78,393**	**349,953**	**452,796**
Government bonds					
Domestic	4,704	6,551	18,071	267,160	296,486
Foreign	498	2,539	42,443	75,623	121,103
Other issuers					
Domestic	5,258	4,900	17,879	7,170	35,207
Investment in securities	**10,484**	**14,598**	**79,250**	**349,953**	**454,285**

(amounts in thousand euros)

	2017				
	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Total
Available for sale financial assets	**504**	**2,072**	**2,501**	**675**	**5,751**
Government bonds					
Domestic	14	-	-	562	576
Other issuers					
Domestic	250	-	-	-	250
Foreign	240	2,072	2,501	113	4,925
Financial assets held to maturity	**5,329**	**10,393**	**47,282**	**198,546**	**261,550**
Other issuers					
Domestic	3,371	5,084	11,790	142,182	162,426
Foreign	275	-	20,888	53,946	75,110
Other issuers					
Domestic	1,683	5,309	14,604	2,418	24,014
Investment in securities	**5,833**	**12,465**	**49,773**	**199,221**	**267,301**

The movement of the impairment for investment in securities is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	-	-
Adjustments due to IFRS 9 adoption	247	-
Charge for the year	126	-
Write-back for the year	(190)	-
Amounts charged-off	-	-
Impairment for investment in securities	**183**	**-**

According to the accounting policy described in Note 2.2, the Bank regularly assesses whether there is objective evidence of impairment in its financial asset portfolios at fair value through other comprehensive income and other financial assets at amortized cost, following the criteria described in Note 3.1.

Note 14 – Investments at credit institutions

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Placements at Credit Institutions in Portugal	69,814	73,721
Loans to Credit Institutions in Portugal	36,915	19,690
Placements at Credit Institutions abroad	8,501	8,501
Impairment for investments at credit institutions	(415)	-
Investments at credit institutions	**114,815**	**101,912**

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

(amounts in thousand euros)

	2018	2017
Up to 3 months	24,472	16,717
From 3 to 6 months	56,031	16,078
From 6 months to 12 months	11,817	57,286
From 1 to 3 years	14,251	7,474
More than 3 years	8,659	4,357
Investments at credit institutions	**115,230**	**101,912**

Investments at credit institutions presented during the period an average interest rate of 0.404% (2017: 0.267%).

The movement of the impairment for investments at credit institutions is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	–	–
Adjustments due to IFRS 9 adoption	624	–
Charge for the year	564	–
Write-back for the year	(773)	–
Amounts charged-off	–	–
Impairment for investments at credit institutions	**415**	**–**

Note 15 – Loans and advances to customers

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Mortgage loans	238,667	66,145
Other loans	8,918	12,949
Overdrafts	529	299
Performing loans	**248,114**	**79,393**
Overdue loans – less than 90 days	61	12
Overdue loans – over 90 days	332	60
Overdue loans	**393**	**72**
Impairment for credit risk	**(458)**	**(118)**
Loans and advances to customers	**248,049**	**79,347**

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

(amounts in thousand euros)

	2018						
	At sight	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Undetermined	Total
Mortgage loans	–	1,723	4,921	13,333	218,690	–	238,667
Other loans	–	8,918	–	–	–	–	8,918
Overdrafts	529	–	–	–	–	393	922
Loans and advances to customers	**529**	**10,641**	**4,921**	**13,333**	**218,690**	**393**	**248,507**

(amounts in thousand euros)

	2017						
	At sight	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Undetermined	Total
Mortgage loans	–	466	1,357	3,681	60,642	–	66,145
Other loans	–	12,949	–	–	–	–	12,949
Overdrafts	299	–	–	–	–	72	371
Loans and advances to customers	**299**	**13,415**	**1,357**	**3,681**	**60,642**	**72**	**79,465**

The analysis of loans and advances to customers, by type of interest rate, is presented as follows:

(amounts in thousand euros)

	2018	2017
Fixed rate	922	371
Floating rate	247,585	79,094
Loans and advances to customers	**248,507**	**79,465**

The movement of the impairment for credit risk is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**118**	**–**
Adjustments due to IFRS 9 adoption	(3)	–
Charge for the year	400	134
Write-back for the year	(57)	(16)
Amounts charged-off	–	–
Impairment for credit risk	**458**	**118**

Loans and advances to customers detailed by stage as defined in IFRS 9 is presented as follows:

(amounts in thousand euros)

	2018	1 january 2018
***Stage* 1**	**246,487**	**79,051**
Gross amount	246,671	79,106
Impairment	(184)	(55)
***Stage* 2**	**1,435**	**286**
Gross amount	1,502	295
Impairment	(67)	(9)
***Stage* 2**	**127**	**13**
Gross amount	334	64
Impairment	(207)	(51)
	248,049	**79,350**

Note 16 – Other tangible assets

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Acquisition cost		
Buildings		
Improvements in leasehold property	98	206
Equipment		
Furniture	355	250
Machinery	86	32
Computer equipment	235	159
Interior installations	1	7
Security equipment	66	43
Other equipment	6	6
	847	**703**
Accumulated depreciation		
Accumulated charge for the previous years	297	129
Charge for the year	280	381
	577	**510**
Other tangible assets	**270**	**193**

The movements in tangible assets, during 2018, are analysed as follows:

(amounts in thousand euros)

	2018				
	Balance on 1 january	Aquisitions / Charge	Transfers	Disposals / Charged-off	Balance on 31 december
Acquisition cost					
Buildings					
Improvements in leasehold property	206	98	-	(206)	98
Equipment					
Furniture	250	105	-	-	355
Machinery	32	54	-	-	86
Computer equipment	159	76	-	-	235
Interior installations	7	1	-	(7)	1
Security equipment	43	23	-	-	66
Other equipment	6	-	-	-	6
	703	**357**	**-**	**(213)**	**847**
Accumulated depreciation					
Buildings					
Improvements in leasehold property	85	138	-	(206)	17
Equipment					
Furniture	244	57	-	-	301
Machinery	1	7	-	(7)	8
Computer equipment	156	63	-	-	219
Interior installations	5	3	-	-	1
Security equipment	13	12	-	-	25
Other equipment	6	-	-	-	6
	510	**280**	**-**	**(213)**	**577**
Other tangible assets	**193**	**77**	**-**	**-**	**270**

The movements in tangible assets, during 2017, are analysed as follows:

(amounts in thousand euros)

	2017				
	Balance on 1 january	Aquisitions / Charge	Transfers	Disposals / Charged-off	Balance on 31 december
Acquisition cost					
Buildings					
Improvements in leasehold property	40	166	-	-	206
Equipment					
Furniture	3	247	-	-	250
Machinery	-	32	-	-	32
Computer equipment	107	51	-	-	159
Interior installations	1	6	-	-	7
Security equipment	32	11	-	-	43
Other equipment	6	-	-	-	6
	189	**514**	**-**	**-**	**703**
Accumulated depreciation					
Buildings					
Improvements in leasehold property	6	79	-	-	85
Equipment					
Furniture	3	241	-	-	244
Machinery	-	1	-	-	1
Computer equipment	107	49	-	-	156
Interior installations	1	4	-	-	5
Security equipment	7	6	-	-	13
Other equipment	6	-	-	-	6
	129	**381**	**-**	**-**	**510**
Other tangible assets	**60**	**133**	**-**	**-**	**193**

Note 17 – Intangible assets

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Aquisition cost		
Software in use	28,201	22,719
Other intangible assets	16	16
Work in progress	3,065	2,135
	31,282	**24,870**
Accumulated depreciation		
Accumulated charge for the previous years	3,870	1,549
Charge for the year	3,107	2,321
	6,977	**3,870**
Intangible assets	**24,305**	**21,000**

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

The movements in Intangible assets, during 2018, are analysed as follows:

(amounts in thousand euros)

	2018				
	Balance on 1 january	Aquisitions / Charge	Transfers	Disposals / Charged-off	Balance on 31 december
Acquisition cost					
Software in use	22,719	2,008	3,474	-	28,201
Other intangible assets	16	-	-	-	16
Work in progress	2,135	4,404	(3,474)	-	3,065
	24,870	**6,412**	**-**	**-**	**31,282**
Accumulated amortisation					
Software in use	3,866	3,105	-	-	6,971
Other intangible assets	4	2	-	-	6
	3,870	**3,107**	**-**	**-**	**6,977**
Intangible assets	**21,000**	**3,305**	**-**	**-**	**24,305**

The movements in Intangible assets, during 2017, are analysed as follows:

(amounts in thousand euros)

	2017				
	Balance on 1 january	Aquisitions / Charge	Transfers	Disposals / Charged-off	Balance on 31 december
Acquisition cost					
Software in use	18,699	2,474	1,546	-	22,719
Other intangible assets	16	-	-	-	16
Work in progress	1,290	2,391	(1,546)	-	2,135
	20,005	**4,865**	**-**	**-**	**24,870**
Accumulated amortisation					
Software in use	1,547	2,319	-	-	3,866
Other intangible assets	2	2	-	-	4
	1,549	**2,321**	**-**	**-**	**3,870**
Intangible assets	**18,456**	**2,544**	**-**	**-**	**21,000**

Note 18 – Investments in subsidiaries and associated companies

This balance is analysed as follows:

(amounts in thousand euros)

	2018		2017	
	Holding (%)	Book value	Holding (%)	Book value
Payshop (Portugal), S.A.	100%	6,986	-	-
Investments in subsidiaries and associated companies		**6,986**		**-**

Payshop (Portugal), SA (Payshop), a company previously owned 100% by CTT - Correios de Portugal, SA (CTT), now incorporates the consolidation perimeter of Banco CTT, through a capital increase via contribution in kind, in the amount of 6,400,000 euros, which occurred on 4 January 2018.

As at 31 December 2018, the entity's financial information is as follows:

(amounts in thousand euros)

	Assets	Liabilities	Equity	Net income
Payshop (Portugal), S.A.	11,819	5,239	6,580	3,733

During 2018, Banco CTT received 3,093,630 euros of dividends from Payshop (Portugal), S.A.

Note 19 – Income Tax

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

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 2018 and 2017 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 the tax rates anticipated to be in effect on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved at the balance sheet date.

As mentioned in Note 2.10, 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 thousand euros)

	2018	2017
Profit / (loss) before income tax	(23,295)	(27,074)
Current tax rate	21%	21%
Expected tax	**(4,892)**	**(5,686)**
Patrimonial changes	(185)	-
Equity method elimination	(784)	-
Accruals/(deductions) for the purpose of calculating the taxable income	301	115
Autonomous tax	21	14
Current income tax for the period - booked	**(5,539)**	**(5,556)**
Deferred income tax for the period - booked	**(136)**	**(168)**
Total tax booked for the period	**(5,675)**	**(5,723)**
Effective tax rate	**24.4%**	**21.1%**
Prior years' corrections	**(133)**	**(48)**
Income Tax	**(5,808)**	**(5,772)**

In accordance with the accounting policy described in the note 2.10, the amount related to the corporate income tax is recorded as a receivable balance from the shareholder CTT (refer to note 20).

The movement of deferred taxes in the period is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**209**	**42**
Through income statement	136	168
Through other comprehensive income	185	-
Deferred taxes	**530**	**210**

Note 20 – Other Assets

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Corporate Income Tax (RETGS)	5,547	11,131
Operations pending settlement	1,513	1,331
Amounts given as pledge	369	282
Other debtors	3,556	2,331
Deferred costs	590	306
Public sector	57	61
Prepayments	-	342
Amounts receivable	4	7
Impairment for other assets	(145)	-
Other assets	**11,491**	**15,791**

Other assets includes the amount of Euros 5,547 thousand euros (2017: 11,131 thousand euros) referring to Corporate Income Tax as a result from the application of Special Taxation of Corporate Groups Regime (RETGS), in accordance with paragraph 2.10 of Note 2.

The item Other debtors basically records the amounts receivable for credit intermediation and insurance mediation operations.

Impairment movements for other assets are analysed as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**-**	**-**
Charge for the year	145	-
Write-back for the year	-	-
Amounts charged-off	-	-
Impairment for other assets	**145**	**-**

Note 21 – Deposits from customers

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Demand deposits	671,673	408,640
Time deposits	100,832	129,945
Saving accounts	111,445	80,645
Deposits from customers	**883,950**	**619,230**

This balance is analysed, by remaining maturity, as follows:

(amounts in thousand euros)

	2018	2017
Demand deposits and saving accounts	783,118	489,285
Time deposits		
Up to 3 months	47,463	63,511
From 3 to 12 months	53,369	66,434
Deposits from customers	**883,950**	**619,230**

Note 22 - Provisions

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Provisions for other risks and charges	51	86
Provisions	**51**	**86**

These provisions were recognised in order to face contingencies related to the Bank's activity and whose payment 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.

The movement of this caption, during 2018 and 2017, is presented as follows:

(amounts in thousand euros)

	2018	2017
Balance on 1 January	**86**	**21**
Charge for the year	46	81
Write-back for the year	(66)	(4)
Use of provisions	(15)	(12)
Provisions for other risks and charges	**51**	**86**

Note 23 – Other liabilities

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Creditors		
Suppliers	3,380	3,432
Related parties	944	361
Other creditors	-	1
Due to employees	3,187	2,893
Operations pending settlement	14,953	13,744
Public sector	567	519
Securities pending settlement	-	4,137
Other liabilities	**23,031**	**25,087**

The caption Operations pending settlement records mainly banking transactions pending settlement.

Note 24 – Share Capital

Share capital is €156,400,000 and is fully subscribed and paid-up. It is represented by 156,400,000 shares, with no nominal value.

On 4 january 2018, the Company's share capital was increased from €125,000,000 (one hundred and twenty-five million euros) to €131,400,000 (one hundred and thirty-one million euros and four hundred thousand euros), via contribution in kind by the Sole Shareholder (CTT – Correios de Portugal, S.A.), in the amount of €6,400,000 (six million and four hundred thousand euros), through the incorporation of Payshop (Portugal), S.A., which then became 100% owned by Banco CTT. This led to the issue of 6,400,000 new ordinary, registered shares with no nominal value at the issue price of €1 (one euro).

On 7 march 2018, the Company's share capital was increased from €131,400,000 (one hundred and thirty-one million euros and four hundred thousand euros) to €156,400,000 (one hundred and fifty six million euros and four hundred thousand 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 2018, the Bank's share capital is fully held by CTT – Correios de Portugal, S.A. (a public company).

Note 25 – Reserves and retained earnings

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Fair value reserves		
Financial assets at fair value through other comprehensive income	-	50
Other reserves	(748)	-
Retained earnings	(48,661)	(27,359)
Reserves and retained earnings	**(49,409)**	**(27,309)**

Note 26 – Contingent liabilities and commitments

This balance is analysed as follows:

(amounts in thousand euros)

	2018	2017
Guarantees given	8,917	4,120
Guarantees received	439,091	122,573
Commitments to thrid parties		
Revocable Commitments		
Credit facilities	10,897	11,944
Irrevocable Commitments		
Credit facilities	9,984	7,594
Commitments from thrid parties		
Revocable Commitments		
Credit facilities	6,862	3,000
Other off balance sheet accounts		
Assets under custody	219	208

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

The amounts recorded as Guarantees received includes mainly mortgages over residential real estate to secure mortgage loans operations.

Revocable and irrevocable commitments enter into contractual arrangements for the granting of credit to the Bank's customers (for example, unused lines of credit), which are generally contracted under fixed terms or with other expiration requirements. Substantially all existing credit granting commitments require clients to maintain certain requirements when contracting them.

Notwithstanding the nature of these commitments, the appreciation of these operations is based on the same basic principles of any other commercial operation, namely the solvency of the customer, and the Bank requires that these operations be properly collateralized when necessary. Since part of them is expected to expire without having been used, the amounts indicated do not necessarily represent future cash requirements.

Note 27 – 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 2018, the list of related parties were as follows:

Shareholder / Qualified holdings
CTT - Correios de Portugal, S.A. (Public company)
Gestmin, SGPS, S.A.(1)

(1) Qualified participation in the sole shareholder, CTT - Correios de Portugal, S.A. (Public Company). This shareholding is attributable to Manuel Carlos de Mello Champalimaud, consisting of a component of 0.19% held directly and a component of 12.31% held indirectly through Gestmin, SGPS, SA, a company controlled by Manuel Carlos de Mello Champalimaud , and also shares held by members of the Board of Directors of Gestmin.

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)	–
João Maria de Magalhães Barros de Mello Franco	Member	Member (CCO)	–
Pedro Rui Fontela Coimbra	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
António Pedro Ferreira Vaz da Silva	Member	–	–
António Emídio Pessoa Corrêa d'Oliveira	Member	–	–
Guy Patrick Guimarães de Goyri Pacheco	Member	–	–

[1] Listed above are the Board Members in office as at 31 December 2018.
[1] André Pereira Pereira Gorjão de Andrade Costa, exercised his duties during 2017, having resigned as Non-Executive Member of the Board of Directors of Banco CTT on 19 December 2017 with effect from 31 January 2018.

Other related parties
CTT Expresso – Serviços Postais e Logística, S.A.
Payshop (Portugal), S.A.
CTT Contacto, S.A.
Tourline Express Mensajería, SLU.
Correio Expresso de Moçambique, S.A.
Escrita Inteligente, S.A.
Transporta – Transporte Porta a Porta, S.A.

As at 31 December 2018, 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 thousand euros)

	2018			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Expenses	Income
CTT - Correios de Portugal, S.A.	5,565	988	2,134	-
CTT Expresso – Serviços Postais e Logística, S.A.	-	56	261	-
CTT Contacto, S.A.	-	-	-	-
	5,565	**1,044**	**2,395**	**-**

As at 31 December 2017, 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 thousand euros)

	2017			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Expenses	Income
CTT - Correios de Portugal, S.A.	11,140	310	1,013	-
Mailtec Comunicação, S.A.	-	4	64	-
CTT Expresso – Serviços Postais e Logística, S.A.	-	47	241	-
CTT Contacto, S.A.	-	-	-	-
	11,140	**361**	**1,318**	**-**

As at 31 December 2018 the amount of Board Members deposits with the Group is 135 thousand euros (2017: 170 thousand euros).

Note 28 – Fair value

The fair value of financial assets and liabilities, as at 31 December 2018, is analysed as follows:

(amounts in thousand euros)

	2018				
	Fair value through P&L	Fair value through OCI	Amortised cost	Book value	Fair value
Cash and deposits at central banks	–	–	31,679	31,679	31,679
Deposits with banks	–	–	104,309	104,309	104,309
Investment in securities	–	1,489	452,613	454,102	469,839
Other Financial assets at fair value through other comprehensive income	–	1,489	–	1,489	1,489
Bonds – public issuers	–	*560*	–	*560*	*560*
Bonds – other issuers	–	*929*	–	*929*	*929*
Other Financial assets at amortised cost	–	–	452,613	452,613	468,350
Bonds – public issuers	–	–	*417,441*	*417,441*	*433,215*
Bonds – other issuers	–	–	*35,172*	*35,172*	*35,135*
Investments at credit institutions	–	–	114,815	114,815	114,815
Loans and advances to customers	–	–	248,049	248,049	248,049
Financial Assets	**–**	**1,489**	**951,465**	**952,954**	**968,691**
Deposits from customers	–	–	883,950	883,950	883,950
Financial Liabilities	**–**	**–**	**883,950**	**883,950**	**883,950**

The fair value of financial assets and liabilities, as at 31 December 2017, is analysed as follows:

(amounts in thousand euros)

	2017				
	Fair value through P&L	Fair value through OCI	Amortised cost	Book value	Fair value
Cash and deposits at central banks	–	–	58,064	58,064	58,064
Deposits with banks	–	–	176,975	176,975	176,975
Investment in securities	–	5,751	261,550	267,301	281,189
Avaliable for sale financial assets	–	5,751	–	5,751	5,751
Bonds – public issuers	–	*576*	–	*576*	*576*
Bonds – other issuers	–	*5,175*	–	*5,175*	*5,175*
Financial assets held to maturity	–	–	261,550	261,550	275,438
Bonds – public issuers	–	–	*237,536*	*237,536*	*251,244*
Bonds – other issuers	–	–	*24,014*	*24,014*	*24,194*
Investments at credit institutions	–	–	101,912	101,912	101,912
Loans and advances to customers	–	–	79,347	79,347	79,347
Financial Assets	**–**	**5,751**	**677,848**	**683,599**	**697,487**
Deposits from customers	–	–	619,230	619,230	619,230
Financial Liabilities	**–**	**–**	**619,230**	**619,230**	**619,230**

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 valuation, 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.

The following table summarizes, by valuation levels, the fair value of financial assets and liabilities of the Bank, as at 31 December 2018:

(amounts in thousand euros)

	2018			
	Valuation techniques			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	31,679	-	-	31,679
Deposits with banks	104,309	-	-	104,309
Investment in securities	434,704	25,245	9,890	469,839
Other Financial assets at fair value through other comprehensive income	1,489	-	-	1,489
Bonds – public issuers	560	-	-	560
Bonds – other issuers	929	-	-	929
Other Financial assets at amortised cost	433,215	25,245	9,890	468,350
Bonds – public issuers	433,215	-	-	433,215
Bonds – other issuers	-	25,245	9,890	35,135
Investments at credit institutions	-	-	114,815	114,815
Loans and advances to customers	-	-	248,049	248,049
Cash and deposits at central banks	**570,692**	**25,245**	**372,754**	**968,691**
Deposits from customers	-	-	883,950	883,950
Financial Liabilities	**-**	**-**	**883,950**	**883,950**

The following table summarizes, by valuation levels, the fair value of financial assets and liabilities of the Group, as at 31 December 2017:

(amounts in thousand euros)

	2017			
	Valuation techniques			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	58,064	-	-	58,064
Deposits with banks	176,975	-	-	176,975
Investment in securities	256,995	24,194	-	281,189
Avaliable for sale financial assets	5,751	-	-	5,751
Bonds – public issuers	*576*	-	-	*576*
Bonds – other issuers	*5,175*	-	-	*5,175*
Financial assets held to maturity	251,244	24,194	-	275,438
Bonds – public issuers	*251,244*	-	-	*251,244*
Bonds – other issuers	-	*24,194*	-	*24,194*
Investments at credit institutions	-	-	101,912	101,912
Loans and advances to customers	-	-	79,347	79,347
Cash and deposits at central banks	**492,034**	**24,194**	**181,259**	**697,487**
Recursos de clientes	-	-	619,230	619,230
Financial Liabilities	**-**	**-**	**619,230**	**619,230**

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.

Other Financial assets at amortised cost

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.

Loans and advances to customers

Mortgage Loans

The contracts included in the balance sheet of the Group were all granted during 2018 and 2017, at market rates, so the book balance is a reasonable estimate of their respective fair value.

Other

This type of 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.

Deposits from customers

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 29 – 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 the Financial Risks Committee will regularly monitor credit risk, namely the evolution of credit exposures and monitoring losses.

In the first quarter of 2017, the Bank began granting mortgage loans. As at 31 December 2018, the exposure (net of impairment losses and including off balance sheet exposures) to this product was in the amount of 247,042 thousand euros.

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, Italy France and Ireland), debt instruments from other issuers (credit institutions and companies), securitisation transactions related to the electricity tariff deficit.

The following table shows information on exposures to the Bank's credit risk (net of impairment losses and including off balance sheet exposures), by risk classes, as at 31 December 2018 and 2017:

(amounts in thousand euros)

	2018	2017
Central authorities or central banks	424,194	270,865
Credit institutions	226,452	289,930
Companies	44,841	41,425
Retail customers	4,341	1,916
Mortgage loans	247,042	73,351
Defaulted loans	128	11
Equities	6,986	–
Other items	39,127	41,829
Risk line item	**993,111**	**719,327**

The details of the information relating to risk items (including off-balance sheet items) as of 31 December and 2018 and 2017 are presented as follows:

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Cash and deposits at central banks	6,217	–	6,217	32,753	–	32,753
Other Financial assets at fair value through other comprehensive income	536	–	536	–	–	–
Other financial assets at amortised cost	417,589	(148)	417,441	–	–	–
Available for sale financial assets	–	–	–	576	–	576
Financial assets held to maturity	–	–	–	237,536	–	237,536
Central authorities or central banks	**424,342**	**(148)**	**424,194**	**270,865**	**–**	**270,865**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Deposits with banks	104,309	–	104,309	175,583	–	175,583
Other Financial assets at fair value through other comprehensive income	203	–	203	–	–	–
Available for sale financial assets	–	–	–	713	–	713
Investments at credit institutions	122,355	(415)	121,940	101,912	–	101,912
Others	–	–	–	11,722	–	11,722
Credit institutions	**226,867**	**(415)**	**226,452**	**289,930**	**–**	**289,930**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Other Financial assets at fair value through other comprehensive income	878	(127)	751	–	–	–
Other financial assets at amortised cost	35,207	(35)	35,172	–	–	–
Available for sale financial assets				4,462	–	4,462
Financial assets held to maturity				24,014	–	24,014
Loans and advances to customers	8,918	–	8,918	12,949	–	12,949
Companies	**45,003**	**(162)**	**44,841**	**41,425**	**–**	**41,425**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Loans and advances to customers	4,360	(19)	4,341	1,922	(6)	1,916
Retail customers	**4,360**	**(19)**	**4,341**	**1,922**	**(6)**	**1,916**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Loans and advances to customers	247,274	(232)	247,042	73,411	(60)	73,351
Mortgage loans	**247,274**	**(232)**	**247,042**	**73,411**	**(60)**	**73,351**

(amounts in thousand euros)

	2018			2017		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Loans and advances to customers	334	(206)	128	62	(51)	11
Defaulted loans	**334**	**(206)**	**128**	**62**	**(51)**	**11**

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

(amounts in thousand euros)

	2018			2017		
	Other Financial assets at fair value through other comprehensive income	Other financial assets at amortised cost	Total	Available for sale financial assets	Financial assets held to maturity	Total
Portugal	536	296,486	297,022	576	162,426	163,001
Spain	-	45,048	45,048	-	31,369	31,369
Italy	-	63,727	63,727	-	31,252	31,252
France	-	6,551	6,551	-	6,608	6,608
Ireland	-	5,777	5,777	-	5,881	5,881
	536	**417,589**	**418,125**	**576**	**237,536**	**238,112**

The analysis of financial assets by stages is analysed as follows:

(amounts in thousand euros)

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Deposits at Central Banks and other credit institutions	110,526	-	-	110,526	209,731
Impairment	-	-	-	-	-
Net value	**110,526**	**-**	**-**	**110,526**	**209,731**
Investments at credit institutions	115,230	-	-	115,230	101,912
Impairment	(415)	-	-	(415)	-
Net value	**114,815**	**-**	**-**	**114,815**	**101,912**
Other Financial assets at fair value through other comprehensive income	1,141	476	-	1,617	5,751
Impairment	(1)	(127)	-	(128)	-
Net value	**1,140**	**349**	**-**	**1,489**	**5,751**
Other financial assets at amortised cost	452,796	-	-	452,796	261,549
Impairment	(183)	-	-	(183)	-
Net value	**452,613**	**-**	**-**	**452,613**	**261,549**
Loans and advances to customers	246,672	1,502	334	248,508	79,465
Impairment	(184)	(67)	(206)	(457)	(118)
Net value	**246,488**	**1,435**	**128**	**248,051**	**79,347**

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).

At the global level, the liquidity risk management strategy falls within the competence of the Board of Directors, which delegates to the Executive Board and is executed by the Treasury Department, based on constant monitoring of the exposure indicators, and closely monitored by the Financial Risks Committee.

The Financial Risks Committee is responsible for controlling the exposure to liquidity risk by analyzing the liquidity position and assessing its compliance with applicable regulatory rules and limits, as well as with the objectives and guidelines defined by the Group.

The Bank's liquidity risk assessment is carried out using regulatory indicators defined by the supervisory authorities, as well as other internal metrics.

As at 31 December 2018, assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2018						
	At sight	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Undetermined	Total
Assets							
Cash and deposits at central banks	31,679	-	-	-	-	-	**31,679**
Deposits with banks	104,309	-	-	-	-	-	**104,309**
Other Financial assets at fair value through other comprehensive income	-	23	608	858	-	-	**1,489**
Other financial assets at amortised cost	-	10,460	13,990	78,392	349,953	-	**452,795**
Investments at credit institutions	-	24,472	67,848	14,251	8,659	-	**115,230**
Loans and advances to customers	529	10,641	4,921	13,333	218,690	393	**248,507**
Total Assets	**136,517**	**45,596**	**87,367**	**106,834**	**577,302**	**393**	**954,009**
Liabilities							
Deposits from customers	783,118	47,463	53,370	-	-	-	**883,951**
Total Liabilities	**783,118**	**47,463**	**53,370**	**-**	**-**	**-**	**883,951**
Gap (Assets-Liabilities)	**(646,601)**	**(1,867)**	**33,997**	**106,834**	**577,302**	**393**	**70,058**
Accumulated Gap	**(646,601)**	**(648,468)**	**(614,471)**	**(507,637)**	**69,665**	**70,058**	

As at 31 December 2017, assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2017						
	At sight	Up to 3 months	From 3 to 12 months	From 1 to 3 years	More than 3 years	Undetermined	Total
Assets							
Cash and deposits at central banks	58,064	-	-	-	-	-	**58,064**
Deposits with banks	176,975	-	-	-	-	-	**176,975**
Available for sale financial assets	-	504	2,072	2,501	675	-	**5,752**
Financial assets held to maturity	-	5,329	10,392	47,282	198,546	-	**261,549**
Investments at credit institutions	-	16,717	73,364	7,474	4,357	-	**101,912**
Loans and advances to customers	299	13,415	1,357	3,681	60,642	72	**79,466**
Total Assets	**235,338**	**35,965**	**87,185**	**60,938**	**264,220**	**72**	**683,718**
Liabilities							
Deposits from customers	489,284	63,511	66,434	-	-	-	**619,229**
Total Liabilities	**489,284**	**63,511**	**66,434**	**-**	**-**	**-**	**619,229**
Gap (Assets-Liabilities)	**(253,946)**	**(27,546)**	**20,751**	**60,938**	**264,220**	**72**	**64,489**
Accumulated Gap	**(253,946)**	**(281,492)**	**(260,741)**	**(199,803)**	**64,417**	**64,489**	

In addition, as part of the periodic monitoring of the liquidity situation, the Bank calculates the liquidity mismatch, Additional Liquidity Monitoring Metrics (ALMM), in accordance with the addenda introduced in 2018 to Commission Regulation (EU) 680/2014.

ALMM considers all outflows and inflows contracted and uses a maturity ladder that allows to confirm the existence or not of liquidity mismatch of the Bank and allows to know the capacity of the Bank to counterbalance a possible liquidity mismatch.

The liquidity mismatch is calculated for several intervals, from overnight to over five years, considering the asset, liability and off-balance sheet positions with estimated and estimated financial flows that are scaled according to the corresponding residual maturities or entry / exit period of the cash flow.

At 31 December 2018, the ALMM shows a negative liquidity mismatch (difference between outflows and contracted inflows) of 387,650 thousand euros, for which the customer deposits contribute a lot, this negative liquidity mismatch is more than covered by the capacity of the Group which is composed of financial assets and reserves at the Central Bank in the order of 475,986 thousand euros.

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 of 31 December, 2018, one of the main instruments for monitoring the interest rate risk of the balance sheet is based on the recent Instruction of Bank of Portugal No. 34/2018, which repeals Instruction 19/2005. This model groups assets and liabilities sensitive to changes in 19 fixed time intervals (maturity dates or first interest rate revision when indexed), from which a potential impact on economic value is calculated. The economic value is calculated from the sum of the cash-flows discounted to the present value. This discount is based on an interest rate curve that is not subject to any type of shock, in which, for the purpose of discounting, the average maturity of the time bands is assumed. According to the table below, the two standard scenarios, which correspond to two positive and negative shocks of 200 basis points, are applied to the base scenario:

(amounts in thousand euros)

Time tier	2018					
	Assets	Liabilities	Off balance sheet	Exposure	Delta Economic Value (+200 bps)	Delta Economic Value (-200 bps)
At sight	151,605	145,885	(2,624)	3,096	-	-
At sight - 1 month	18,648	29,092	3,772	(6,672)	6	(2)
1 - 3 months	45,807	38,200	930	8,537	(28)	10
3 - 6 months	105,445	45,750	180	59,875	(444)	169
6 - 9 months	78,133	38,029	-	40,104	(495)	187
9 - 12 months	115,824	35,009	10,154	90,969	(1,569)	588
1 - 1.5 years	20,908	43,613	470	(22,235)	546	(208)
1.5 - 2 years	13,801	43,613	-	(29,812)	1,020	(391)
2 - 3 years	52,113	86,111	390	(33,608)	1,630	(649)
3 - 4 years	54,874	77,166	280	(22,012)	1,474	(648)
4 - 5 years	49,249	76,051	200	(26,602)	2,251	(1,110)
5 - 6 years	58,131	60,449	260	(2,058)	209	(115)
6 - 7 years	49,763	53,732	-	(3,969)	465	(282)
7 - 8 years	50,334	53,732	-	(3,398)	448	(297)
8 - 9 years	52,891	40,299	-	12,592	(1,835)	1,311
9 - 10 years	47,717	40,299	-	7,418	(1,175)	897
10 - 15 years	-	-	-	-	-	-
15 - 20 years	-	-	-	-	-	-
> 20 years	-	-	-	-	-	-
Total	**965,243**	**907,030**	**14,012**	**72,225**	**2,503**	**(540)**

At December 31, 2017, the Bank assessed the losses arising from the impact of interest rate fluctuations in accordance with Bank of Portugal Instruction No. 19/2005, distributing the balance sheet positions and off-balance sheet items included in the banking and sensitive portfolio at the interest rate for the different time bands, from which a parallel shock of 200 basis points is calculated, as shown in the following table:

(amounts in thousand euros)

Time tier	2017			
	Assets	Liabilities	Off balance sheet	Exposure
At sight - 1 month	230,908	127,782	10,244	113,370
1 - 3 months	12,754	65,035	-	(52,281)
3 - 6 months	29,395	54,620	-	(25,225)
6 - 12 months	113,333	77,606	-	35,727
1 - 2 years	20,980	32,687	-	(11,707)
2 - 3 years	28,513	32,687	-	(4,174)
3 - 4 years	43,739	32,687	-	11,052
4 - 5 years	22,575	32,687	-	(10,112)
5 - 7 years	43,947	65,375	-	(21,428)
7 - 10 years	111,777	98,062	-	13,715
10 - 15 years	-	-	-	-
15 - 20 years	-	-	-	-
> 20 years	-	-	-	-
Total	**657,921**	**619,228**	**10,244**	**48,937**

Given the interest rate gaps observed, at 31 December 2018, the impact on the economic value of instantaneous and parallel interest rate variations of 200 basis points is around 540 thousand euros (2017: 717 thousand euros).

The main assumptions used as of 2017 in the Bank's analyzes were:

- Non interest bearing demand deposits: 20% at sight, 80% distributed on a straight-line basis up to 10 years.
- Saving accounts: follow the same distribution as Time Deposits.

The main assumptions used in 2018 in the Bank's analyzes are:

- Demand deposits: 15% at sight, 85% distributed non-linearly over 10 years giving it a maturity of 3.9 years;
- Saving accounts: 18% at sight, 82% distributed non-linearly over 5 years giving it a duration of 1.9 years.

Differences in models and assumptions between 2017 and 2018 should be taken into account in comparative analyzes.

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 other financial assets at amortised cost and residually as other financial assets at fair value through other comprehensive income. 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. The Bank carries out the identification and evaluation of the risks and controls of the processes, ensuring their conformity with the requirements and principles of the Internal Control System.

Note 30 – Capital Management and Solvability Ratio

The main objective of capital management is to ensure compliance with the Bank's strategic objectives for capital adequacy while respecting and enforcing the minimum capital requirements defined by the supervisory entities.

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

Own funds, calculated in accordance with Directive 2013/36 / (EU) and Regulation (EU) No575 / 2013 approved by the European Parliament and the Council, and Bank of Portugal Notice No 10/2017, 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 reserves and retained earnings, b) regulatory deductions related to intangible assets and losses relating to the current financial year, and c) prudential filters The Bank has no additional Tier 1 capital, nor Tier 2 capital.

The current legislation provides for a transition period between own funds requirements according to national legislation and those calculated in accordance with European legislation in order to phase out either phased-out or the inclusion / deduction of new elements (phased-in). At a prudential level, institutions should report Common Equity Tier 1, tier 1 ratios and totals not less than 7%, 8.5% and 10.5%, respectively, including a conservation buffer of 2.5% and a countercyclical buffer in the case of the Bank, 0%, but benefiting from a transitional period until the end of 2019.

Bank of Portugal Notice No. 10/2017 regulated the transitional regime provided for in the CRR on own funds, in particular with regard to the deduction related to deferred taxes generated before 2014 and subordinated debt and non-eligible hybrid instruments, both of which are not applicable to Banco CTT.

With the introduction of IFRS 9, the Bank chose to recognize in stages the respective impacts of the static component in accordance with article 473-A of the CRR.

At 31 December, 2018 and 31 December, 2017, the Bank had the following capital ratios, calculated in accordance with the transitional provisions set forth in the CRR:

(amounts in thousand euros)

	2018		2017		
	CRR Phasing in	CRR Fully Implemented	CRR Phasing in	CRR Fully Implemented	Notes
OWN FUNDS					
Share Capital	156,400	156,400	125,000	125,000	24
Retained Earnings	(48,661)	(48,661)	(27,359)	(27,359)	26
Other Reserves	(53)	(53)	-	-	
Prudential Filters	(1)	(1)	35	44	26
Fair value reserve	-	-	40	50	
Additional Valuation Adjustment	(1)	(1)	(5)	(6)	
Deduction to the main Tier 1 elements	(41,827)	(42,487)	(42,302)	(42,302)	
Losses for the period	(17,487)	(17,487)	(21,302)	(21,302)	
Intangible assets	(24,305)	(24,305)	(21,000)	(21,000)	18
IFRS 9 adoption	(35)	(695)	-	-	
Common Equity Tier 1	65,858	65,198	55,375	55,384	
Tier 1 Capital	65,858	65,198	55,375	55,384	
Total Own Funds	65,858	65,198	55,375	55,384	
RWA					
Credit Risk	260,071	260,071	198,330	198,330	
Operational Risk	10,976	10,976	10,658	10,658	
IFRS 9 adjustments	-	(480)	-	-	
	271,047	270,567	208,988	208,988	
CAPITAL RATIOS					
Common Equity Tier 1	24.30%	24.10%	26.50%	26.50%	
Tier 1 Ratio	24.30%	24.10%	26.50%	26.50%	
Total Capital Ratio	24.30%	24.10%	26.50%	26.50%	

Note 31 – Business Combinations

Payshop (Portugal), SA (Payshop), a company previously owned 100% by CTT - Correios de Portugal, SA (CTT), now incorporates the consolidation perimeter of Banco CTT, through a capital increase via contribution in kind, in the amount of 6,400,000 euros, which occurred on 4 January 2018.

Following this capital increase, the Bank now holds all the shares representing Payshop's share capital and controls its operating and financial activities. As such, the interest in Payshop, qualifies as an investment in subsidiary and therefore the respective financial statements will be fully consolidated on 4 January 2018 onwards.

This transaction was not accounted for in accordance with IFRS 3 relating to business combinations under Article 2 (c) and paragraph B1 of the Appendix to Annex B of the same standard. Considering that CTT and Payshop were 100% owned by CTT, this is a transaction between companies under common control, whereby Payshop was recorded in the consolidated accounts of Banco CTT for the same amounts as recorded in the consolidated accounts of CTT (predecessor accounting), including goodwill amounting to €406,101.

The balance sheet of Payshop reported on 4 January 2018 and used for the purposes of the first consolidation in the consolidated financial statements of the Banco CTT Group was as follows:

(amounts in euros)

	Payshop 04.01.2018
Assets	
Cash and deposits at central banks	450
Deposits with banks	7,169,022
Investments at credit institutions	635,593
Other tangible assets	621,860
Intangible assets	211,896
Other assets	1,715,859
Total Assets	**10,354,680**
Liabilities	
Other liabilities	4,413,468
Total Liabilities	**4,413,468**
Equity	
Share Capital	1,500,000
Reserves and Retained Earnings	4,441,212
Total Equity	**5,941,212**

Note 32 – Adoption of IFRS 9 – Financial Instruments

Changes in accounting policies resulting from the adoption of IFRS 9 were generally applied retrospectively, except for the following:

- The Bank applied the exception that allows non-restatement of comparative information from prior periods regarding changes in classification and measurement (including impairment). The differences in the balance sheet values of financial assets and liabilities resulting from the adoption of IFRS 9 were recognized in Reserves and Retained Earnings as of 1 January, 2018.
- The following assessment was made on the basis of the facts and circumstances that existed at the time of the initial application:

i. the determination of the business model in which the financial asset is held;
ii. the designation and revocation of prior designations of certain financial assets and liabilities designated as FVTPL; and
iii. the designation of certain equity instruments that are not held for trading as FVOCI.

The impact of the adoption of IFRS 9 in the Bank's financial statements is detailed below:

Impact of the adoption of IFRS 9 on the Bank's equity

The impacts on the Bank's equity arising from the adoption of IFRS 9 with reference to 1 January, 2018 are as detailed below:

(amounts in thousand euros)

	Share capital	Fair value reserves	Other reserves and retained earnings	Total Equity
Equity as at 31 December, 2017- Before IFRS 9	125,000	50	(48,661)	76,389
Impairment:				
Cash and deposits at central banks	-	-	-	-
Deposits with banks	-	-	(1)	(1)
Investments at credit institutions	-	-	(623)	(623)
Loans and advances to customers	-	-	3	3
Investment in securities	-	10	(258)	(248)
	-	10	(879)	(869)
Provisions	-	-	-	-
Change in the classification of securities	-	-	-	-
Own credit risk	-	-	-	-
Current and deferred taxes	-	-	184	184
Equity as at 1 January, 2018 - After IFRS 9	125,000	60	(49,356)	75,704

Reconciliation of balance sheet amounts between IAS 39 and IFRS 9

The impacts on the Bank's balance sheet arising from the adoption of IFRS 9 with reference to 1 January, 2018 are detailed as follows:

(amounts in thousand euros)

	IAS 39 31.12.2017	Reclassifications	Remeasurements	IFRS 9 01.01.2018
Assets				
Cash and deposits at central banks	58,064	–	–	58,064
Deposits with banks	176,975	–	(1)	176,974
Financial assets at amortised cost	181,259	261,550	(868)	441,941
Investments at credit institutions	101,912	–	(623)	101,289
Loans and advances to customers	79,347	–	3	79,350
Investment in securities	–	261,550	(248)	261,302
Financial assets at fair value through other comprehensive income	–	5,751	–	5,751
Available for sale financial assets	5,751	(5,751)	–	–
Financial assets held to maturity	261,550	(261,550)	–	–
Other tangible assets	193	–	–	193
Goodwill and intangible assets	21,000	–	–	21,000
Deferred tax assets	209	–	184	393
Other assets	15,791	–	–	15,791
Total Assets	**720,792**	**–**	**(685)**	**720,107**
Liabilities				
Financial liabilities at amortised cost	619,230	–	–	619,230
Deposits from customers	619,230	–	–	619,230
Provisions	86	–	–	86
Other liabilities	25,087	–	–	25,087
Total Liabilities	**644,403**	**–**	**–**	**644,403**
Equity				
Share Capital	125,000	–	–	125,000
Other reserves and retained earnings	(27,359)	–	(695)	(28,054)
Fair value reserves	50	–	10	60
Net income / (loss) for the year	(21,302)	–	–	(21,302)
Total Equity	**76,389**	**–**	**(685)**	**75,704**

In the following paragraphs, the impacts of the adoption of IFRS 9 on the classification and measurement of financial instruments and the determination of impairment losses on financial assets are explained in more detail.

Classification and measurement of financial instruments

The table below shows the measurement category and the book value of financial assets, in accordance with IAS 39 and IFRS 9, as of 1 January, 2018:

(amounts in thousand euros)

IAS 39			IFRS 9		
Category	Measurement	Book value	Category	Measurement	Book value
Cash and deposits at central banks	Amortised cost	58,064	Cash and deposits at central banks	Amortised cost	58,064
Deposits with banks	Amortised cost	176,975	Deposits with banks	Amortised cost	176,974
Investments at credit institutions	Amortised cost	101,912	Investments at credit institutions	Amortised cost	101,288
Financial assets at amortised cost – loans and advances to customers	Amortised cost	79,347	Financial assets at amortised cost – loans and advances to customers	Amortised cost	79,350
			Financial assets not held for trading at fair value through profit or loss	FVTPL (mandatory)	–
Financial assets at amortised cost – Debt securities	Amortised cost	–	Financial assets at amortised cost – Debt securities	Amortised cost	261,303
Financial assets held to maturity	Amortised cost	261,550	Financial assets held to maturity	Amortised cost	–
Available for sale financial assets	FVOCI (available for sale)	5,751	Financial assets at fair value through other comprehensive income	FVOCI	5,751
			Financial assets not held for trading at fair value through profit or loss	FVTPL (mandatory)	–
			Financial assets at amortised cost – Debt securities	Amortised cost	–

Reconciliation of balance sheet amounts between IAS 39 and IFRS 9

The following table shows the reconciliation between the carrying amounts of financial assets according to the measurement categories of IAS 39 and IFRS 9, as of 1 January, 2018 (transition date):

(amounts in thousand euros)

	Financial assets at amortised cost (Amortised cost)				
		IAS 39			IFRS 9
	Notes	31-dez-17	Reclassifications	Remeasurements	01-jan-18
Cash and deposits at central banks					
Opening balance in IAS 39 and final balance in IFRS 9		58,064	–	–	58,064
Remeasurement: impairment losses		–	–	–	–
Final balance in IFRS 9		**58,064**	**–**	**–**	**58,064**
Deposits with banks					
Opening balance in IAS 39 and final balance in IFRS 9		176,975	–	–	176,975
Remeasurement: impairment losses		–	–	(1)	(1)
Final balance in IFRS 9		**176,975**	**–**	**(1)**	**176,974**
Investments at credit institutions					
Opening balance in IAS 39		101,912	–	–	101,912
Remeasurement: impairment losses		–	–	(623)	(623)
Final balance in IFRS 9		**101,912**	**–**	**(623)**	**101,289**
Loans and advances to customers					
Opening balance in IAS 39		79,347	–	–	79,347
Transfers:					
To fair value through profit and loss (IFRS 9) – Gross value		–	–	–	–
To fair value through profit and loss (IFRS 9) - Impairment		–	–	–	–
Remeasurement: impairment losses		–	–	3	3
Final balance in IFRS 9		**79,347**	**–**	**3**	**79,350**
Investment in securities					
Opening balance in IAS 39		–	–	–	–
Transfer: from available for sale financial assets (IAS 39)		–	–	–	–
Transfer: from financial assets held for trading (IAS 39)		–	261,550	–	261,550
Remeasurement: impairment losses		–	–	(248)	(248)
Remeasurement: from fair value to amortised cost		–	–	–	–
Final balance in IFRS 9		**–**	**261,550**	**(248)**	**261,302**
Financial assets held to maturity					
Opening balance in IAS 39		261,550	–	–	261,550
Transfer: to financial assets at amortised cost – debt securities (IFRS 9)		–	(261,550)	–	(261,550)
Final balance in IFRS 9		**261,550**	**(261,550)**	**–**	**–**
Total financial assets at amortised cost		**677,848**	**–**	**(868)**	**676,980**

(amounts in thousand euros)

	Financial assets at fair value through other comprehensive income (FVOCI)				
		IAS 39			IFRS 9
	Notes	31-dez-17	Reclassifications	Remeasurements	01-jan-18
Financial assets at fair value through other comprehensive income – debt instruments					
Opening balance in IAS 39		–	–	–	–
Transfer: from available for sale financial assets (IAS 39)		–	5,751	–	5,751
Transfer: from financial assets held for trading (IAS 39)		–	–	–	–
Final balance in IFRS 9		**–**	**5,751**	**–**	**5,751**
Available for sale financial assets					
Opening balance in IAS 39		5,751	–	–	5,751
Transfer: financial assets not held for trading at fair value thorough profit and loss (IFRS 9)		–	–	–	–
Transfer: financial assets at amortised cost (IFRS 9)		–	–	–	–
Transfer: financial assets at fair value through other comprehensive income – debt instruments (IFRS 9)		–	(5,751)	–	(5,751)
Transfer: financial assets at fair value through other comprehensive income – equity instruments (IFRS 9)		–	–	–	–
Final balance in IFRS 9		**5,751**	**(5,751)**	**–**	**–**
Total financial assets at fair value through other comprehensive income		**5.751**	**–**	**–**	**5.751**

The following table shows the reconciliation between the accounting values of impairment / provisions in accordance with the measurement categories of IAS 39 and IFRS 9 as of 1 January, 2018 (initial adoption date):

(amounts in thousand euros)

	Credit impairment IAS 39 / Provision IAS 37	Reclassifications	Revaluations	Impairment losses / provision in accordance with IFRS 9
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and deposits at central banks	–	–	–	–
Deposits with banks	–	–	1	1
Investments at credit institutions	–	–	623	623
Loans and advances to customers	118	–	(3)	115
Investment in securities	–	–	248	248
Total	**118**	**–**	**869**	**987**
Held to maturity (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment in securities	–	–	–	–
Total	**–**	**–**	**–**	**–**
Total	**118**	**–**	**869**	**987**

Note 33 – Recent Pronouncements

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

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

IFRS 9 was endorsed by EU Commission Regulation 2067/2016, 22 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 recognized in profit or loss (FVTPL).

The standard requires embedded derivatives 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 the existence of 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 adoption of IFRS 9 had a negative impact on the equity of the Bank, after the tax effect of 685 thousand euros, due to the impairment of financial assets.

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 2016, with an effective date of application for periods beginning on or after 1 January 2018.

This standard revoked IAS 11 Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 - Acordos para a Construção de Imóveis, 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:

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

There were no significant effects on the Bank's financial statements as at 31 December 2018 resulting from the adoption of this standard.

IFRIC 22 – 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).

There were no significant effects on the Bank's financial statements as at 31 December 2018 resulting from the adoption of this standard.

Other changes

It was also endorsed by UE Commission the amendments issued by IASB:

- On 20 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 - 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).

There were no significant effects on the Bank's financial statements as at 31 December 2018 resulting from the adoption of this standard.

Note 34 – Standards, Interpretations, Amendments and Adopted Revisions by European Union and Which the Bank Decided To Not To Early Apply

The Bank decided to opt for not having an early application of the following standards endorsed by EU:

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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. The standard was endorsed in European Union bi EU Regulation 1986/2017, of 31th October. This new standard replaces IAS 17 Leases.

In accordance with IFRS 16, the lessee applies a single model of lease accounting, and leases are no longer classified as operating or financial.

The lessee must recognize all leases on the balance sheet at the beginning of the contract, recognizing:

- A rights-of-use asset (RoU), which represents your right to use the underlying asset during the contract period; and,
- A lease liability corresponding to the payments to be made up to the end of the contract.

The adoption of IFRS 16 will also have impacts on the income statement, with the depreciation of ROU and interest associated with the lease liabilities being recognized separately, instead of the rents currently recognized as general and administrative expenses.

IFRS 16 allows the lessee to choose not to apply the accounting model to:

- Leases with a lease term of up to 12 months that do not contain a purchase option for the underlying asset; and
- Leases of low value underlying assets (indicative value of 5,000 Euros).

<u>Adoption of IFRS 16 by the Bank</u>

The Bank will adopt the new regulations with effect from 1 January, 2019. A survey was made of all lease contracts and estimated the impact of adopting the new standard in its consolidated and individual accounts. The Bank will apply IFRS 16 in accordance with the full retrospective transition option.

<u>Types of Leases</u>

The Bank conducted a survey of all lease and service contracts that may include rights of use over assets, identifying three major leasing Banks:

i) Real Estate Leases

Lease contracts of real estate that constitute a right of use in the light of IFRS 16, having been considered as lease periods the initial rental periods of contracts and renewal periods that depend exclusively on the Bank's decision and which the Bank has reasonable certainty of coming to exercise.

As a practical expedient, fixed services related to each property (variable component) were included in the accounting for the right of use.

ii) Vehicle Leases

The initial periods of the contracts and the renewal periods that depend exclusively on the Bank's decision and which the Bank has reasonable certainty of exercising have been assumed.

In this type of contract, the amount related to rental income varies according to the number of kilometers that the vehicle carries out over the contract period. Thus, only the minimum rents for the valuation of liabilities and right of use were considered.

As a practical expedient, fixed services related to each vehicle (variable component) were included in the accounting for the right of use.

iii) Other leases

Rental contracts have been identified, such as printers used.

The initial periods of the contracts and the renewal periods that depend exclusively on the Bank's decision and which the Bank has reasonable certainty of exercising have been assumed.

As a practical expedient, fixed services related to each asset (variable component) were included in the accounting for the right of use.

<u>Incremental interest rate</u>

Considering that the lease contracts do not present an implicit rate, an incremental interest rate was considered for the discount of the rent.

The incremental interest rate varies according to the maturity / duration of the lease.

<u>Transition Model</u>

The Bank will elect to adopt the full retrospective transition option with its restatement of comparative information as of 1 January, 2019. The estimated range of impacts of the Bank are presented as follows:

	(thousands of euros)
Assets	[1,223; 1,351]
Liabilities	[1,228; 1,358]
Equity	[-7; -7]

IFRIC 23 – Uncertainty over Income Tax Treatment

On 7 June, 2017 was issued an interpretation on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to appeal a tax examination which resulted in a payment to a taxation authority

The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favorable outcome in favor of the entity on the matter concerned.

In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method.

IFRIC 23 was endorsed by EU Commission Regulation 2018/1595, 23rd October and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

Regarding this interpretation, issued by the IASB, it is not estimated that significant impacts will arise from the future adoption of the accompanying financial statements.

Prepayment features with negative compensation (amendments to IFRS 9)

Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. The board clarified that IFRS 9 requires the prepares to recalculate the amortised cost of the modification financial liability by discounting the modified contractual cash flows using the original EIR and recognize any adjustment in profit or loss (align with financial assets). This amendment was endorsed by EU Commission Regulation 2018/498 and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

Nota 35 – Recently Issued pronouncements that are not yet effective for the Bank

The annual improvements cycle 2015-2017, issued by IASB on 12 December 2017, introduce amendments, with effective date for annual periods beginning on or after, 1 January 2019, to the standards IFRS 3 (remeasure its previously held interest in a joint operation when it obtains control of the business), IFRS 11 (not remeasure its previously held interest in a joint operation when it obtains joint control of the business), IAS 12 (accounts for all income tax consequences of dividend payments in the same way), IAS 23 (treat as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended se or sale);

Other Amendments issued by IASB that expected to be applied on or after 1 January 2019:

- Long-term interests in Associates and Joint Ventures (Amendment to IAS 28, issued on 12 October 2017), clarifying the interaction with impairment model defied by IFRS 9;
- Pan Amendment, Curtailment or Settlement (Amendments to IAS 19, issued on 7 February 2018), where on the amendment, curtailment or settlement of a defined benefit plan, a company now used updated actuarial assumptions to determine its current service and net interest and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI);
- Definition of Business (Amendments to IFRS 3 Business Combinations, issued on 22 October 2018);
- Definition of Material (Amendments to IAS 1 and IAS 8, issued on 31 October 2018).

With regard to these standards and interpretations issued by the IASB but not yet endorsed by the European Union, it is not estimated that significant impacts on the accompanying financial statements will arise from their future adoption.

Note 36 – Subsequent events

In July 2018, Banco CTT entered into an agreement with Firmus Investimentos SGPS to acquire 100% of the share capital of 321 Crédito, a credit financial institution.

The transaction is awaiting the non-opposition decision by the Bank of Portugal / European Central Bank for the acquisition of a qualifying holding.

Declaration of Conformity

Declaration of Conformity

The Board of Directors is responsible for drafting the management report and preparing the individual and consolidated financial statements of Banco CTT, S.A. ("Bank"). These must provide a true and fair view of the Bank's financial position and operational results, as well as the adoption of a suitable accounting policies and criteria and the maintenance of an appropriate internal control system that enables preventing and detecting possible errors or irregularities.

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

1. all the financial information contained in the documents presenting the accounts for the was prepared in conformity with the applicable accounting standards, providing a true and fair view of the Bank's assets and liabilities, financial position and results; and
2. the management report faithfully presents the evolution of the business, performance and position of the Bank, in conformity with the legal requirements.

Lisbon, 14 March 2019

The Board of Directors,

Chairman of the Board of Directors
Francisco José Queiroz de Barros de Lacerda

Member of the Board of Directors and Chairman of the Executive Committee
Luís Maria França de Castro Pereira Coutinho

Member of the Board of Directors and of the Executive Committee
Luís Miguel Agoas Correia Amado

Member of the Board of Directors and of the Executive Committee
João Maria de MAgalhães Barros de Mello Franco

Member of the Board of Directors and of the Executive Committee
Pedro Rui Fontela Coimbra

Member of the Board of Directors and Chairman of the Audit Committee
José Manuel Gonçalves de Morais Cabral

Member of the Board of Directors and of the Audit Committee
Rui Afonso Galvão Mexia de Almeida Fernandes

Member of the Board of Directors and of the Audit Committee
Clementina Maria Dâmaso de Jesus Silva Barroso

Member of the Board of Directors
António Pedro Ferreira Vaz da Silva

Member of the Board of Directors
António Emídio Pessoa Corrêa d'Oliveira

Member of the Board of Directors
Guy Patrick Guimarães de Goyri Pacheco

Annual Report of the Audit Committee

Report of the Audit Committee Banco CTT, S.A. for the financial year of 2018

1. Introduction

The Audit Committee of Banco CTT, S.A. ("Bank" or "Banco CTT") hereby presents the report on its supervisory activities for the financial year of 2018, pursuant to article 423-F(g) of the Companies Code.

Notwithstanding any further powers bestowed upon it legally and statutorily, the Audit Committee is, in particular, responsible for:

a. Monitoring and supervising the activities of the Board of Directors;
b. Overseeing compliance with legal and statutory rules governing the Bank's activity;
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 reports on irregularities presented by shareholders, Bank employees and others (whistleblowing);
f. Monitoring and supervising the preparation and disclosure of financial information, including the conformity and accuracy of the financial reporting books, records and documents and other accounting documentation, as well as making recommendations to ensure their integrity;
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 Legal Framework of Credit Institutions and Financial Companies approved by Decree-Law 298/92 of 31 December, in its current wording, as extent Banco CTT is not considered a significant credit institution in terms of size, internal organisation and nature, scope and complexity of its activities. 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 expectations regarding results.

2. Supervisory activities carried out in 2018

During the period of 2018 in which it was in office, the Audit Committee monitored the management and evolution of the Bank's activities and exercised the powers referred to above, having namely:

a. Supervised the approval and implementation of policies and internal rules on, namely, the Bank's internal control environment and governance model;
b. Monitored the developments of the Bank's activity;
c. Supervised the Bank's conclusion of agreements and other transactions with related parties;
d. Supervised the preparation of financial information and verified the adopted accounting policies, in particular regarding 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 supervisory activity referred to above was mainly carried out by (a) the participation of its members in Board of Directors' meetings, (b) contacts with the Bank's Executive Committee and senior management, including the directors responsible for control duties, and the Statutory Auditor in office (KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.), and (c) analysis of the available financial and business information, as well as correspondence between the Bank and regulators, especially, Bank of Portugal.

While exercising those powers, the Committee held 17 (seventeen) meetings throughout 2018, both in person and remotely. The meetings were regularly attended by the Bank's Executive Directors, in particular the CEO, the Executive Director responsible for the financial area (CFO), the Executive Director responsible for Operations and IT (COO) and the Executive Director responsible for the Marketing and Commercial areas (CCO).

The Audit Committee also summoned the following people to its meetings to clarify and provide relevant information for the performance of the duties to this body: (a) the Director of Internal Audit, especially for analysis of the Internal Audit's status, activity plan, resources and headcount; (b) the Director of Compliance and the Director of Risk regarding the activity plan, resources and headcount of these departments; (c) the Director of Legal Services, 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 Directors of Planning and Control and Accounting concerning the monitoring and preparation of financial information; and (e) the Statutory Auditor for purposes of supervising its activity relative to the Bank's documents presenting the accounts, including the supervision of its independence.

a. Supervision of the process of approval and implementation of policies and internal rules with respect to the Bank's internal control environment and governance model

The Committee monitored the Bank's approval and review of its more relevant policies and processes, in particular (i) Policies on Data Governance, Remuneration of Credit Intermediaries, Approval of New Products, Privacy, Processing of the Personal Data of Employees, Credit, Management of the Risk of Fraud, Prevention of Money Laundering and Financing of Terrorism of the CTT Group and Conflicts of Interest and Transactions with Related Parties, as well as the General Policy of Internal Control and Management of Risk, Market Risk, Interest Rate Risk and Operational Risk; (ii) Manuals for Actions of Monitoring Compliance, Rules of Communication of Incidence of Severe Nature, Governance of the Model of Impairment, Procedures Relative to the Management of the Fee of Physical Means, Internal Capital Adequacy Assessment Process ("ICAAP") and Conduct of Audits and Conduct of Audits to Branches; (iii) the Code of Conduct of Promoters of Banco CTT; and (iv) the Recovery Plan.

The Audit Committee also assessed, for the performance assessment cycles relative to 2018, (i) the proposed annual review of the Remuneration Policy for Members of the Management and Supervisory Bodes and Relevant Employees, as well as the Performance Assessment Models for Members of the Executive Committee and Relevant Employees; (ii) the proposed Remuneration Policy for Multi-Employer Staff in the Retail Network; and (iii) the Policy of Remuneration of Employees (excluding Relevant Employees and Multi-Employer Staff in the Retail Network) and respective Performance Assessment Model.

Also in terms of internal governance, in 2019 by reference to the financial year of 2018, the Audit Committee monitored the activities of the Board of Directors (including the Executive Committee), the Remuneration Committee and the Selection Committee of the Bank, the activity reports and self-assessment of the Board of Directors and Remuneration Committee relative to 2018. It also analysed the minutes submitted for appraisal relative to the meetings of the Executive Committee held in 2018, as well as the internal committees, namely the Credit and Investments Committee, the Financial Risks Committee, the Commercial and Product Committee, the IT Project Committee and the Internal Control Committee.

b. Monitoring of developments of the Bank's activity throughout 2018

The Audit Committee monitored developments of the Bank's activity, both in terms of the Bank's offer and commercial activity, as well as operational activity and development of the IT platform, having also assessed the amendments made to the contracts concluded with CTT – Correios de Portugal, S.A. ("CTT") under the engagement model defined for articulation between CTT and Banco CTT.

Additionally, the Audit Committee analysed and discussed the Bank's strategic projects, both organisational and non-organisational, including the Digital Channel evolution project aimed at implementing new functionalities in the Digital Channels, the strategic orientation of Payshop (Portugal), S.A. ("Payshop") and the potential consolidation perimeter of the CTT Group's payments area in Payshop, and the acquisition of the entire share capital of 321 Crédito – Instituição Financeira de Crédito, S.A. ("321 Crédito"), which were all given a favourable opinion by this Committee.

c. Supervision of the Bank's conclusion of agreements and other transactions with related parties

During 2018, this Committee appraised and issued a favourable opinion on the Bank's conclusion of contracts and transactions with related parties, companies of the CTT Group, considering the engagement model defined in this context, especially (i) the changes to the contracts concluded with CTT under the engagement model, in particular, the Contract of Provision of Means Inherent to CTT's Retail Network and to the CTT / Banco CTT Partnership relative to the CTT Channel and the Contract relative to the Provision of Services between CTT and Banco CTT, including the proposed renewal of the hiring of Supporting Services by the Bank to CTT; (ii) the conclusion of an insurance product distribution contract between Generali – Companhia de Seguros, S.A., CTT and the Bank; and (iii) the conclusion with CTT of a non-residential sublease contract with a fixed term and of provision of services for installation of the Bank's head office.

d. Supervision of the preparation of financial information and verified the adopted accounting policies, in particular regarding the annual financial reporting documents

The Audit Committee carried out monthly assessments of financial information and evolution of the Bank's business provided by the Bank's CFO and Directors of Planning and Control and Accounting. The Audit Committee held meetings with the Statutory Auditor for presentation of the conclusions of the work on the interim information as at 31 March, 30 June and 30 September 2018. In 2019, and in reference to 2018, this body analysed the annual financial statements and the proposed appropriation of net income in Annual Report for 2018, and shall give its Opinion following the issue of the corresponding Legal Certification of Accounts.

e. Supervision of the effectiveness of the Bank's risk management, internal control and internal audit systems

During 2018, the Audit Committee followed the monitoring of the flaws and respective action plans identified in the internal control system, having also appraised the conclusions of the exercise of self-assessment of the internal control system. It also appraised the Internal Control Annual Report, having given it a favourable opinion, after which it was sent to Bank of Portugal.

At the same time, the Audit Committee monitored the activity of the Compliance Department, having appraised the annual activity plan, including the Compliance Plan and the Plan on Activities related to Prevention of Money Laundering and Financing of Terrorism Report, proposed by this Department in 2018.

Likewise, the Audit Committee monitored the activity of the Risk Department, having appraised its annual activity plan for 2018.

Furthermore, during 2018, the Audit Committee monitored the activity of the Internal Audit Department, in particular with respect to the audits and investigations conducted, having also appraised the Audit Plan proposed by this Department for 2019.

f. Reception of irregularity reports (whistleblowing) from shareholders, Bank employees and others

The Bank has a Whistleblowing Policy that operationalises the rules set out in its Code of Conduct and defines the procedures for receiving, handling and closing irregularity reports received by Banco CTT, on matters related to the Bank's management, accounting organisation and internal supervision or the breach of the Bank's duties, namely regarding money laundering and financing of terrorism, insider dealing, fraud or corruption when acting in 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 established in Banco CTT's Code of Conduct, provided that this involves the issues indicated above.

In 2019 and in reference to 2018, the Audit Committee approved the Annual Report on Whistleblowing to be submitted to Bank of Portugal pursuant to number 7 of article 116-AA of the Legal Framework of Credit Institutions and Financial Companies, which briefly describes the process of receiving and handling irregularities adopted by Banco CTT, noting that no irregularities were reported in 2018.

g. Supervision of the Statutory Auditor's activity

The Audit Committee held meetings with the Statutory Auditor, KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ("KPMG"), to discuss the model of relations with the Statutory Auditor, monitor the work conducted by the Statutory Auditor during 2018 and analyse and assess the respective results and conclusions.

The Committee made a prior appraisal of the proposal for the Bank to engage the services of KPMG, as its Statutory Auditor, including fees relative to the services listed above, having decided, pursuant to the powers set out in the Audit Committee's Internal Regulation and the Regulation on the Provision of Services by the Statutory Auditor, on the prior approval/authorisation of: (a) the annual audit service of the financial statements of Banco CTT and Payshop and the consolidated financial statements of the Banco CTT Group, including Banco CTT and Payshop ("Group" or "Banco CTT Group") relative to the year ended on 31 December 2018; and (b) non-audit services, pursuant to the interpretation conveyed by the Securities Market Commission in the "Answers to the most frequently asked questions on the entry into force of the new Statute of the Chartered Accountants Association and the Legal System of Audit Supervision", as disclosed on the website ("FAQs of the CMVM"), namely: (i) limited review of Banco CTT's financial statements for the six-month period ended on 30 June 2018; and (ii) issue of the report on the assessment of the adequacy of the process of quantification of the credit portfolio's impairment and the reasonableness of the individual and collective impairment pursuant to Bank of Portugal Instruction 5/2013. 2018, as at 30 June 2018 and 31 December 2018.

The Committee also carried out a prior assessment of CTT's and other Group CTT companies' (excluding Banco CTT) proposals to engage the services of KPMG, as their Statutory Auditor, including fees. The Audit Committee granted its prior assessment/approval to the provision of non-audit services, according to the FAQs of the CMVM, by the Statutory Auditor to CTT and Group CTT companies (excluding the Banco CTT Group), pursuant to the powers set out in the Audit Committee's Internal Regulation and the Regulation on the Provision of Services by the Statutory Auditor.

The non-audit services received the prior approval/authorisation of the Audit Committee following analysis and verification of the following aspects, in particular: (i) that the services in question do not fall under the list of prohibited services and do not pose a threat to the Statutory Auditor's independence and impartiality, regarding the statutory audit, namely the provision of such services does not entail any risk of self-assessment, of personal interest, nor participation in decision-making in any Group CTT company subject to legal review of accounts; (ii) that the proposed fees do not exceed the fee caps for (non-prohibited) non-audit services as provided by law and (iii) that, in most cases, the services under analysis are based on the possession of information appropriate to the provision of this service and on experience with similar services, while providing the necessary conditions for them to be rendered with the same level of independence and impartiality; and (iv) that the assessment of the adequacy of the process of quantification of the impairment of the loan portfolio is a service required by law from the Statutory Auditor that carries out the legal review of the accounts of an Entity of Public Interest, and does not require the obtaining of prior authorisation by the supervisory body.

This Committee also supervised the Statutory Auditor's independence by obtaining a statement confirming this independence with reference to 2018, and assessed the performance of the Bank's Statutory Auditor during the four-year term of office 2015-2018, with a view to proposing to the General Meeting the appointment of the Statutory Auditor for the term of office corresponding to the two years of 2019-2020.

During 2018, the Audit Committee analysed the reports on the activities carried out by the Statutory Auditor and, in 2019 and with reference to the financial year of 2018, analysed the conclusions of the review of the Bank's individual and consolidated financial statements with reference to 2018, and shall issue its Opinion on the Annual Report following the issue of the Legal Certification of Accounts.

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

The Audit Committee monitored the Bank's definition of its risk strategy, while also monitoring the risks to which the Bank is exposed, namely strategic risk, credit and concentration risk, operational risk, market risk, interest rate risk, liquidity risk and the evolution of the Bank's own funds and capital requirements. It also assisted the management body in supervising the execution of the Bank's risk strategy, having favourably and recommended to the Board of Directors the approval of the Risk Appetite Statement – RAS 2019 which replaced the previously approved Risk Strategy document 2018-2020.

3. Conclusions

In developing its duties, the Committee requested and obtained all the information and clarifications of relevance for the purpose, not having encountered any constraints to its actions and effective exercise of its powers.

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

The Audit Committee expresses its gratitude to the rest of the corporate bodies and all those involved in it activities, especially the Company Secretary, for their cooperation.

Lisbon, 14 March 2019

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

Opinion of the Audit Committee

Opinion on the Annual Report of Banco CTT, S.A. for the financial year of 2018

The Audit Committee of Banco CTT, S.A. (Banco CT) examined the Management Report and the Individual and Consolidated Financial Statements of Banco CTT, S.A. ("Banco") for the financial year ended on 31 December 2018, which include the balance sheet, income statement, comprehensive income statement, statement of changes in equity and cash flow statement, as well as the respective notes, all of which merit its approval.

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

The Audit Committee appraised the terms of the Legal Certification of the Accounts on the Financial Statements approved by the Board of Directors, issued on 14 March 2019 by KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., which states its favourable opinion on these Financial Statements, with no reservations or emphases.

In view of the above and its own actions, and in compliance with number 6 of article 420 of the Portuguese Companies Code, applicable by reference to number 2 of article 423-F of the same Code, the Audit Committee is of the opinion that the Bank's Management Report and Financial Statements for the year ended on 31 December 2018, as well as the Proposed Appropriation of Net Income presented in the Management Report are in accordance with the applicable accounting, legal and statutory provisions.

Therefore, the Audit Committee recommends that the General Meeting of Banco CTT should approve the Annual Report, as well as the Proposed Appropriation of Net Income for the year ended on 31 December 2018.

Lisbon, 14 March 2019

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

Annual Report 2018

External Auditors' Report

Consolidated Financial Statements

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental - Av. Praia da Vitória, 71 - A, 8º
1069-006 Lisboa - Portugal
+351 210 110 000 | www.kpmg.pt

STATUTORY AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of **Banco CTT, S.A.** (the Group), which comprise the consolidated balance sheet as at 31 December 2018 (showing a total of 1,001,774 thousand euro and total equity of 89,504 thousand euro, including a loss for the year of 17,487 thousand euro), and the consolidated income statement by nature, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of **the Group** as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

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

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A. Capital Social: 3.916.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 20161489 Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 078

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Credit concession	
As at 31 December 2018, the caption Loans to clients amounts to 248,049 thousand euro, as disclosed in note 15 the accompanying notes to the financial statements, representing approximately 24.9% of total assets. This caption includes the amount of 238,667 thousand euro relating to mortgage loans.	
Risk	**Our Response**
The Bank started in March 2017 to grant mortgage credit to its customers. This process was developed by the Bank from the ground up, based on a workflow developed in partnership with an external partner. Having in consideration the recent integration of this process in the Bank, the objectives defined for the management and the importance in the operational activity of the Bank, we considered this area as a significant matter for our audit.	Our procedures included, among other: – Obtaining an understanding of the credit granting process, from the reception of the credit proposals to the final accounting record and the related financial reporting, identifying the respective risk points and associated controls; – Analysis of the Credit Committee minutes, where are discussed the credit proposals with higher risk and defined the guidelines of the concession process; – Analysis of the integration processes between the Banks' systems and the partner's systems, as well as between the operations and accounting systems; – Evaluation of the design and implementation and operational effectiveness of the controls associated with the process of credit granting and to the impairments model implemented by the Bank in order to comply wit IFRS 9; and, – Evaluation of the disclosures made by the Entity, in accordance with applicable accounting rules.

Responsibilities of Management and the Supervisory Body for the Consolidated Financial Statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- the preparation of the management report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor´s Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate 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 that the information contained in the management report is consistent with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements.

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

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were first appointed as auditors of Banco CTT, S.A. (parent Entity of the Group) in the shareholders general assembly held on 24 August 2015 for a first mandate from 2015 to 2018.
- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the consolidated financial statements due to fraud.
- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Group on12 March 2019.
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Group in conducting the audit.
- We inform that, in addition to the audit, we provided to the Group with the following services as permitted by law and regulations in force:
    - 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 Banco CTT, S.A.;
    - Support Banco CTT, S.A. oversight body in verifying the adequacy and effectiveness of the internal control system regarding Anti-Money Laundering and Terrorism Financing; and
    - Opinion, as supervisory body of Payshop (Portugal), S.A. regarding the adequacy and effectiveness of the internal control system regarding Anti-Money Laundering and Terrorism Financing.

Lisbon, 14 March 2019

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)

External Auditors' Report

Individual Financial Statements

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
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STATUTORY AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always 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 balance sheet as at 31 December 2018 (showing a total of 996,536 thousand euro and total equity of 89,504 thousand euro, including a loss for the year of 17,487 thousand euro), and the income statement by nature, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of **Banco CTT, S.A.** as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

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

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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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 year. 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.

<table>
<tr><td colspan="2">Credit concession</td></tr>
<tr><td colspan="2">As at 31 December 2018, the caption Loans to clients amounts to 248,049 thousand euro, as disclosed in note 15 the accompanying notes to the financial statements, representing approximately 24.9% of total assets. This caption includes the amount of 238,667 thousand euro relating to mortgage loans.</td></tr>
<tr><td>Risk</td><td>Our Response</td></tr>
<tr><td>The Bank started in March 2017 to grant mortgage credit to its customers.

This process was developed by the Bank from the ground up, based on a workflow developed in partnership with an external partner.

Having in consideration the recent integration of this process in the Bank, the objectives defined for the management and the importance in the operational activity of the Bank, we considered this area as a significant matter for our audit.</td><td>Our procedures included, among other:
– Obtaining an understanding of the credit granting process, from the reception of the credit proposals to the final accounting record and the related financial reporting, identifying the respective risk points and associated controls;
– Analysis of the Credit Committee minutes, where are discussed the credit proposals with higher risk and defined the guidelines of the concession process;
– Analysis of the integration processes between the Banks' systems and the partner's systems, as well as between the operations and accounting systems;
– Evaluation of the design and implementation and operational effectiveness of the controls associated with the process of credit granting and to the impairments model implemented by the Bank in order to comply wit IFRS 9; and,
– Evaluation of the disclosures made by the Entity, in accordance with applicable accounting rules.</td></tr>
</table>

Responsibilities of Management and the Supervisory Body for the Financial Statements

Management is responsible for:

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

The supervisory body is responsible for overseeing the Entity's financial reporting process.

Auditor´s Responsibilities for the Audit of the Financial Statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' 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 auditors' report. However, future events or 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 with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate 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 that the information contained in the management report is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment of the Entity, we have not identified any material misstatements.

KPMG

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

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were first appointed as auditors of the Entity in the shareholders general assembly held on 24 August 2015 for a first mandate from 2015 to 2018.
- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud.
- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Entity on 12 March 2019.
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Entity in conducting the audit.
- We inform that, in addition to the audit, we provided to the Entity with the following services as permitted by law and regulations in force:
  - 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, 14 March 2019

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)

Corporate Governance Report

The difference is in trust

It makes all the difference working with the confidence and motivation to be Bank # 1 in customer satisfaction.

Table of contents

A. SHAREHOLDER STRUCTURE

I. Capital structure

The share capital of Banco CTT, S.A. ("Bank" or "Banco CTT") is 156,400,000 euros, fully underwritten and paid-up, represented by 156,400,000 ordinary registered, book-entry shares, with no nominal value (where there are no different categories of shares).

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

Although CTT's shares are freely transferrable, their acquisition implies, from the date of their commercial registration at Banco CTT (credit institution entirely held by CTT), compliance with the legal requirements on matters of direct or indirect qualifying holdings established in the Legal Framework of Credit Institutions and Financial presented in Decree-Law 298/92, of 31 December, in its current version ("RGICSF").

In particular, and under the terms of article 102 of the RGICSF, persons wishing to hold a qualifying stake in CTT and indirectly in Banco CTT (i.e. direct or indirect stake equal to or greater than 10% of the share capital or voting rights that, for any reason, enables exerting significant influence on the management) should previous inform Banco de Portugal on their project for the purpose of its non-objection. In turn, acts or facts that give rise to the acquisition of a stake of at least 5% of the capital or voting rights of CTT and indirectly of Banco CTT, should be communicated to Banco de Portugal, within 15 days counted from its occurrence, pursuant to article 104 of the RGICSF.

As at 31 December 2018 and up to the date of this report, the Bank did not have any of its own shares, with no transactions having been carried out by the Bank relative to its own shares.

II. Shareholdings and Bonds held

As at 31 December 2018, the members of the Bank's management and supervisory bodies did not hold any shares issued by the Bank, nor did they enter into any transactions involving those securities in 2018 relevant for the purposes of article 447 of the Portuguese Companies Code ("CSC"), in its current version.

Also under number 5 of article 447 of the CSC, during 2018 and according 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 [a]	No. of Shares as at 31/12/2017 [b]	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31/12/2018 [b]
Francisco José Queiroz de Barros de Lacerda	67,982	-	-	-	-	-	67,982
Luís Maria França de Castro Pereira Coutinho	500	-	-	-	-	-	500
Luís Miguel Agoas Correia Amado	-	-	-	-	-	-	-
João Maria de Magalhães Barros de Mello Franco	-	-	-	-	-	-	-
Pedro Rui Fontela Coimbra	-	-	-	-	-	-	-
André Manuel Pereira Gorjão de Andrade Costa [d]	55,508	-	-	-	-	-	55,508 [d]
José Manuel Gonçalves de Morais Cabral	-	-	-	-	-	-	-
Rui Afonso Galvão Mexia de Almeida Fernandes	-	-	-	-	-	-	-
Clementina Maria Dâmaso de Jesus Silva Barroso	-	-	-	-	-	-	-
António Pedro Ferreira Vaz da Silva	-	-	-	-	-	-	-
António Emídio Pessoa Corrêa d'Oliveira	16,620 [c]	Annex II	Annex II	-	Annex II	Annex II	20,000 [c]
Guy Patrick Guimarães de Goyri Pacheco [e]	-	-	-	-	-	-	-

Closely related party	No. of Shares as at 31/12/2017 [b]	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31/12/2018 [b]
Susana Gorjão Costa [f]	3,110	-	-	-	-	-	3,110 [d]
GESTMIN, SGPS, S.A. [g]	16,642,862 [c]	Annex II	Annex II	-	Annex II	Annex II	18,465,215 [c]

Closely related party	No. of Shares as at 31/12/2017 [b]	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31/12/2018 [b]
KPMG & Associados SROC, S.A.	-	-	-	-	-	-	-
Vítor Manuel da Cunha Ribeirinho	-	-	-	-	-	-	-
Maria Cristina Santos Ferreira	-	-	-	-	-	-	-

[a] Includes the members of the Executive Committee and Audit Committee.
[b] Transaction in question conducted in a regulated market on shares of CTT – Correios de Portugal, S.A.
[c] Annex II presents the details relative to the acquisitions and/or divestments made in 2018, as disclosed to the Company.
[d] André Manuel Pereira Gorjão de Andrade Costa performed duties during 2017, having resigned from the position of non-executive member of the Board of Directors of Banco CTT on 19 December 2017 taking effect on 31 January 2018. Neither this Director nor any person closely related to him informed Banco CTT, up to that date, of any transaction of acquisition, encumbrance or termination of ownership, for any reason, of shares and bonds of the Company or companies with which Banco CTT is in a controlling or group relationship, under the terms and for the purposes of article 447 of the CSC.
[e] Appointed non-executive member of the Board of Directors on 15 June 2018.
[f] Person closely related to André Manuel Pereira Gorjão de Andrade Costa.
[g] Person/entity closely related to António Emídio Pessoa Corrêa d'Oliveira (member of the Board of Directors and of the Executive Committee (CFO) of Gestmin SGPS, S.A.).

In 2018 neither Banco CTT nor the companies in a controlling or group relationship with it issued any bonds.

B. CORPORATE BODIES AND COMMITTEES

I. General Meeting

Pursuant to the Bank's Articles of Association, the Board of the General Meeting is composed of a Chairman and a Secretary, elected at the General Meeting. As at 31 December 2018, the composition of the Board of the General Meeting was as follows (members appointed for the term of office 2015/2018):

Members	Position
Maria da Graça Farinha de Carvalho e Sousa Góis	Chairman
Magda Alexandra Jesus Viçoso	Secretary

The Bank's Selection Committee, elected at the General Meeting had, as at 31 December 2018, the following composition (members appointed for the term of office coincident with that of the corporate bodies):

Members	Position
António Sarmento Gomes Mota	Chairman
Francisco José Queiroz de Barros de Lacerda	Member [1]
José Manuel Baptista Fino	Member

[1] As he performs duties as Chairman of the Board of Directors of the Bank, he is barred from participating in and voting on deliberations in which there is a conflict of interests, namely relative to his own individual assessment.

Pursuant to the policy on selection and assessment of the adequacy of the members of the management and supervisory bodies and of holders of key position, as approved in the General Meeting of 24 August 2015 and amended by the same body on 10 March 2016 ("Selection Policy"), and its Internal Regulation, both in force on 31 December 2018, the Selection Committee is particularly responsible for:

- Identifying, selecting and recommending possible members of management and supervisory bodies and holders of key positions, checking whether these candidates meet the necessary adequacy requisites (both individual and collective);
- Drafting the adequacy assessment model, appraising the assessment and reassessment reports and preparing the authorisation and registration applications with Bank of Portugal;
- Ensuring the representation of both men and women and the diversity of the necessary qualifications and skills;
- Assessing at least annually the selection policy, structure and size of management and supervisory bodies, the suitability, professional qualification, independence, diversity and availability, as well as the performance in terms of adequacy of its members and holders of key positions;

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

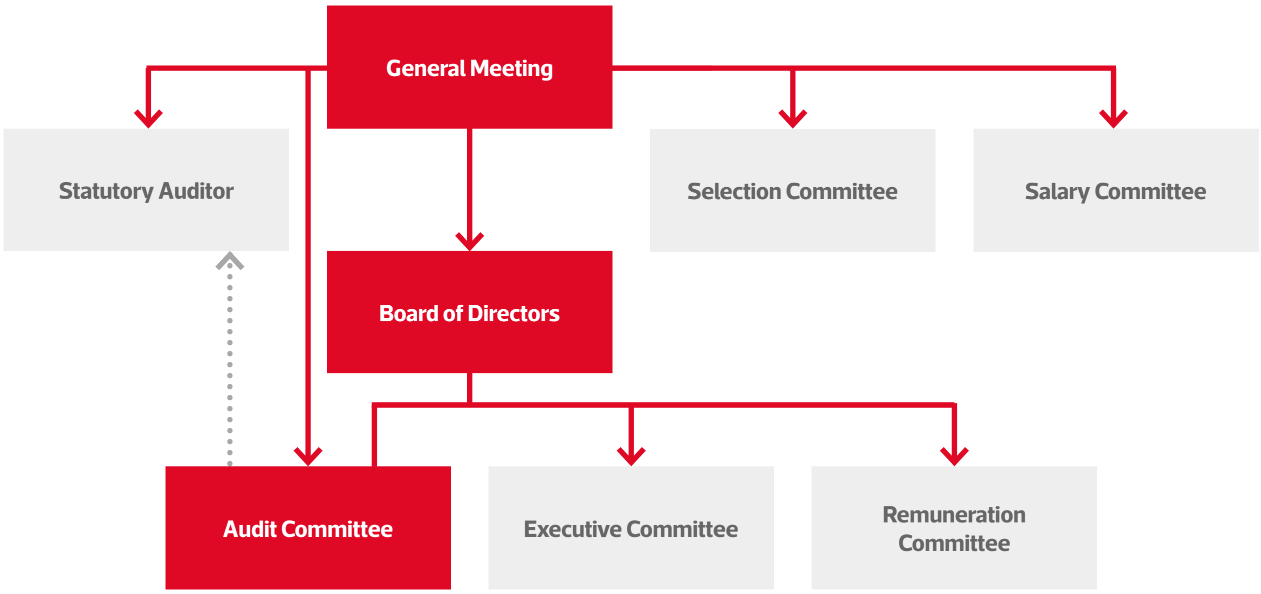
The Bank's Salary Committee, elected at the General Meeting had, as at 31 December 2018, the following composition (members appointed for the term of office coincident with that of the corporate bodies):

Members	Position
Francisco José Queiroz de Barros de Lacerda	Chairman
António Sarmento Gomes Mota	Member
Rafael Caldeira de Castel-Branco Valverde	Member

II. Management and Supervision

1) Adopted governance model

Banco CTT has adopted a governance model of Anglo-Saxon nature, according to which the Board of Directors is responsible for the Company's administration, and the Audit Committee (composed of non-executive and independent Directors) and the Statutory Auditor are responsible for its supervision.



This model has implemented a number of good governance practices 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 regard, the General Meeting is responsible for: (i) electing the members of the corporate bodies (including the members of the Board of the General Meeting, the Board of Directors and the Audit Committee as well as the Statutory Auditor, this last body being upon proposal of the Audit Committee), (ii) appraising the annual report of the Board of Directors and the opinion of the Audit Committee, (iii) deciding on the application of result and (iv) deliberate on amendments to the Articles of Association; and (v) establishing the remuneration of the members of the corporate bodies. The remuneration of the Directors will be established by the General Meeting or by the Salary Committee, whose members are elected at the General Meeting. For this purpose, the General Meeting constituted 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 (currently exclusively composed of independent members), together with the Statutory Auditor, perform the duties of supervision that arise from the applicable legal and regulatory provisions, where the Audit Committee is responsible for promoting the independence of the Statutory Auditor and the company's internal audit, with a view to contributing to the quality of the financial information and the efficacy of the internal control, risk management and internal audit systems (as described in point B.III. *below*).

The Remuneration Committee (exclusively composed of non-executive members, mostly independent, 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*).

Furthermore, the Selection Committee (composed 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 composed of 7 to 11 members and the Executive Committee is composed of 3 to 5 Directors, for three-year terms of office, with the exception of the term of office ending now whose duration was four years, corresponding to 2015/2018.

The Company's Board of Directors in office as at 31 December 2018 was composed of the following 11 Directors, appointed for the term of office of 2015/2018, whose curricula are presented in Annex I attached herewith:

Members	Board of Directors	Executive Committee	Audit Committee	Independent [1]
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	Member	Member (CCO)		
Pedro Rui Fontela Coimbra	Member	Member (CFO)		
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
António Pedro Ferreira Vaz da Silva	Member			
António Emídio Pessoa Corrêa d'Oliveira	Member			
Guy Patrick Guimarães de Goyri Pacheco [2]	Member			

[1] According to the criteria established in number 5 of article 414 of the CSC (applicable by virtue of number 3 of article 31-A of the RGICSF).
[2] Appointed non-executive member of the Board of Directors on 15 June 2018.

The Board of Directors is the governing body responsible for the Company's management and representation, under the legal and statutory terms, being entrusted to practice all acts and operations relative to the corporate object that are outside the competence attributed to other bodies of the Bank.

Pursuant to the Articles of Association and its Internal Regulation, the Board of Directors is responsible, among other aspects, for:

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

b. Defining 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, the establishment, termination or amendment of any partnership, cooperation, sharing or joint venture agreements that are long-lasting and important;

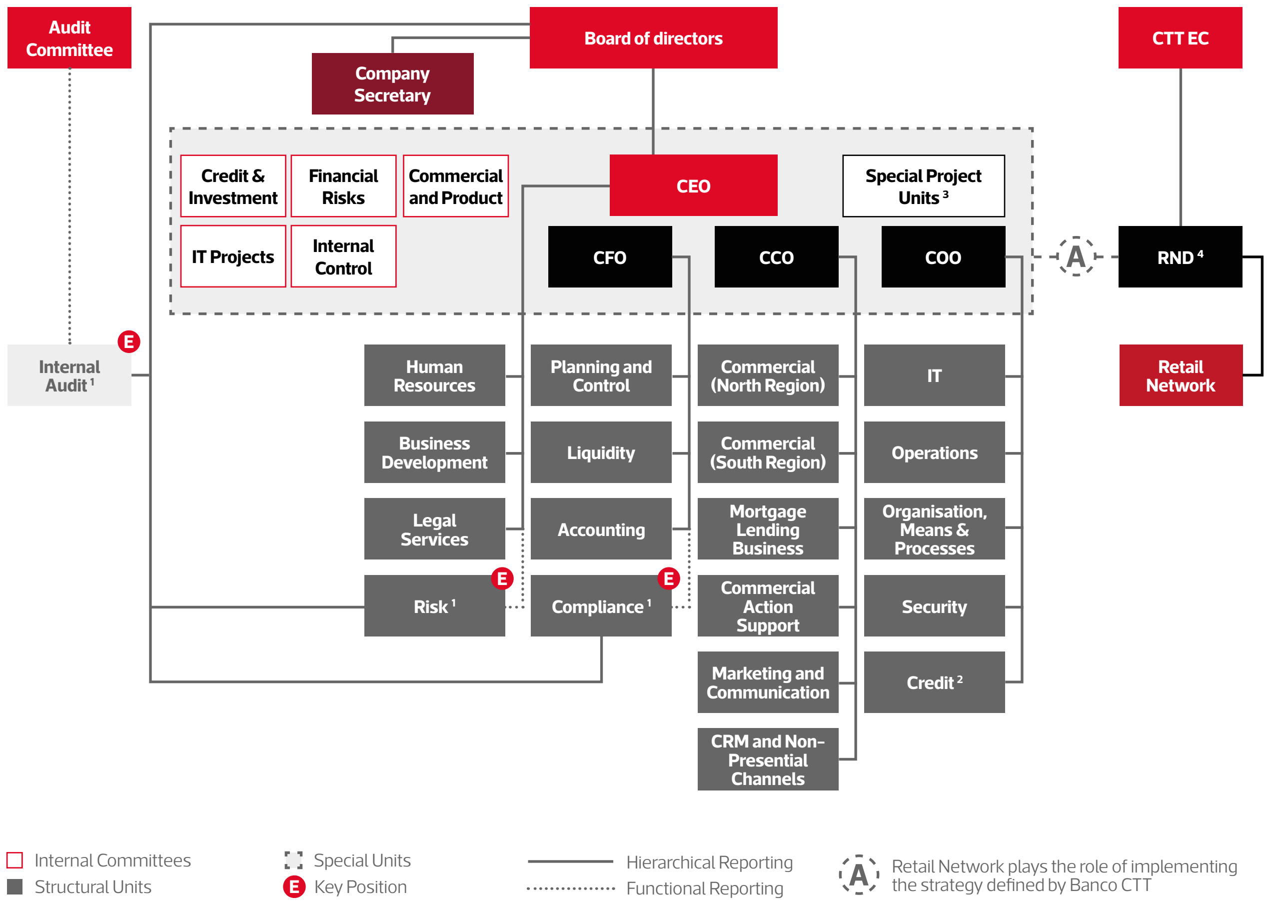
d. Supervising and ensuring the Bank is equipped with effective systems for internal control and internal audit and for information processing and disclosure and compliance with information duties with the Bank of Portugal, as well as risk identification, management, control and communication processes;

e. Defining the Bank's internal governance system and organizational structure, to ensure 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 the exercise of certain powers to one or more of its members). In line with the law and best practices, this 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 2018, the areas of responsibility of the Bank's Executive Committee and its organizational structure were distributed as follows:



[1] The Board of Directors is responsible for the appointment, dismissal, establishment of remuneration and attribution of resources to the Internal Audit, Risk and Compliance functions for performing their duties.
[2] The Credit Department will be created when justified by the Bank's activity.
[3] The Special Project Units will be constituted when projects are approved that, due to their complexity and duration, justify this.
[4] RND - Retail Network Directors: corresponds to the top of the Retail Network structure with a multi-employer scheme with CTT, hierarchical relations with CEO and functional relations with all the other EC areas and control positions.

After defining the governance model, the Bank's Board of Directors created five internal committees, in order to ensure better coordination among the different departments, better involvement in the decision-making process and better support for the Executive Committee's management activities. The committees are the Credit and Investment Committee, the Financial Risk Committee, the Commercial and Product Committee, the IT Projects Committee and the Internal Control Committee.

With respect to the management of relations with CTT under the contracts concluded between CTT and the Bank, on which the respective CTT / Bank engagement model is based, there are three discussion forums that are external to the Bank. These were created in the context of the referenced agreements and cover the multiple-employer arrangement, availability of resources in the Retail Network and CTT Channel partnership, as well as the provision of services. They are the Business Coordination Committee, the Shared Services Committee and the Partnership Governing Committee.

As at 31 December 2018, the existing Committee structure, both in terms of the Bank's Executive Committee and regarding governance of the partnership with CTT, was as follows:

Committees supporting the Executive Committee	Credit and Investment Committee
	Financial Risk Committee
	Commercial and Product Committee
	IT Projects Committee
	Internal Control Committee
Committees governing the partnership with CTT	Partnership Governance Committee
	Business Coordination Committee
	Shared Services Committee

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

III. Supervision

Pursuant to the Bank's Articles of Association, the Audit Committee is composed of 3 directors, 1 of which will be its Chairman. All are elected at the General Meeting (for the current term of office of 4 years), together with all the other directors, where the proposed lists for the composition of the Board of Directors should detail the members that are intended to be part of the Audit Committee and indicate its Chairman.

The Bank's Audit Committee, in office as at 31 December 2018, was composed of the following members (appointed for the term of office 2015/2018):

Members	Position
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 members referred to above are independent, pursuant to number 5 of article 414 of the CSC, by virtue of number 3 of article 31-A of the RGICSF, and have higher education and skills appropriate 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 in force on 31 December 2018 with the following main powers:

a. Supervising the Bank's management;

b. Verifying the accuracy of the financial statements;

c. Supervising the process of preparation and disclosure of financial information;

d. Supervising the effectiveness of the risk management system, internal control system and internal audit system;

e. Proposing to the General Meeting the appointment of the Statutory Auditor;

f. Overseeing the review of accounts of the financial statements of the Bank; and

g. Overseeing the independence of the Statutory Auditor, in particular with respect to the provision of additional services.

Under these powers, the Audit Committee is particularly responsible for:

a. Overseeing the implementation of the Bank's strategic objectives, the strategy on risk and internal governance and, at least annually, assessing their efficacy;

b. Supervising the Bank's policy and processes of identification, management, control and communication of risks;

c. Drafting the detailed annual opinion on the adequacy and efficacy of the Bank's internal control system;

d. Overseeing the integrity of accounting and financial information systems and supervising the Bank's process of disclosure and compliance with the duties of disclosure to Banco de Portugal;

e. Assessing whether the adopted accounting policies and procedures and valuation criteria are consistent with accounting principles that are generally accepted and suitable for the correct presentation and valuation of the Bank's assets, liabilities and results;

f. Supervising compliance with and the correct application of the accounting principles and standards in force, the evolution of the relevant financial indicators and significant exposure to contingent risks or liabilities; and

g. 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 RGICSF and is mainly 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 expectations regarding results.

IV. Statutory Auditor

As at 31 December 2018 and for the terms of office 2015/2018, KPMG & Associados, SROC, S.A. ("KPMG"), Chartered Accountant Firm number 189, represented by the partner Vítor Manuel da Cunha Ribeirinho (Chartered Accountant number 1081), provided the services of permanent Statutory Auditor to the Company, with the alternate Statutory Auditor being Maria Cristina Santos Ferreira (Chartered Accountant number 1010).

On 24 January 2019, the Bank's General Meeting resolved to change the duration of the immediately following term of office of the Statutory Auditor from the three-year period corresponding to 2019/2021 to the two-year period corresponding to 2019/2020, with the Articles of Association of Banco CTT having been changed accordingly.

The rules to be followed in engaging audit and non-audit services / additional services from the Statutory Auditor are established in the Regulation on the Provision of Services by the Statutory Auditor, adopted by Banco CTT, approved in line with the provisions in Law 140/2015 of 7 September and Law 148/2015 of 9 September, which review the Legal Framework for Audit Supervision and the Statute of the Portuguese Chartered Accountants Association ("Regulation"). The understanding expressed by the CMVM on 17 April 2017 was also taken into account, which updated the "Answers to the most frequently asked questions on the entry into force of the new Statute of the Portuguese Chartered Accountants Association and the Legal Framework for Audit Supervision".

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

In 2018, the Bank hired KPMG to carry out the following non-audit services /(considering the understanding expressed by the CMVM on 17 April 2017 through the updating of the "*Answers to the most frequently asked questions about the entry into force of the new Statute of the Chartered Accountants Association and the Legal Framework on Audit Supervision*"), hereinafter "Non-Audit Services Engaged in 2017":

- Limited review of Banco CTT's financial statements for the six-month period ended on 30 June 2018;
- Adequacy of the process of quantification of the credit portfolio's impairment and the reasonableness of the individual and collective impairment pursuant to Banco de Portugal Instruction 5/2013, as at 30 June 2018 and 31 December 2018.

The Regulation includes procedures for the engagement of non-audit / additional services by Banco CTT and subjects them to the prior authorisation of both Banco CTT's Audit Committee and CTT's Audit Committee. These were verified regarding the non-audit services engaged in 2017 indicated above, with the following elements, in particular, having been analysed and confirmed: (i) that the services in question do not fall under the list of prohibited services and do not pose a threat to the Statutory Auditor's independence and impartiality, regarding the statutory audit, namely the provision of such services does not entail any risk of self-assessment, of personal interest, nor participation in decision-making in any Group CTT company subject to legal review of accounts; (ii) that the proposed fees do not exceed the fee caps for (non-prohibited) non-audit services as provided by law and (iii) that the services under analysis are substantively inherent to auditing, even if the end product is deemed a non-audit service according to the understanding expressed by the CMVM on 17 April 2017, through the updating of the "*Answers to the most frequently asked questions about the entry into force of the new Statute of the Chartered Accountants Association and the Legal Framework on Audit Supervision*". This was based on the possession of information appropriate to the provision of that service and on experience with similar services, presenting the necessary conditions for them to be rendered with the same level of independence and objectivity; and (iv) that the assessment of the adequacy of the process of quantification of the impairment of the loan portfolio is a service required by law from the Statutory Auditor that carries out the legal review of the accounts of an Entity of Public Interest, which is the case of the Bank, and does not require the obtaining of prior authorisation by the supervisory body. As a result, the Bank considers itself exempt, in relation to this service, from carrying out the necessary tests and checks for purposes of investigation of independence and objectivity for legal review of accounts to be carried out by the Statutory Auditor.

In addition to the Non-Audit Services Engaged in 2018, the Bank and Payshop (Portugal), S.A. ("Payshop") hired the following services in 2017 that were rendered during 2018: (i) in the case of the Bank and Payshop, audit services relative to the assessment of the adequacy and effectiveness of the part of the internal control system inherent to the preparation and disclosure of financial information ("Financial Reporting"); and (ii) additionally, in the case of Payshop, Statutory Audit services on the adequacy and efficacy of Payshop's internal control system, except for the component relative to Financial Reporting.

The table below shows the values corresponding to the fees of KPMG for statutory audit, assurance, tax consultancy and non-audit services hired, accounted for and paid/invoiced in 2018, relative both to Banco CTT and Payshop, as an entity that is fully part of the Group:

	Engaged Services [1]		Accounted Services [2]		Paid Services [3]	
	Amount (€)	%	Amount (€)	%	Amount (€)	%
By the Company	**244,155**	**93.76%**	**293,045**	**91.94%**	**261,615**	**97.88%**
Value of the audit services	209,100	80.30%	208,948	65.55%	188,430	70.50%
Value of the reliability assurance services	35,055	13.46%	84,097	26.38%	73,185	27.38%
Value of the tax advisory services	-	0.00%	-	0.00%	-	0.00%
Value of non-audit services	-	0.00%	-	0.00%	-	0.00%
By entities that are part of the Group [4]	**16,236**	**6.24%**	**25,700**	**8.06%**	**5,678**	**2.12%**
Value of the audit services	16,236	6.24%	13,200	4.14%	5,678	2.12%
Value of the reliability assurance services	-	0.00%	12,500	3.92%	-	0.00%
Value of the tax advisory services	-	0.00%	-	0.00%	-	0.00%
Value of non-audit services	-	0.00%	-	0.00%	-	0.00%
TOTAL	**260,391**	**100.00%**	**318,745**	**100.00%**	**267,293**	**100.00%**
Value of the audit services	***225,336***	***86.54%***	***222,148***	***69.69%***	***194,108***	***72.62%***
Value of non-audit services	***35,055***	***13.46%***	***96,597***	***30.31%***	***73,185***	***27.38%***

[1] Includes VAT at the legal rate in force.
[2] Includes invoiced values and values accrued in the year.
[3] The paid services refer to services hired in 2018 as well as in previous years whose conditions of payment occurred in 2018.
[4] Payshop (Portugal), S.A.

C. INTERNAL ORGANISATION

I. Articles of Association

The Bank's Articles of Association (available on the Bank's website www.bancoctt.pt) and their amendment are entrusted to the General Meeting.

II. Communication of irregularities (whistleblowing)

The RGICSF and the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2017/11) require credit institutions to 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 these requirements, the Bank's Code of Conduct, in section 7.4, provides mechanisms for reporting irregularities on matters of accounting, internal accounting controls, the Bank's internal management or supervision, prudential requirements, risk control, insider dealing, fraud or anti-corruption, banking and financial crime, money laundering or the financing of terrorism, involving shareholders, employees, customers, suppliers, based on the specific rules defined by the Bank, namely in its Whistleblowing Policy. The Bank also undertakes that those reporting situations will not suffer any retaliation and those in question will be treated fairly. In particular, it is foreseen that Employees reporting or preventing an illegality from being carried out by acting reasonably and carefully cannot be harmed on any account. All such notifications shall be treated confidentially and may not give rise, merely on account of this, to any disciplinary, civil or criminal proceedings against the notifier, unless they are intentionally and manifestly groundless.

As at 31 December 2018, the Bank has a Whistleblowing Policy aimed at operationalising the rules established in its Code of Conduct. Pursuant to what is defined in this Policy, any irregularities can be communicated by employees, shareholders, customers, suppliers and other stakeholders to the e-mail address irregularidades@bancoctt.pt. According to the Bank's Articles of Association, this Policy and the respective Regulation, the Audit Committee is responsible for receiving submitted irregularity reports, having delegated powers to the Compliance Department to support the receiving, handling and filing of reports that are received. Nonetheless, the Audit Committee has the power of decision relative to closing a submitted report or adopting other suitable measures (e.g. 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 personal data of the whistle-blower and suspect, further stipulating that all control officers are duty bound to inform the Audit Committee of any irregularities they become aware of.

During 2018, no irregularities were reported to the Audit Committee that showed a breach of the duties established in the RGICSF or in Regulation (EU) 575/2013 of the European Parliament and Council, adulteration of accounting records, internal accounting controls or the audit of those records and controls, or Bank, Corporate Body or Employee involvement in crimes of corruption, fraud, banking and financing crime, namely the prevention of money laundering and financing of terrorism and insider dealing.

III. Internal control and risk management

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

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

IV. Investor Support

Because it is not a listed company with shares listed for trading, Banco CTT does not have an investor support office.

However, the Bank's sole shareholder, as a company issuing shares listed for trading on regulated markets, has an Investor Relations Department, whose mission is to ensure a solid and lasting relationship with, on one hand, shareholders, investors and analysts, the Portuguese Securities Market Commission (CMVM), Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A. (Euronext Lisbon) and the capital markets in general and, on the other, the company and its corporate bodies. It provides timely, clear and transparent information on CTT's current evolution in economic, financial and governance terms. Moreover, this Department ensures the proactive articulation of the Company's strategy with investors and research analysts, and that the Company knows the market's perceptions of it.

V. Website

Banco CTT's website address is as follows: www.bancoctt.pt.

D. REMUNERATIONS

I. Powers of determination

Pursuant to the Bank's Articles of Association, the General Meeting or Salary Committee elected by the General Meeting are competent to determine the remunerations of corporate body members.. The General Meeting and the Salary Committee receive support in such duties from the Remuneration Committee mentioned in section D.II. *below*.

II. Remuneration Committee

The Remuneration Committee, created within the Board of Directors and whose term of office matches that of the Board of Directors had the following composition as at 31 December 2018:

Members	Position
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 in force on 31 December 2018, this Committee is responsible, among other aspects, for:

- 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 RGICSF. This includes decisions on the remuneration policy and decisions affecting the Bank's risk and risk management;
- 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
- 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 statement on the remuneration policy of management and supervisory body members in 2018

The statement on the remuneration policy of the Bank's management and supervisory bodies:

"Annual statement on the remuneration policy of the Members of the Management and Supervisory Bodies of Banco CTT, S.A.
– Financial year of 2018 –

a) Introduction

The present annual statement for 2018 was approved by the Remuneration Committee and appraised by the Board of Directors and Audit Committee of Banco CTT, S.A. ("Bank" or "Company"), pursuant to their respective powers and under the terms and for the purposes of Law 28/2009 of 19 June of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF") and Banco de Portugal Notice 10/2011 ("Notice 10/2011"), for 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 on 25 November 2015 following the Bank's special registration and was amended on 22 July 2016 and 4 April 2017, by resolution of the Bank's Salary Committee, based on a Remuneration Committee proposal/recommendation. It should be noted that the control, human resources and legal officers participated in this last meeting, after appraisal by the Audit Committee under its respective powers. The updated version of the Remuneration Policy is available on the Bank's website at www.bancoctt.pt.

The Bank's Remuneration Committee, created within the Board of Directors and with its term of office matching that of the Board of Directors (2015/2018), had the following composition as at 31 December 2018:

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

In 2018, the General Meeting held two meetings in which it passed resolutions on matters of remuneration. The Salary Committee held 2 meetings and the Remuneration Committee 5 meetings on matters of remuneration.

The Remuneration Policy was established 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).

b) General principles and components of the remuneration of Board of Directors and Executive Committee members

The Remuneration Policy aims to attain the following goals, among others:

- ***i. Attract, motivate and retain highly talented employees, that enable the creation of long-term value and an increase in the organisation's productivity;***
- ***ii. 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;***
- ***iii. 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;***
- ***iv. Accomplish the Bank's long-term strategic goals, values and interests, in a sustainable manner and compatible with its strategy (namely with the business plan, financial model and budget);***
- ***v. Include measures preventing conflicts of interest;***
- ***vi. 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***
- ***vii. Create long-term value for shareholders and other institution stakeholders.***

In view of 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), and all other 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 of 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 position.

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. This 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, among others, benefits related to insurance, 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. No compensation was paid or became payable to members of the Bank's Board of Directors related to the termination of their office during the financial year of 2018.

I. Variable component of the remuneration of Executive Committee members

The Remuneration Policy foresees the existence of a variable component of the remuneration of Executive Directors.

The variable remuneration in question is paid in cash. Nevertheless, until the full or partial payment of the variable remuneration and at the Bank's exclusive initiative, an alternative model may be implemented in this regard by the General Meeting or Salary Committee, where half of that variable remuneration (including the deferred portion described below) shall be paid in financial instruments and 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 to the criteria, assumptions and limitations provided in the EC Performance Assessment Model approved for 2018 by the Salary Committee. This follows a Remuneration Committee recommendation, in consultation with the control, human resources and legal officers, and an Audit Committee 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 multiannual basis, as set out in the EC Performance Assessment Model;*
- *b. Also pursuant to the terms of the Remuneration Policy, the fixed remuneration component shall represent at least 50% of the total annual remuneration of each member (where this ratio, under the legal terms, can be revised to up to 100%, on an annual basis, for the following performance period, by the General Meeting or Salary Committee) and the variable remuneration component shall not exceed, in each year, 100% of the annual fixed remuneration of each Executive Committee member (where this ratio, under the legal terms, can be revised to up to 200%, on an annual basis, for the following performance period, 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 60% weight in the total annual variable remuneration and to "Individual Performance VR" with a 40% 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 alignment with the institution's interests, the awarding of variable remuneration under any of the referenced systems is subject, as defined in the EC Performance Assessment Model for 2018, to benchmark total targets (equivalent to 100% compliance with the Corporate KPIs and level 3 of the scale of assessment of Skills, under, respectively of the Corporate Performance VR (60%) and Individual Performance VR (40%)), as well as the maximum total targets (equivalent to 120% compliance with the Corporate KPIs and level 5 of the scale of assessment of Skills, under, respectively of the Corporate Performance VR (60%) and Individual Performance VR (40%)), notwithstanding its award depending on various levels of attainment of the performance criteria and assessment levels established therein: (i) in relation to the Chairman of the Executive Committee, variable remuneration shall not exceed 50% and 75% of total annual remuneration in the event of achievement of the benchmark total target and maximum total target respectively; and (ii) in relation to members of the Executive Committee, variable remuneration shall not exceed 35% and 52.5% of total annual remuneration in the event of achievement of the benchmark total target and maximum total target respectively;

g. The award of Corporate Performance VR depends on and its amount is calculated according to the weighted average of attainment of the following quantitative indicators/goals exclusively related to the Bank's performance ("Corporate KPIs") with distinct weights: (i) as regards "Customers", the increased number of accounts and the number of complaints compared to target; (ii) as regards "Business", the opening of new accounts (accepted and validated) and the volume of generated mortgage lending; and (iii) as regards "Results", net income compared to target; and (iv) as regards "Risk and Efficiency" , the operational costs, impairments and provisions compared to target;

h. The award of 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 differently and related to: leadership; strategic vision and knowledge of the business and activity; composition and image; quality of the activity; contribution to the Bank's reputation; relationship with stakeholders; alignment with the Bank's risk appetite; and business and activity expertise in the respective areas of activity;

i. The determination of variable remuneration also considers 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), as detailed in the EC Performance Assessment Model;

j. Therefore and in line with the Remuneration Policy, the annual and multi-annual assessment for 2018 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 her/his goals, in order to promote the institution's sustainability, the creation of long-term value and the beneficiary's surpassing what is required of her/him;

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 2017 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 45 days of the General Meeting or Salary Committee resolution awarding it, pursuant to paragraphs k) and l). In order to align the variable component with the institution's long-term performance, the remaining amount is deferred over a minimum of three years as of the payment date of the non-deferred 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 the Bank's 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 relative to the assessment periods), 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 as specified in 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 and 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 have 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. The award of variable remuneration depends on the beneficiary's commitment to: (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.

II. Conclusions

Pursuant to numbers 4 and 6 of article 115-C of the RGICSF 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 25 November 2015 and was amended on 22 July 2016, in the context of the approval of the EC Performance Assessment Model, on 4 April 2017 and on 21 March 2018, in view of the know-how gained from the implementation experience, by way of a Salary Committee resolution. 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.

In turn, and pursuant to number 1 of article 2 of Law 28/2009 of 19 June and number 4 of article 115-C of the RGICSF, the Bank's Board of Directors submits the present statement on the remuneration policy of members of the Bank's management and supervisory bodies (also presented in the Bank's Corporate Governance Report) to the approval of the General Meeting."

2. Annual statement on the remuneration policy of relevant employees relative to 2018

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, except for employees that fall under all of the remaining sub-paragraphs ("Senior Managers");

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");

In all cases, excluding employees under the multiple-employer arrangement. Hereinafter, all the categories listed above shall be jointly referred to 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 Compliance and Risk Departments, duly substantiated and subject to the assessment of the Remuneration Committee, Audit Committee and Board of Directors (this list is reviewed whenever relevant changes occur and at least annually).

This statement concerns the remuneration policy approved by the Bank's General Meeting on 17 November 2015, following the Bank's special registration and was amended on 21 July 2016, on 22 March 2017 and on 21 March 2018, by resolution of the Board of Directors, based on the proposal/recommendation of the Remuneration Committee. It should be noted that the control, human resources and legal officers participated in this last meeting, after appraisal by the Audit Committee under its respective powers. This policy 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 policy referred to above, Relevant Employees receive a fixed monthly remuneration paid out 14 times a year, under their individual employment contracts and the applicable labour regime. The fixed remuneration is established 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 establishment of the referenced fixed remuneration should be a sufficiently high proportion of the total remuneration to make the application of the policy fully flexible as regards variable remuneration (including the possibility of its non-payment). 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.

Senior Managers, Risk Takers and Other Risk Takers may receive variable remuneration, if a resolution in this regard 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 in view of 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 receive variable remuneration, if a resolution in that regard 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 mainly depending on the individual attainment of specific goals associated with her/his duties and independently from the performance of the structural units under her/his control.

The variable remuneration in question is paid in cash. Nevertheless, until the full or partial payment of the variable remuneration and at the Bank's exclusive initiative, an alternative model may be implemented in this regard defined by the competent bodies, where half of that variable remuneration (including the deferred portion described below) can be paid in financial instruments and 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 Managers, entailed the use of a vehicle (including a fuel ceiling) and healthcare insurance.

III. Variable component of the remuneration of Relevant Employees

Pursuant to the approved remuneration policy, and notwithstanding the provisions of 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 2018 by the Board of Directors, following a favourable Remuneration Committee assessment, in consultation with the control, human resources and legal officers and the Audit Committee, under their 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 multiannual basis, as set out in the RE Performance Assessment Model;

b. Also pursuant to the terms of the Remuneration Policy, the fixed remuneration component shall represent at least 50% of the total annual remuneration of each Relevant Employee (where this ratio, under the legal terms, can be revised to up to 100%, on an annual basis, for the following performance period, by the competent bodies) and the variable remuneration component shall not exceed, in each year, 100% of the annual fixed remuneration of each Relevant Employee (where this ratio, under the legal terms, can be revised to up to 200%, on an annual basis, for the following performance period, by the competent bodies);

c. 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" (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 (except in the case of the control officers and risk officer where these relative weights correspond, respectively, to 20% and 80%);

d. Notwithstanding these two separate remuneration systems, the awarding of variable remuneration under either of these systems is subject to the award eligibility conditions referred to above under the statement on the remuneration policy of members of the management and supervisory bodies;

e. In order to discourage excessive risk-taking and encourage alignment with the institution's interests, the awarding of variable remuneration under any of the referenced systems is subject, as defined in the RE Performance Assessment Model for 2018, to benchmark total targets (equivalent to 100% compliance with the Corporate KPIs, the Structural Unit KPIs and level 3 of the scale of assessment of Skills, under, respectively of the Corporate Performance VR and Individual Performance VR, as well as the maximum total targets (equivalent to 120% compliance with the Corporate KPIs, the Structural Unit KPIs and level 5 of the scale of assessment of Skills, under, respectively of the Corporate Performance VR and Individual Performance VR), notwithstanding its award depending on various levels of attainment of the performance criteria and assessment levels established therein: (i) in relation to the control officers and risk officers, variable remuneration shall not exceed 15% and 22.5% of total annual remuneration in the event of achievement of the benchmark total target and maximum total target respectively; and (ii) in relation to all other Relevant Employees, variable remuneration shall not exceed 20% and 30% of total annual remuneration in the event of achievement of the benchmark total target and maximum total target respectively;

f. The award of Corporate Performance VR depends on and its amount is calculated according to the weighted average of attainment of the Corporate KPIs referred to above under the statement on the remuneration policy of the members of the management and supervisory bodies;

g. The award of 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"), weighted 30% in the total Individual Performance VR (except for Control Officers e Risk Officers, where the relative weight is 40%) and (b) a number of skills (related to qualitative performance criteria) of each employee ("Skills") weighted 30% in total Individual Performance VR, mainly regarding 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 who are commercial officers and other officers;

h. The determination of variable remuneration also considers 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), as detailed in the RE Performance Assessment Model;

i. Therefore and in line with the remuneration policy, the annual and multi-annual assessment for 2018 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 beneficiary's individual performance in light of her/his goals, in order to promote the institution's sustainability, the creation of long-term value and the beneficiary's surpassing what is required of her/him;

j. 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 all other Relevant Employees, subject to an Executive Committee resolution (starting with an assessment by the Director responsible for this area), subject to a favourable opinion/recommendation of the Remuneration Committee;

k. Corporate Performance VR and Individual Performance VR are awarded within one month as of the General Meeting that approves the 2017 accounts, notwithstanding the applicable adjustment and deferral rules;

l. The payment of half of the awarded variable remuneration (whether Corporate Performance VR or Individual Performance VR) is made within 45 days counted from the resolution to approve and award it referred to in paragraphs l) and j). In order to align the variable component with the institution's long-term performance, the remaining amount is deferred over a minimum of three years as of the payment date of the non-deferred portion of the Corporate Performance VR and Individual Performance VR;

m. The right to payment of the deferred portion is acquired proportionally throughout the deferral period and is conditional on the Bank's sustainable financial situation and the positive assessment of its beneficiary's performance, in both cases following the RE Performance Assessment Model;

n. The variable remuneration was thus 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 and acquired right (clawback);

o. 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 have resulted in significant losses for the Bank; (ii) as applicable, 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 RE Performance Assessment Model;

p. The award of variable remuneration depends, as legally and regulatorily applicable (in particular considering mandatory labour provisions), on the beneficiary: (i) accepting the mechanisms referred to 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 numbers 4 and 6 of article 115-C of the RGICSF and articles 7 and 14 of Notice 10/2011, the Bank's Remuneration Committee carried out the annual review of the remuneration policy for the Relevant Employees and in particular its implementation. It took into account that the policy was approved under the Bank's opening for business on 17 November 2015, amended on 21 July 2016, in the context of the approval of the RE Performance Assessment Model, on 22 March 2017 and on 21 March 2018, in view of the know-how gained from the implementation experience, by resolution of the Board of Directors. 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, under their powers.

IV. Disclosure of remunerations

The following table shows the aggregate and individual gross amounts of remuneration payable, with reference to the period from 1 January 2018 to 31 December 2018, to Board of Directors and Audit Committee members. During 2018, Guy Patrick Guimarães de Goyri Pacheco was appointed non-executive member of the Board of Directors on 15 June 2018:

Remuneration of the non-executive members of the Board of Directors and Audit Committee

(amounts in euros)

Members	Position	Fixed Remuneration [1]
José Manuel Gonçalves de Morais Cabral	Non-Executive Director, Chairman of the Audit Committee 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 of the Audit Committee		**190,000**
Francisco José Queiroz de Barros de Lacerda	Chairman of the Board of Directors and of the Remuneration Committee	-
António Pedro Ferreira Vaz da Silva	Non-Executive Director	-
António Emídio Corrêa D'Oliveira	Non-Executive Director	40,000
Guy Patrick Guimarães de Goyri Pacheco	Non-Executive Director	-
Total of the Remuneration of the Non-Executive Directors who are not part of the Audit Committee		**40,000**
Total Board of Directors		**460,000**

[1] Amount of fixed remuneration of the Non-Executive Directors and members of the Audit Committee, who do not earn any variable remuneration in accordance with the remuneration policy of the management and supervisory bodies currently in force.

Remuneration of Executive Committee members in 2018

(amounts in euros)

Members	Position	Fixed Remuneration [1]	Variable Remuneration paid in 2018 [2]	Deferred Variable Remuneration payable in 2019 [2]	Deferred Variable Remuneration payable in 2020 [2]	Deferred Variable Remuneration payable in 2021 [2]	Total Variable Remuneration awarded in 2018 [2]	Total Fixed Remuneration 2018 and Variable 2017 paid in 2018	Total Remuneration awarded in 2018
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	400,049	47,513	15,838	15,838	15,838	95,025	447,561	495,074
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO)	174,195	23,020	7,673	7,673	7,673	46,040	197,215	220,235
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CMO)	216,912	30,980	10,327	10,327	10,327	61,961	247,892	278,872
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	217,782	30,980	10,327	10,327	10,327	61,961	248,762	279,742
Total of the Executive Committee		**1,008,938**	**132,493**	**44,165**	**44,165**	**44,165**	**264,987**	**1,141,430**	**1,273,923**

[1] Includes fixed basic remuneration, amount for annual meal allowance and, when applicable, the fixed amount paid monthly for allocation to a Retirement Savings Plan (PPR), health insurance, life insurance and personal accident insurance (including travel) and amount of payment in kind relative to permanent vehicle use.
[2] Variable Remuneration relative to 2017.

Variable Remuneration of Executive Committee members relative to 2016

(amounts in euros)

Members	Position	Variable Remuneration paid in 2017	Deferred Variable Remuneration paid in 2018	Deferred Variable Remuneration payable in 2019	Deferred Variable Remuneration payable in 2020	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	77,350	25,783	25,783	25,783	154,700
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO)	20,257	6,752	6,752	6,752	40,513
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CMO)	31,333	10,444	10,444	10,444	62,666
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	14,670	4,890	4,890	4,890	29,339
Total of the Executive Committee		**143,610**	**47,869**	**47,869**	**47,869**	**287,218**

In 2018 there is no deferred remuneration subject to reduction as a result of adjustments made according to the individual performance of Executive Committee members.

No compensation was paid or became payable to members of the Bank's Executive Committee related to the termination of their office during the financial year of 2018.

Remuneration of Relevant Employees

The gross remuneration payable to Relevant Employees, with reference to the period from 1 January 2018 to 31 December 2018, as defined in the remuneration policy for management and supervisory body members and relevant employees (corresponding to 18 Relevant Employees of the Bank, 2 of which are no longer in office) amounted to 1,838,689.73 euros in aggregate terms. The distribution of this remuneration was as follows:

Remuneration of Relevant Employees in 2018

(amounts in euros)

Relevant Employees [1]	Fixed Remuneration [2]	Variable Remuneration paid in 2018 [3]	Deferred Variable Remuneration payable in 2019 [3]	Deferred Variable Remuneration payable in 2020 [3]	Deferred Variable Remuneration payable in 2021 [3]	Total Variable Remuneration awarded in 2018 [3]	Total Fixed Remuneration 2018 and Variable 2017 paid in 2018	Total Remuneration awarded in 2018
A – Risk-Taking Officers and Control Officers (3 employees)	270,535	21,631	7,210	7,210	7,210	43,261	292,166	313,797
B – Other Senior Management Employees (15 employees)[a]	1,326,059	99,417	33,139	33,139	33,139	198,834	1,425,476	1,524,893
Total Relevant Employees	**1,596,594**	**121,048**	**40,349**	**40,349**	**40,349**	**242,095**	**1,717,642**	**1,838,690**

[a] Includes 2 Relevant Employees who terminated office in February and December 2018.
[1] The definition of Relevant Employees considered employees appointed by the Bank's competent corporate bodies to perform the duties in question.
[2] Includes fixed basic remuneration relative to the annual meal allowance and, when applicable, amount of payment in kind derived from permanent vehicle use, and health insurance from the appointment date.
[3] Variable Remuneration relative to 2017.

Variable Remuneration of Relevant Employees relative to 2016

(amounts in euros)

Relevant Employees [1]	Variable Remuneration paid in 2017	Deferred Variable Remuneration paid in 2018	Deferred Variable Remuneration payable in 2019	Deferred Variable Remuneration payable in 2020	Total Variable Remuneration
A – Risk-Taking Officers and Control Officers (3 employees)	18,693	6,231	6,231	6,231	37,386
B – Other Senior Management Employees (17 employees [a])	80,214	26,738	26,738	26,738	160,428
Total Relevant Employees	**98,907**	**32,969**	**32,969**	**32,969**	**197,814**

[a] Includes 2 Relevant Employees who terminated office in April and June 2017.
[1] The definition of Relevant Employees considered employees appointed by the Bank's competent corporate bodies to perform the duties in question.

In 2018 there is no deferred remuneration subject to reduction as a result of adjustments made according to the individual performance of Relevant Employees.

In 2018 there were no payments due to early termination of employment contract relative to Relevant Employees.

V. Agreements affecting remuneration

According to the remuneration policy for management and supervisory body members and relevant employees, the award of variable remuneration to executive members of the Board of Directors and to Relevant Employees depends on prior written commitment by its beneficiary that this person will refrain from entering into risk hedging or risk transfer agreements in relation to any deferred portion that may minimise the risk alignment effects inherent to the framework that applies to the referenced remuneration component or through the payment of the variable remuneration component through special purpose vehicles or other similar methods.

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 and of Relevant Employees 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, where half of that variable remuneration (including the deferred portion) shall be paid in financial instruments subject to a lock-up policy.

E. TRANSACTIONS WITH RELATED PARTIES

a) Control mechanisms and procedures

According to the Regulation of the Audit Committee, the 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 number 1 of article 13-A of the RGICSF) 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 requested by the Board of Directors and/or Executive Committee, the engagement process, the main terms and conditions and goals of the business, respect of the Bank's interests, market conditions and rules in force and all other mechanisms to prevent and remedy conflicts of interest shall be subject to scrutiny.

b) Business information

Relevant business transactions with related parties are described in Note 26 (Related party transactions), attached to the consolidated financial statements in the Annual Report.

Annex I

Curricula of the management and supervisory body members

Francisco de Lacerda

Chairman of the Board of Directors

Date of birth	24 September 1960, Portugal
Date of 1st appointment	24 August 2015 [1]
Term of office	2015/2018

Education

- **2015-2016:** Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **1982:** Degree in Business Administration and Management, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2015 - ...:** Non-executive chairman of the Board of Directors of Banco CTT, S.A.
- **2014 - ...:** Chairman of the Boards of Directors of CTT Expresso - Serviços Postais e Logística, S.A. and Tourline Express Mensajería, S.L.U. (as well as CEO of Tourline from January 2018 to February 2019)
- **2012 - ...:** Executive chairman (CEO) of CTT-Correios de Portugal, S.A. (from 2012 to 2017 also Chairman of the Board of Directors) and Vice-Chairman of the Board of Directors of CTT-Correios de Portugal, S.A. since 2017

Other internal positions

- **2016 -...:** Chairman of the Salary Committee (elected at the General Meeting) of Banco CTT, S.A.
- **2015 - ...:** Chairman of the Remuneration Committee (in the Board of Directors) and member of the Selection Committee of Banco CTT, S.A.
- **2013 -...:** Chairman of the Board of the General Meeting of Correio Expresso de Moçambique, S.A.
- **2014 – 2016:** Member of the Corporate Governance, Evaluation and Nominating Committee of CTT - Correios de Portugal, S.A.

Professional experience

Executive chairman (CEO) of CTT-Correios de Portugal, S.A. since 2012, which is his main professional occupation. He is responsible for the areas of Corporate Strategy and Development, Development of Human Resources, Secretariat-General and Legal, Brand and Communication, Institutional and Audit and Quality, accumulated with the positions of Chairman of the Board of Directors of Banco CTT and the Express & Parcels subsidiaries (CTT Expresso in Portugal and Tourline Express Mensajería in Spain). He is also a non-executive director at Endesa Energia (with registered office in Spain) and member of the Board of COTEC Portugal.

During 25 years up to 2008, he held various positions in investment banking, companies and retail, including CEO of Banco Mello and executive director at Millennium BCP, the largest Portuguese bank listed on the stock exchange and with important operations in Central and Eastern Europe, for which he was responsible.

He has held other relevant positions in companies listed on the stock exchange operating in Portugal and abroad, having been CEO of Cimpor (internal cement group at the time operating in 12 countries and one of the 5 largest companies on the NYSE Euronext Lisbon stock exchange) from 2010 to 2012, and non-executive director and member of the Audit Committee of EDP Renováveis (at the time the 3rd largest company worldwide of renewable energy) from 2008 to 2012.

Management and supervisory positions in other companies (last 5 years)

- **2015 -...:** Non-executive member of the Board of Directors, the Audit and Compliance Committee, and the Nomination and Remuneration Committee of Endesa Energia, S.A.
- **May-October 2014:** Non-executive member of the Board of Directors of Norfin – Portuguese Property Group, S.A.

Other external positions

- **2015 - ...:** Member of the Board of COTEC Portugal - Business Association for Innovation (Chairman of the Board from 2015 to 2017)
- **2012 - ...:** Member of the Board of Directors of the Portuguese Foundation for Communications (former General Council)
- **2009 - ...:** Member of the Salary Committee of Pharol, SGPS, S.A. (with the exercise of the position having been suspended from August 2012 to March 2014)
- **2006 - ...:** Member of the General Council of Clube Naval de Cascais (Vice-Commodore since 2016)
- **2014 – 2016:** Member of the Board of Directors of the International Post Corporation

[1] Date of appointment after the constitution of Banco CTT, S.A.

Luís Pereira Coutinho

CEO, Chairman of the Executive Committee

Date of birth	02 March 1962, Portugal
Date of 1st appointment	24 August 2015 [1]
Term of office	2015/2018

Education

- **2015-2016:** Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **2001-2002:** Senior Business Management Programme, AESE Business School
- **1984:** Degree in Economics, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2015-...:** Member of the Board of Directors and Chairman of the Executive Committee (CEO) of Banco CTT, S.A.

Other internal positions

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Professional experience

He has worked in the banking sector for 30 years in Portugal and in international operations of the Millennium BCP group (namely in Poland, Greece, Romania, United States of America and Switzerland), holding senior executive and strategic positions, mainly carried out from 2003 to 2015 in Bank Millennium, S.A. (Poland). In Portugal, in recent years he has held positions in corporate banking at Banco Comercial Português, S.A. and digital banking at ActivoBank, S.A.

Management and supervisory positions in other companies

- **2012 - 2015:** Member of the Board of Directors and of the Executive Committee of Banco Comercial Português, S.A.
- **2008 - 2012:** Member of the Executive Board of Directors of Banco Comercial Português, S.A.
- **2009 - 2015:** Member of the Supervisory Board of Bank Millennium, S.A. (Poland)
- **2012 - 2015:** Chairman of the Board of Directors of Banco ActivoBank, S.A.
- **2008 - 2015:** Chairman of the Board of Directors of Banca Millennium, S.A. (Romania)
- **2008 - 2013:** Chairman of the Board of Directors of Banque Privée BCP (Suisse), S.A.
- **2014 - 2015:** Member of the Board of Directors of Pensões Gere – Sociedade Gestora de Fundos de Pensões, S.A.
- **2014 - 2015:** Member of the Board of Directors of Millennium BCP Ageas, Grupo Segurador, SGPS, S.A.
- **2014 - 2015:** Member of the Board of Directors of Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
- **2014-2015:** Chairman of the Board of Directors of BCP Capital - Sociedade de Capital de Risco, S.A.
- **2011-2013:** Member of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2010 - 2011:** Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2003 - 2009:** Vice-Chairman of the Executive Board of Directors of Bank Millennium, S.A. (Poland)
- **2008 - 2010:** Vice-Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2008-2009:** Member of the Board of Directors of Banco ActivoBank, S.A.
- **2008-2009:** Member of the Board of Directors of Millennium BCP – Prestação de Serviços, ACE
- **2008-2010:** Chairman of the Board of Directors of BCP Holdings (USA) INC.
- **2003 - 2009:** Member of the Supervisory Board of Millennium Lease Sp Zoo (Poland)
- **2003 - 2009:** Member of the Supervisory Board of Millennium Dom Maklerski, S.A. (Poland)
- **2003 - 2009:** Member of the Supervisory Board of Millennium Leasing Sp Zoo (Poland)
- **1995-2000:** Member of the Executive Committee (Vice-Chairman of the Executive Committee since 1998) and member of the Board of Directors of Banco Mello S.A.
- **1993-1995:** Member of the Executive Committee of Banco Mello S.A.
- **1991-1993:** Member of the Board of Directors of Geofinança - Sociedade de Investimentos, S.A.

Other external positions

- **2017-...:** Chairman of the Supervisory Board of the Portuguese Banking Association in representation of Banco CTT, S.A.
- **2008-2012:** Member of the Board of Directors of Fundação Millennium BCP

[1] Date of appointment after the constitution 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 [1]
Term of office	2015/2018

Education

- **2015-2016:** Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **2010-2012:** Attendance of X MBA - AESE/IESE at AESE – Business School
- **2003:** Postgraduation in Management for Executives, Universidade Católica Portuguesa
- **1997:** Degree in Production Engineering and Industrial Management, Universidade Beira Interior

Internal management and supervisory positions

- Member of the Board of Directors and of the Executive Committee (COO) of Banco CTT, S.A.

Other internal positions

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Professional experience

He has worked in the technological area directed at the financial sector for 18 years, in positions of 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 in the area of information technologies, in particular at Accenture, PLC (1998-2005), Novabase, S.A. (2005-2008 and 2010-2011) and Safira Tecnologias de Informação (2008-2010).

Management and supervisory positions in other companies (last 5 years)

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Other external positions

- **2014-2015:** *Chief Technical Officer at TIMWE Consult-Consultoria Serviços de Telecomunicações Móveis Afins, S.A.*Chief Technical Officer at TIMWE Consult-Consultoria Serviços de Telecomunicações Móveis Afins, S.A.
- **2011- 2014:** Director of Technology at Barclays, PLC
- **2008-2010:** Head of the Financial Services Business Unit at Safira Tecnologias de Informação

[1] Date of appointment after the constitution of Banco CTT, S.A.

João Mello Franco

CCO, Executive Director

Date of birth	03 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 positions

- **2018-...:** Chairman of the Board of Directors of Payshop (Portugal) S.A.
- **2016-...:** Member of the Board of Directors and of the Executive Committee (CCO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For more than 20 years, he has held positions in marketing, products and channels in the banking sector, namely coordinating consulting projects in this sector for 8 years (1995-2003 at McKinsey & Company); as a senior officer at Banco Espírito Santo, S.A. and Novobanco, S.A. for 12 years, focusing on the retail market, namely marketing, product, digital and face-to-face channels and innovation and participation in committees responsible mainly for product and risk areas. He also carried out management duties in credit institutions, including as Chief Marketing Officer and Chief Risk Officer at Novobanco, S.A.

Management and supervisory positions in other companies (last 5 years)

- **2014:** Member of the Board of Directors and of the Executive Committee of Novobanco, S.A. *(Chief Marketing Officer and Chief Risk Officer)*
- **2008 – 2014:** Non-executive director of the Board of Directors of BES dos Açores, S.A.

Other external positions

- **2014- 2015:** General Manager of Retail Banking and Remote Channels at Novobanco, S.A.
- **2013 – 2014:** Coordinating Manager of the Department of Marketing, Innovation and Channels at Banco Espírito Santo, S.A.
- **2007 – 2012:** Coordinating Manager of the Department of Marketing for Retail and Business Clients at Banco Espírito Santo, S.A.
- **2003 – 2006:** Coordinating Manager of the Department of Strategic Marketing at Banco Espírito Santo, S.A.

Pedro Coimbra

CFO, Executive Director

Date of birth	11 June 1974, Portugal
Date of 1st appointment	04 August 2016
Term of office	2015/2018

Education

- **2006:** MBA, INSEAD (France)
- **1997:** Degree in Business Administration and Management, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2018- ...:** Member of the Board of Directors of Payshop (Portugal) S.A.
- **2016-...:** Member of the Board of Directors and of the Executive Committee (CFO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For over 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 valuation and share capital increases, at Millennium BCP. Also in that Group, he carried out duties as member of the Board of Directors and Executive Committee (CFO) at Banco Millennium BCP Angola. He was also Corporate Banking Manager of the Portuguese Branch of Barclays Bank. More recently he was a member of the Board of Directors and of the Executive Committee (CFO) at Global Media Group, S.A. with responsibilities in the financial and administrative area, planning and management of assets at the level of the Group and its subsidiaries.

Management and supervisory positions in other companies

- **2014-2016:** Member of the Board of Directors and of the Executive Committee (CFO) of Global Notícias – Media Group, S.A.
- **2009-2011:** Member of the Board of Directors and Executive Committee (CFO) at Banco Millennium BCP Angola.

Other external positions

- **2011-2014:** Corporate Banking Manager of the Portuguese Branch of Barclays Bank.
- **2007- 2009:** Director at the Corporate Centre at Banco Millennium BCP

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 [1]
Term of office	2015/2018

Education

- **2015-2016:** Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **1970:** Degree in Economics at the Institute of Economic and Financial Science, Universidade Técnica de Lisboa

Internal management and supervisory positions

- **2015-...:** Member of the Board of Directors and Chairman of the Audit Committee of Banco CTT, S.A.

Other internal positions

- **2015-...:**Member of the Remuneration Committee (within the Board of Directors) of Banco CTT, S.A.

Professional experience

From 1970 onwards and for 45 years, he develop his career as an advisor, financial manager and director at various companies of considerable 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 large companies. Member of the Advisory Council of Banco de Portugal in 2014-2015.

Management and supervisory positions in other companies

- **2018-...:** Member of the Supervisory Board of Mellogere – Sociedade Gestora de Participações Socias, S.A.
- **2015-...:** Chairman of the Supervisory Board of EFACEC Power Solutions, SGPS, S.A.
- **2014-...:** Chairman of the Supervisory Board of José de Mello Saúde, S.A.
- **2011-2017:** Chairman of the Supervisory Board of Generis Farmacêutica, S.A.
- **2014 – 2015:** Member of the Advisory Council of Banco de Portugal
- **2014 – 2015:** Member of the Supervisory Board of PT Portugal, SGPS, S.A.
- **2011 – 2013:** Director at Escala Vila - Franca – Sociedade Gestora do Estabelecimento, S.A.
- **2010 – 2013:** Director at CUF – Companhia União Fabril, SGPS, S.A.
- **2009 – 2013:** Director at Escala Braga – Sociedade Gestora do Estabelecimento, S.A.
- **2008 - 2013:** Director at Efacec Capital, SGPS, S.A. (had already held this position from 2004 to 2006)
- **2007 – 2013:** Director at José de Mello Energia, S.A.
- **2005 – 2007:** Director at Imopólis, Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.
- **2003 – 2005:** Director at ONI, SGPS, S.A.
- **2003 – 2005:** Director at EDP, Energias de Portugal, S.A.
- **2002 – 2009:** Director at SOPONATA – Sociedade Portuguesa de Navios Tanques, S.A.

Other external positions

- **2014-2016:** Member of the Supervisory Board of Fórum Para a Competitividade – Associação Para o Desenvolvimento Empresarial

[1] Data de designação após a constituição do Banco CTT, 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 [1]
Term of office	2015/2018

Education

- **2015-2016:** Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **1971:** Degree in Economics at the Institute of Economic and Financial Science, Universidade Técnica de Lisboa

Internal management and supervisory positions

- **2015-...:** Member of the Board of Directors and of the Audit Committee of Banco CTT, S.A.

Other internal positions

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Professional experience

For 17 years, he has carried out duties of leadership and management in retail banking, in institutions specialised 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 concerning monetary and economic policy.

Management and supervisory positions in other companies

- **2000-2006:** General Manager of Banco Comercial Português, S.A.
- **2001-2006:** General Manager of Classis (renting unit of Grupo Millennium BCP in partnership with GE Capital)
- **2000-2002:** Director at Credibanco – Banco de Crédito Pessoal, S.A.
- **1989-2001:** Director at União Internacional Financeira (UFI)
- **1991-2000:** Executive Director at Banco Mello
- **1991-2000:** Chairman of the Board of Directors of Melloleasing
- **1991-2000:** Chairman of the Board of Directors of Mellocrédito
- **1991-2000:** Chairman of the Board of Directors of Heller Factoring
- **1991-2000:** Executive Director at Banco Mello Imobiliário

Other external positions

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[1] Date of appointment after the constitution of Banco CTT, S.A.

Clementina Barroso

Non-Executive Director and member of the Audit Committee

Date of birth	10 May 1958, Angola
Date of 1st appointment	24 August 2015 [1]
Term of office	2015/2018

Education

- **2015-2016:** Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **2015:** PhD in Applied Business Management, ISCTE - Instituto Universitário de Lisboa
- **1984/1985:** Master's in Business Organisation and Management (attendance of lectures), ISE
- **1981:** Degree in Business Organisation and Management, ISCTE - Instituto Universitário de Lisboa

Internal management and supervisory positions

- **2015-...:** Member of the Board of Directors and of the Audit Committee of Banco CTT, S.A.

Other internal positions

- **2015-...:** Member of the Remuneration Committee (within the Board of Directors) of Banco CTT, S.A.

Professional experience

For 30 years, she has held out academic positions, namely in management, financial management, marketing, finance and accounting, risk management, human resource management and remuneration practices. Associate Guest Professor at ISCTE- Instituto Universitário de Lisboa since 1982. She has performed duties as a statutory auditor (Statutory Auditor no. 734 since 1990) and has carried out supervisory duties in financial sector companies.

Management and supervisory positions in other companies (last 5 years)

- **2018-...:** Member of the Board of General and Supervisory Board of EDP – Energias de Portugal, S.A.
- **2016-...:** Non-executive member of the Board of Directors and Chairman of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Mobiliário, S.A. (with the change from member to Chairman of the Audit Committee pending authorisation by Banco de Portugal).
- **2012-2016:** Non-executive member of the Board of Directors and member of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.
- **2011-2016:** Non-executive member of the Board of Directors and of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.

Other external positions

- **2016-...:** Member of the Board of IPCG – Instituto Português de Corporate Governance
- **2014-...:** Chairman of the Board of the General Meeting of Science4you, S.A.
- **2008-2014:** Board of the Management Degree of ISCTE Business School
- **2001-2013:** Member of the Board of the Institute for Business Management Development (INDEG/PROJETOS)
- **1999-2013:** General Manager of the Board of the Institute for Business Management Development (INDEG/PROJETOS)

[1] Date of appointment after the constitution of Banco CTT, S.A.

António Pedro Silva

Non-Executive Director

Date of birth	13 November 1966, Portugal
Date of 1st appointment	1 September 2017
Term of office	2015/2018

Education

- **2015 - 2016:** Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **2014:** Business Management Programme, AESE Business School
- **1991:** Secondary Education, Amadora Secondary School

Internal management and supervisory positions

- **2018- ...:** Member of the Board of Directors of Payshop (Portugal) S.A.
- **2017 - ...:** Member of the Board of Directors and of the Executive Committee of CTT-Correios de Portugal, S.A.
- **2017 - ...:** Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.
- **2017 - ...:** Non-executive member of the Board of Directors of Banco CTT, S.A.

Other internal positions

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Professional experience

Currently responsible for the Retail Network and for the areas of Philately, Payments (including PayShop), Human Resources Management, Legal and Employment of CTT- Correios de Portugal, S.A.

With a professional career of 20 years in commercial and retail banking at Millennium BCP, he has held various positions within the group in Portugal and was part of the Private and Business team of Millennium BCP in 2000.

In 2004 he entered CTT- Correios de Portugal, S.A. as a Commercial Manager, having been responsible for the operations and sales of the south zone of the Retail Network. He successfully developed his career at CTT having taken up the position of Director of the Retail Network in 2013, acquiring extensive experience in management and motivation of teams and Human Resources as well as in sales of marketing of the different products placed through the Retail Network (from Mail, to Express & Parcels and to Financial Services, as well as services of general interest). Throughout this period of 12 years, he was involved in various initiatives and key projects related to the optimisation and rationalisation of the Retail Network and its portfolio, as well as the promotion of the proximity and capillarity associated to this network.

His long history at CTT- Correios de Portugal, S.A. has contributed to making the Retail Network a channel of sales and services of increasing importance in the growth of CTT's revenues in all business units, and a national platform of convenience and multiple services. More recently, he played an active role in the launch of Banco CTT in 2016 which is supported by this Network. He is also a member of the Business Coordination Committee created jointly by CTT and Banco CTT (which is a key forum for discussing and agreeing on issues related to the CTT / Banco CTT partnership related to Retail Network Channel).

Management and supervisory positions in other companies (last 5 years)

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Other external positions

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António Corrêa d'Oliveira

Non-Executive Director

Date of birth	30 October 1976, Portugal
Date of 1st appointment	1 September 2017
Term of office	2015/2018

Education

- **2010:** *Breakthrough Program for Senior Executives (BPSE), IMD Business School (Lausanne, Switzerland)*
- **1999:** Degree in Business Management, ISCTE - Instituto Universitário de Lisboa

Internal management and supervisory positions

- **2017 - ...:** Non-executive member of the Board of Directors of Banco CTT, S.A.

Other internal positions

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Professional experience

After 6 years as a consultant at Deloitte, he took up senior duties in the Gestmin Group in 2005 in the areas of corporate finance and business development, focused on the planning, identification, structuring, financing and implementation of the Gestmin Group's investments and on management of the portfolio of assets held by the Group. Since 2016, these senior duties continued to concentrate on the financial area, as Chief Financial Officer of Manuel Champalimaud SGPS, S.A.[1]

Management and supervisory positions in other companies

- **2017-...:** Member of the Board of Directors of Sogestão – Administração e Gerência, S.A.
- **2016-...:** Member of the Board of Directors and of the Executive Committee (CFO) of Manuel Champalimaud SGPS, S.A.[1]
- **2016-...:** Manager at Gestmin - Serviços, Unipessoal, Lda
- **2016 – 2017:** Non-executive member of the Board of Directors of OZ Energia, S.A.
- **2015 -2017:** Non-executive member of the Board of Directors of GLN - Engineering, Molding and Plastics, S.A.
- **2015- 2017:** Manager at GLN México, S. de R.L. de C.V. (Sociedade de Responsabilidad Limitada de Capital Variable)
- **2015 – 2016:** Non-executive member of the Board of Directors of GLNmolds, S.A.
- **2015 – 2016:** Non-executive manager at T.P.S. – Engenharia de Moldes, Lda
- **2015:** Non-executive member of the Board of Directors of GLNplast, S.A.
- **2011 – 2013:** Non-executive member of the Board of Directors of OZ Energia Gás, S.A.
- **2010 – 2013:** Manager at OZ Energia Canalizado, Lda
- **2009-2013:** Manager at Gestmin - Serviços, Unipessoal, Lda
- **2009 – 2013:** Manager at OZ Energia Jet, Unipessoal, Lda
- **2009 -2013:** Manager at OZ Energia Fuels, Unipessoal, Lda
- **2009 - 2013:** Manager at Silos de Leixões – Unipessoal, Lda
- **2007- 2012:** Non-executive member of the Board of Directors of Winreason - S.A
- **2008 -2010:** Non-executive member of the Board of Directors of Gestfin SGPS, S.A
- **2007 - 2010:** Non-executive member of the Board of Directors of Oni SGPS, S.A.

Other external positions

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[1] Named Gestmin SGPS, S.A. up to 28 February 2019, when the change of corporate name took effect.

Guy Pacheco

Non-Executive Director

Date of birth	25 May 1977, Portugal
Date of 1st appointment	15 June 2018
Term of office	2015/2018

Education

- **2011:** The Lisbon MBA – Católica/Nova - Leaders who transform
- **2010:** Leadership Executive Program, Universidade Católica Portuguesa
- **2000:** Licentiate degree in Economics, Faculty of Economics, Universidade do Porto

Internal management and supervisory positions

- **2018 - ...:** Non-executive member of the Board of Directors of Banco CTT, S.A.
- **2018 - ...:** Member of the Board of Directors of Tourline Express Mensajería, S.L.U.
- **2017 - ...:** Member of the Board of Directors and of the Executive Committee (CFO) of CTT
- **2017 - ...:** Member of the Board of Directors of CTT Expresso, S.A.

Other internal positions

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Professional experience

Currently, he is responsible at CTT for the areas of Investor Relations, Regulation and Competition, Finance and Risk, Planning and Control, and Accounting and Treasury. He is also responsible for the areas of Physical Resources and Security, and Procurement and Logistics.

His main professional occupation from 2015 to 2017 was CFO of PT Portugal, SGPS, S.A. and from 2011 to 2015 he was Director of Planning and Control of Portugal Telecom, SGPS, S.A. (company listed on the stock exchange).

He has skills in the financial, planning and control, financial reporting and operational areas, having held positions of administration and senior management in these fields within the PT universe during some 17 years.

With extensive experience and a transformational profile in positions related to strategic transformation in the sector of telecommunications and digital business, with national and international presence (having worked from 2001 to 2017 in markets marked by a challenging regulatory, technological and competition context, and having been especially involved, from 2007 to 2011, in projects of continuous improvement and transformation) and, more recently, leading as CFO for close to 2 years, plans for optimisation and rationalisation of costs in the same sector.

Management and supervisory positions in other companies (last 5 years)

- **2017 - ...:** Non-executive member of the Board of Directors of New Finerge, S.A.
- **2017 - ...:** Non-executive member of the Board of Directors of Âncora Wind – Energia Eólica, S.A.
- **2017 - ...:** Non-executive member of the Board of Directors of First State Wind Energy Investments, S.A.
- **2017 – 2017:** Non-executive member of the Board of Directors of Sport TV Portugal, S.A.
- **2016 – 2017:** Non-executive member of the Board of Directors of Janela Digital – Informática e Telecomunicações, S.A.
- **2016 – 2017:** Non-executive member of the Board of Directors of Capital Criativo, SCR, S.A.
- **2015 – 2017:** Member of the Executive Committee (Chief Financial Officer) of PT Portugal, SGPS, S.A.
- **2015 - 2017:** Chairman of the Supervisory Board of Hungaro Digitel Plc.
- **2015 – 2017:** Chairman of the Supervisory Board of Fibroglobal – Comunicações Electrónicas, S.A.
- **2015 - 2017:** Member of the Board of Directors of PT Pay, S.A.
- **2013 - 2015:** Member of the Board of Directors of PT Centro Corporativo, S.A.
- **2013 - 2015:** Member of the Supervisory Board of Fundação Portugal Telecom
- **2011 – 2014:** Non-executive member of the Board of Directors of PT PRO - Serviços Administrativos e de Gestão Partilhados, S.A.

Other external positions

- **2018 – ...:** Member of the Board of AEM (Association of Companies Issuing Listed Securities)

Annex II

Transactions Involving CTT Shares in 2018

Details of transactions by Directors and closely related parties during 2018, as disclosed to the Company.

António Emídio Pessoa Corrêa d'Oliveira
Non-Executive Director

Transaction type	Place	Price (€)	Quantity	Transaction date
Purchase	XLIS	3.15	1,500	08-03-2018

Gestmin SGPS, S.A.

Transaction type	Place	Price (€)	Quantity	Transaction date
Purchase	XLIS	3.570	5,000	02-01-2018
Purchase	XLIS	3.590	12,500	02-01-2018
Purchase	XLIS	3.594	7,500	02-01-2018
Purchase	XLIS	3.600	7,500	02-01-2018
Purchase	XLIS	3.610	7,500	02-01-2018
Purchase	XLIS	3.614	1,250	02-01-2018
Purchase	XLIS	3.618	5,000	02-01-2018
Purchase	XLIS	3.620	10,000	02-01-2018
Purchase	XLIS	3.626	5,000	02-01-2018
Purchase	XLIS	3.630	5,000	02-01-2018
Purchase	XLIS	3.636	8,500	02-01-2018
Purchase	XLIS	3.650	2,700	03-01-2018
Purchase	XLIS	3.672	1,400	03-01-2018
Purchase	XLIS	3.678	5,000	03-01-2018
Purchase	XLIS	3.680	10,000	03-01-2018
Purchase	XLIS	3.684	5,000	03-01-2018
Purchase	XLIS	3.690	10,000	03-01-2018
Purchase	XLIS	3.694	10,000	03-01-2018
Purchase	XLIS	3.698	5,300	03-01-2018
Purchase	XLIS	3.700	20,000	03-01-2018
Purchase	XLIS	3.702	5,000	03-01-2018
Purchase	XLIS	3.704	5,000	03-01-2018
Purchase	XLIS	3.712	10,000	03-01-2018
Purchase	XLIS	3.714	10,000	03-01-2018
Purchase	XLIS	3.718	15,000	03-01-2018
Purchase	XLIS	3.720	3,600	03-01-2018
Purchase	XLIS	3.722	10,000	03-01-2018
Purchase	XLIS	3.726	5,000	03-01-2018
Purchase	XLIS	3.730	5,000	03-01-2018
Purchase	XLIS	3.732	5,000	03-01-2018
Purchase	XLIS	3.740	12,000	03-01-2018
Purchase	XLIS	3.744	5,000	03-01-2018
Purchase	XLIS	3.750	10,000	03-01-2018
Purchase	XLIS	3.668	5,000	04-01-2018
Purchase	XLIS	3.670	12,000	04-01-2018
Purchase	XLIS	3.680	5,000	04-01-2018
Purchase	XLIS	3.682	5,000	04-01-2018
Purchase	XLIS	3.684	1,000	04-01-2018
Purchase	XLIS	3.686	10,000	04-01-2018
Purchase	XLIS	3.690	32,500	04-01-2018
Purchase	XLIS	3.694	10,000	04-01-2018
Purchase	XLIS	3.698	4,601	04-01-2018
Purchase	XLIS	3.700	10,399	04-01-2018

Transaction type	Place	Price (€)	Quantity	Transaction date
Purchase	XLIS	3.706	5,000	04-01-2018
Purchase	XLIS	3.710	5,837	04-01-2018
Purchase	XLIS	3.716	9,163	04-01-2018
Purchase	XLIS	3.720	10,000	04-01-2018
Purchase	XLIS	3.730	18,000	04-01-2018
Purchase	XLIS	3.750	10,000	04-01-2018
Purchase	XLIS	3.760	5,000	04-01-2018
Purchase	XLIS	3.696	66,000	05-01-2018
Purchase	XLIS	3.698	7,030	05-01-2018
Purchase	XLIS	3.700	15,000	05-01-2018
Purchase	XLIS	3.702	5,000	05-01-2018
Purchase	XLIS	3.708	5,000	05-01-2018
Purchase	XLIS	3.710	17,970	05-01-2018
Purchase	XLIS	3.720	10,000	05-01-2018
Purchase	XLIS	3.730	5,000	05-01-2018
Purchase	XLIS	3.732	5,000	05-01-2018
Purchase	XLIS	3.742	10,000	05-01-2018
Purchase	XLIS	3.744	5,000	05-01-2018
Purchase	XLIS	3.748	15,000	05-01-2018
Purchase	XLIS	3.750	24,000	05-01-2018
Purchase	XLIS	3.752	26,000	05-01-2018
Purchase	XLIS	3.756	10,000	05-01-2018
Purchase	XLIS	3.760	5,000	05-01-2018
Purchase	XLIS	3.762	10,000	05-01-2018
Purchase	XLIS	3.770	10,000	05-01-2018
Purchase	XLIS	3.790	10,000	05-01-2018
Purchase	XLIS	3.730	5,000	08-01-2018
Purchase	XLIS	3.734	5,133	08-01-2018
Purchase	XLIS	3.738	5,000	08-01-2018
Purchase	XLIS	3.748	14,867	08-01-2018
Purchase	XLIS	3.750	25,000	08-01-2018
Purchase	XLIS	3.752	21,891	08-01-2018
Purchase	XLIS	3.754	23,109	08-01-2018
Purchase	XLIS	3.756	10,000	08-01-2018
Purchase	XLIS	3.758	5,000	08-01-2018
Purchase	XLIS	3.760	15,000	08-01-2018
Purchase	XLIS	3.762	16,000	08-01-2018
Purchase	XLIS	3.764	10,000	08-01-2018
Purchase	XLIS	3.766	5,000	08-01-2018
Purchase	XLIS	3.770	5,000	08-01-2018
Purchase	XLIS	3.778	10,000	08-01-2018
Purchase	XLIS	3.784	7,500	09-01-2018
Purchase	XLIS	3.786	6,607	09-01-2018
Purchase	XLIS	3.788	3,958	09-01-2018
Purchase	XLIS	3.790	9,435	09-01-2018
Purchase	XLIS	3.792	6,567	09-01-2018
Purchase	XLIS	3.798	6,572	09-01-2018
Purchase	XLIS	3.800	20,000	09-01-2018
Purchase	XLIS	3.802	3,777	09-01-2018
Purchase	XLIS	3.808	5,000	09-01-2018
Purchase	XLIS	3.810	20,000	09-01-2018

Transaction type	Place	Price (€)	Quantity	Transaction date
Purchase	XLIS	3.814	7,403	09-01-2018
Purchase	XLIS	3.816	7,143	09-01-2018
Purchase	XLIS	3.818	750	09-01-2018
Purchase	XLIS	3.820	53,578	09-01-2018
Purchase	MSSI	3.820	1,781	09-01-2018
Purchase	TRQX	3.820	1,707	09-01-2018
Purchase	MSSI	3.821	1,829	09-01-2018
Purchase	XLIS	3.822	8,500	09-01-2018
Purchase	CHIX	3.822	1,238	09-01-2018
Purchase	MSSI	3.822	2,648	09-01-2018
Purchase	XLIS	3.824	1,669	09-01-2018
Purchase	BATE	3.824	1,697	09-01-2018
Purchase	CHIX	3.824	1,659	09-01-2018
Purchase	MSSI	3.824	1,332	09-01-2018
Purchase	CHID	3.825	4,105	09-01-2018
Purchase	XLIS	3.826	3,292	09-01-2018
Purchase	CHIX	3.826	1,657	09-01-2018
Purchase	MSSI	3.826	2,064	09-01-2018
Purchase	MSSI	3.828	875	09-01-2018
Purchase	MSSI	3.829	763	09-01-2018
Purchase	XLIS	3.832	6,222	09-01-2018
Purchase	CHIX	3.832	1,623	09-01-2018
Purchase	MSSI	3.832	4,922	09-01-2018
Purchase	TRQX	3.832	1,670	09-01-2018
Purchase	MSSI	3.833	1,039	09-01-2018
Purchase	MSSI	3.834	891	09-01-2018
Purchase	XLIS	3.834	1,756	09-01-2018
Purchase	MSSI	3.834	1,485	09-01-2018
Purchase	MSSI	3.836	366	09-01-2018
Purchase	BATD	3.837	2,100	09-01-2018
Purchase	XLIS	3.840	1,693	09-01-2018
Purchase	MSSI	3.840	3,720	09-01-2018
Purchase	MSSI	3.841	823	09-01-2018
Purchase	XLIS	3.842	1,562	09-01-2018
Purchase	MSSI	3.842	2,195	09-01-2018
Purchase	TRQX	3.842	1,713	09-01-2018
Purchase	XLIS	3.844	1,530	09-01-2018
Purchase	MSSI	3.845	193	09-01-2018
Purchase	XLIS	3.846	1,352	09-01-2018
Purchase	MSSI	3.846	850	09-01-2018
Purchase	XLIS	3.848	1,324	09-01-2018
Purchase	XLIS	3.850	8,277	09-01-2018
Purchase	XLIS	3.856	1,595	09-01-2018
Purchase	XLIS	3.864	1,728	09-01-2018
Purchase	MSSI	3.865	243	09-01-2018
Purchase	CHIX	3.866	2,440	09-01-2018
Purchase	XLIS	3.870	1,582	09-01-2018
Purchase	XLIS	3.774	5,000	10-01-2018
Purchase	XLIS	3.780	15,000	10-01-2018
Purchase	XLIS	3.784	2,000	10-01-2018
Purchase	XLIS	3.786	15,000	10-01-2018
Purchase	XLIS	3.788	5,000	10-01-2018
Purchase	XLIS	3.790	5,000	10-01-2018

Transaction type	Place	Price (€)	Quantity	Transaction date
Purchase	XLIS	3.792	12,500	10-01-2018
Purchase	XLIS	3.800	6,715	10-01-2018
Purchase	XLIS	3.802	5,000	10-01-2018
Purchase	XLIS	3.806	5,000	10-01-2018
Purchase	XLIS	3.808	709	10-01-2018
Purchase	XLIS	3.810	14,291	10-01-2018
Purchase	XLIS	3.818	5,000	10-01-2018
Purchase	XLIS	3.820	7,747	10-01-2018
Purchase	XLIS	3.822	10,533	10-01-2018
Purchase	XLIS	3.826	6,752	10-01-2018
Purchase	XLIS	3.830	23,753	10-01-2018
Purchase	XLIS	3.810	3,896	11-01-2018
Purchase	XLIS	3.816	2,500	11-01-2018
Purchase	XLIS	3.818	1,489	11-01-2018
Purchase	XLIS	3.822	3,000	11-01-2018
Purchase	XLIS	3.824	1,905	11-01-2018
Purchase	XLIS	3.828	10,000	11-01-2018
Purchase	XLIS	3.830	7,500	11-01-2018
Purchase	XLIS	3.832	2,956	11-01-2018
Purchase	XLIS	3.840	5,000	11-01-2018
Purchase	XLIS	3.844	1,200	11-01-2018
Purchase	XLIS	3.850	45,519	11-01-2018
Purchase	XLIS	3.852	31,552	11-01-2018
Purchase	XLIS	3.854	10,000	11-01-2018
Purchase	XLIS	3.856	12,496	11-01-2018
Purchase	XLIS	3.860	36,095	11-01-2018
Purchase	XLIS	3.864	15,000	11-01-2018
Purchase	XLIS	3.866	6,552	11-01-2018
Purchase	XLIS	3.874	5,000	11-01-2018
Purchase	XLIS	3.878	500	11-01-2018
Purchase	XLIS	3.880	4,500	11-01-2018
Purchase	XLIS	3.882	6,015	11-01-2018
Purchase	XLIS	3.474	5,000	12-01-2018
Purchase	XLIS	3.482	5,000	12-01-2018
Purchase	XLIS	3.490	5,000	12-01-2018
Purchase	XLIS	3.500	10,000	12-01-2018
Purchase	XLIS	3.510	5,000	12-01-2018
Purchase	XLIS	3.520	15,000	12-01-2018
Purchase	XLIS	3.550	10,000	12-01-2018
Purchase	XLIS	3.580	10,000	12-01-2018
Purchase	XLIS	3.590	5,000	12-01-2018
Purchase	XLIS	3.620	5,000	12-01-2018
Purchase	XLIS	3.630	5,000	12-01-2018
Purchase	XLIS	3.658	5,000	12-01-2018
Purchase	XLIS	3.672	5,000	12-01-2018
Purchase	XLIS	3.680	5,000	12-01-2018
Purchase	XLIS	3.740	5,000	12-01-2018
Purchase	XLIS	3.760	5,000	12-01-2018
Purchase	XLIS	3.770	5,000	12-01-2018
Purchase	XLIS	3.780	5,000	12-01-2018
Purchase	XLIS	3.790	5,000	12-01-2018
Purchase	XLIS	3.794	1,400	12-01-2018

Transaction type	Place	Price (€)	Quantity	Transaction date
Purchase	XLIS	3.796	1,447	12-01-2018
Purchase	XLIS	3.798	4,123	12-01-2018
Purchase	XLIS	3.800	8,030	12-01-2018
Purchase	XLIS	3.812	5,000	12-01-2018
Purchase	XLIS	3.820	10,000	12-01-2018
Purchase	XLIS	3.822	5,000	12-01-2018
Purchase	XLIS	3.832	5,000	12-01-2018
Purchase	XLIS	3.842	5,000	12-01-2018
Purchase	XLIS	3.850	3,500	12-01-2018
Purchase	XLIS	3.868	1,500	12-01-2018
Purchase	XLIS	3.120	1,000	13-03-2018
Purchase	XLIS	3.126	5,000	13-03-2018
Purchase	XLIS	3.130	5,000	13-03-2018
Purchase	XLIS	3.136	4,000	13-03-2018
Purchase	XLIS	3.140	27,500	13-03-2018
Purchase	XLIS	3.142	5,000	13-03-2018
Purchase	XLIS	3.150	15,000	13-03-2018
Purchase	XLIS	3.154	5,000	13-03-2018
Purchase	XLIS	3.160	5,000	13-03-2018
Purchase	XLIS	3.170	5,000	13-03-2018
Purchase	XLIS	3.174	5,000	13-03-2018
Purchase	XLIS	3.176	5,000	13-03-2018
Purchase	XLIS	3.180	5,000	13-03-2018
Purchase	XLIS	3.184	10,000	13-03-2018
Purchase	XLIS	3.190	10,000	13-03-2018
Purchase	XLIS	3.194	5,000	13-03-2018
Purchase	XLIS	3.196	1,037	13-03-2018
Purchase	XLIS	3.198	3,963	13-03-2018
Purchase	XLIS	3.090	5,000	14-03-2018
Purchase	XLIS	3.094	5,000	14-03-2018
Purchase	XLIS	3.098	5,000	14-03-2018
Purchase	XLIS	3.100	21,928	14-03-2018
Purchase	XLIS	3.104	2,500	14-03-2018
Purchase	XLIS	3.110	12,500	14-03-2018
Purchase	XLIS	3.120	17,500	14-03-2018
Purchase	XLIS	3.130	12,500	14-03-2018

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